WALGREEN CO

FORM 10-K
(Annual Report)

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Address	108 WILMOT RD DEERFIELD, IL 60015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended August 31, 2012

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From ____________ to ___________

Commission file number **1-604** .

WALGREEN CO .

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of February 29, 2012, the aggregate market value of Walgreen Co. common stock held by non-affiliates (based upon the closing transaction price on the New York Stock Exchange on February 29, 2012) was approximately $28.6 billion. As of August 31, 2012, there were 944,055,334 shares of Walgreen Co. common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended August 31, 2012, to the extent stated in this Form 10-K, are incorporated by reference into Parts I, II and IV of this Form 10-K. Portions of the registrant's Proxy Statement for its Annual Meeting of Shareholders to be held January 9, 2013, are incorporated by reference into Part III of this Form 10-K as indicated herein.

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PART I

Item 1. Business

References in this Form 10-K to "Walgreens", the "Company," "we," "us" or "our" refer to Walgreen Co. and its subsidiaries included in the consolidated financial statements and do not include unconsolidated partially-owned entities, such as Alliance Boots GmbH (Alliance Boots), of which we own 45% of the outstanding share capital, except as otherwise indicated or the context otherwise requires. Our fiscal year ends on August 31, and references herein to "fiscal 2012" refer to our fiscal year ended August 31, 2012.

Overview

Walgreen Co., together with its subsidiaries, operates the largest drugstore chain in the United States with net sales of $71.6 billion in the fiscal year ended August 31, 2012. We provide our customers with convenient, multichannel access to consumer goods and services, pharmacy, and health and wellness services in communities across America. We offer our products and services through drugstores, as well as through mail, by telephone and online.

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

Since August 2, 2012, we have held a 45% investment interest in Alliance Boots GmbH, a leading international pharmacy-led health and beauty group, which we account for using the equity method of accounting. Alliance Boots delivers a range of products and services to customers including pharmacy-led health and beauty retailing and pharmaceutical wholesaling and distribution. We also have the right, but not the obligation, to acquire the remaining 55% interest in Alliance Boots at any time during the period beginning February 2, 2015 and ending on August 2, 2015, as described under "Business Development" below.

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

Business Development

As of August 31, 2012, Walgreens operated 8,385 locations in 50 states, the District of Columbia, Guam and Puerto Rico. In 2012, the Company opened or acquired 266 locations for a net increase of 175 locations after relocations and closings. Total locations do not include 360 Take Care clinics that are operated primarily within our Walgreens locations or locations of unconsolidated partially owned entities such as Alliance Boots GmbH.

	Number of Locations		
Location Type	**2012**	**2011**	**2010**
Drugstores	7,930	7,761	7,562
Worksite Health and Wellness Centers	366	355	367
Infusion and Respiratory Services Facilities	76	83	101
Specialty Pharmacies	11	9	14
Mail Service Facilities	2	2	2
Total	8,385	8,210	8,046

Walgreens goal is to provide the most convenient multichannel access to consumer goods and services, pharmacy, health and wellness services through our 7,930 community based drugstores, as well as through our specialty pharmacy, home infusion and respiratory services, worksite health and wellness centers and retail clinic businesses. As of August 2012, approximately 74.1% of the United States population lived within five miles of a Walgreens and 6.0 million shoppers visited our stores daily. In addition to store shoppers, Walgreens.com received approximately 36.8 million visits per month in fiscal 2012. Designed to reward our most valuable customers and encourage shopping in stores and online, in September 2012 we launched our loyalty program, Balance ™ Rewards, where customers earn points for purchasing select merchandise and the option to redeem rewards earned in real time at our stores or online.

We seek to grow pharmacy, front-end and online market share through new store growth, comparable store sales increases, pharmacy prescription file purchases and strategic acquisitions. When evaluating strategic acquisitions and investment opportunities that meet our long-term growth objectives, consideration is given to retail, health and wellbeing enterprises and other acquisitions and investments that provide unique opportunities and fit our business objectives.

On August 2, 2012, we completed the initial investment contemplated by the Purchase and Option Agreement dated June 18, 2012, by and among Walgreens, Alliance Boots GmbH and AB Acquisitions Holdings Limited (the "Purchase and Option Agreement"), which resulted in our acquisition of 45% of the issued and outstanding share capital of Alliance Boots, in exchange for $4.025 billion in cash and 83,392,670 shares of Walgreens common stock. Alliance Boots is a leading international, pharmacy-led health and daily living retailing and pharmaceutical wholesaling and distribution business. See "Description of Business-Overview of Alliance Boots" below for additional information.

The Purchase and Option Agreement also provides, among other things and subject to the satisfaction or waiver of specified conditions, that we will have the right, but not the obligation, to acquire the remaining 55% interest in Alliance Boots GmbH in exchange for £3.133 billion in cash, payable in British pounds sterling, and 144,333,468 shares of Walgreens common stock, subject to certain specified adjustments (second step transaction). If Walgreens exercises the call option, in certain limited circumstances, Walgreens may be required to make the entire second step transaction payment in cash. The call option is exercisable by us, in our sole discretion, at any time during the period beginning February 2, 2015 and ending August 2, 2015. In addition, in certain specified cases, if Walgreens does not exercise the call option, or Walgreens has exercised the call option but the second step transaction does not close, Walgreens may be required to return to the sellers an approximately 3% interest in Alliance Boots GmbH in exchange for a nominal amount. Walgreens initial investment and the call option excludes the Alliance Boots minority interest in Galenica Ltd. (Galenica). The Alliance Boots investment in Galenica continues to be legally owned by Alliance Boots for the benefit of Alliance Boots shareholders other than Walgreens. Additional information regarding our investment in Alliance Boots is available in our Current Reports on Form 8-K filed on June 19, 2012 and August 6, 2012 (as amended by the Form 8-K/A filed on September 10, 2012).

Other strategic transactions since the beginning of fiscal 2012 included the acquisition of certain assets of BioScrip, Inc.'s (BioScrip) community specialty pharmacies, and centralized specialty and mail services pharmacy businesses, which advances community pharmacy and brings additional specialty pharmacy products and services closer to patients. The BioScrip acquisition also is expected to help grow Walgreens centralized specialty and mail service pharmacy operations. The Company also grew its infusion business in select markets through the acquisition of Crescent Pharmacy Holdings, LLC (Crescent). In September 2012, after the close of the fiscal year, we completed the purchase of a regional drugstore chain in the mid-South region of the United States that included 144 stores operated under the USA Drug, Super D Drug, May's, Med-X and Drug Warehouse names. The USA Drug transaction also included corporate offices, a distribution center located in Pine Bluff, Arkansas and a wholesale and private brand business. Significant acquisitions in prior years include the purchase of drugstore.com, inc. in fiscal 2011, which enhanced our online presence, and the acquisition of Duane Reade in fiscal 2010 that consisted of 258 Duane Reade stores in the New York City metropolitan area, corporate offices and two distribution centers.

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

Prescription sales continued to be a large portion of the Company's business. In fiscal 2012, prescriptions accounted for 63.2% of sales compared to 64.7% in fiscal 2011. Third party sales, where reimbursement is received from managed care organizations, government and private insurance, were 95.6% of fiscal 2012 prescription sales consistent with 95.6% in fiscal 2011. Overall, Walgreens filled approximately 664 million prescriptions in 2012, a decrease of 54 million from fiscal 2011. Adjusted to 30-day equivalents, prescriptions filled were 784 million in fiscal 2012, 819 million in fiscal 2011 and 778 million in fiscal 2010. Walgreens accounted for 18.7% of the U.S. retail prescription drug market in fiscal 2012 compared to 20.0% and 19.5% in fiscal 2011 and 2010, respectively. Walgreens expects the aging population and the continued development of innovative drugs that improve quality of life and control health care costs will continue to drive demand for prescription drugs.

During fiscal 2012, the Company added $1.6 billion to property and equipment, which included approximately $0.7 billion related to stores, $0.8 billion for information technology and $0.1 billion related to other locations. The Company implemented new point-of-sale store technology chain wide in fiscal 2012 in preparation for the loyalty program introduction. Capital expenditures for fiscal 2013 are currently expected to be between $1.6 billion and $1.8 billion, excluding acquisitions and prescription file purchases, although the actual amount may vary depending upon a variety of factors, including, among other things, the timing of implementation of certain capital projects. We completed our three-year plan to refresh approximately 5,000 stores through our "customer-centric retailing" initiative in fiscal 2012. As of August 31, 2012, we had opened or converted stores with our pilot "Well Experience" store format in approximately 350 locations, including a market-wide transformation in the Indianapolis area and new flagship stores in select markets including Chicago, New York City, Las Vegas and Puerto Rico.

We plan to continue pursuing our goal to become a global leader in pharmacy, health and wellbeing solutions and the first choice for health and daily living in communities we serve, all designed to help our customers get, stay and live well. Our strategies are designed to further transform our traditional drugstore into a "retail health and daily living" store, creating community-centric healthcare integration with expanded pharmacy, health and wellness solutions. We seek to continue to deliver an outstanding customer experience through enhanced employee engagement and to expand our product and service offerings across new channels and markets where, in addition to our stores, customers and patients can find us through our health system pharmacies, worksite clinics, Walgreens.com, mobile applications, and social media sites.

Description of Business

Principal products produced and services rendered

The Company's drugstores are engaged in the retail sale of prescription and non-prescription drugs and general merchandise. General merchandise includes, among other things, household items, convenience and fresh foods, personal care, beauty care, photofinishing and candy. Prescription drugs represent our largest product class accounting for 63% of our total sales in fiscal 2012 followed by general merchandise and non-prescription drugs at 25% and 12%, respectively. Walgreens offers customers the choice to have prescriptions filled at the drugstore, as well as through the mail, and customers may also place orders by telephone and online.

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

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

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

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

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

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

Sources and availability of raw materials

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

Intellectual Property and Licenses

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

Seasonal variations in business

Our business is seasonal in nature, with the second fiscal quarter generating a higher proportion of front-end sales and earnings than other periods. Both prescription and non-prescription drug sales are affected by the timing and severity of the cough, cold and flu season. See the caption “Summary of Quarterly Results (Unaudited)” on page 41 of the Annual Report to Shareholders for the year ended August 31, 2012 (“2012 Annual Report”), which section is incorporated herein by reference.

Working capital practices

The Company generally finances its inventory and expansion needs with internally generated funds. See “Management's Discussion and Analysis of Results of Operations and Financial Condition” on pages 18 through 25 of the 2012 Annual Report, which section is incorporated herein by reference.

Customers

The Company sells to numerous customers including various managed care organizations within both the private and public sectors. No customer accounted for ten percent or more of the Company's consolidated net sales in fiscal 2012.

Government contracts

The Company fills prescriptions for many state Medicaid public assistance plans. Revenues from all such plans were approximately 5.8% of total sales in fiscal 2012.

Regulation

Our business is subject to federal, state and local government laws, regulations and administrative practices. The regulations to which we are subject include, but are not limited to: federal, state and local registration and regulation of pharmacies; applicable Medicare and Medicaid regulations; the Health Insurance Portability and Accountability Act, or HIPAA; the Patient Protection and Affordable Care Act (the ACA); regulations of the U.S. Food and Drug Administration, the U.S. Federal Trade Commission, the Drug Enforcement Administration, and the Consumer Product Safety Commission, as well as state regulatory authorities, governing the sale, advertisement and promotion of products we sell; anti-kickback laws; false claims laws; laws against the corporate practice of medicine; and federal and state laws governing the practice of the profession of pharmacy. In addition, we are party to a Corporate Integrity Agreement with the U.S. Department of Health and Human Services under which we have agreed to maintain a corporate compliance program. We are also governed by federal and state laws of general applicability, including laws regulating matters of working conditions, health and safety and equal employment opportunity. In connection with the operation of our stores, distribution centers and other sites, we are subject to laws and regulations relating to the protection of the environment and health and safety matters, including those governing exposure to, and the management and disposal of, hazardous substances. Federal, state and local environmental protection requirements did not have a material effect upon capital expenditures, earnings or the competitive position of the Company in fiscal 2012. In addition, as we increase our activities in markets outside the United States, we are, and expect to be, subject to an increasing number of foreign laws and regulations, including retail and wholesale pharmacy, licensing, tax, foreign trade, intellectual property, privacy and data protection, currency, political and other business restrictions and requirements and local laws and regulations.

Competitive conditions

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

Employees

At August 31, 2012, the Company employed approximately 240,000 persons, approximately 69,000 of whom were part-time employees working less than 30 hours per week. The foregoing does not include employees of unconsolidated partially owned entities, such as Alliance Boots GmbH, of which we own 45%.

Research and Development

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

Overview of Alliance Boots

Walgreens has owned a 45% equity interest in Alliance Boots GmbH since August 2, 2012 and has a call option to acquire the remaining 55% equity interest during the six-month period beginning February 2, 2015 as described above. We account for our 45% investment in Alliance Boots using the equity method of accounting on a one-month lag basis. Because the closing of this investment occurred within one month of the Company's fiscal year end, the results of operations of Alliance Boots GmbH are not reflected in the company's reported net earnings for the fiscal quarter or year ended August 31, 2012.

Alliance Boots is a leading international, pharmacy-led health and beauty retailing and pharmaceutical wholesaling and distribution business. As of March 31, 2012, its fiscal year end, Alliance Boots had, together with its associates and joint ventures, pharmacy-led health and beauty retail businesses in 11 countries and operated more than 3,330 health and beauty retail stores, of which over 3,200 had a pharmacy. In addition, Alliance Boots had approximately 625 optical practices, approximately 185 of which operated on a franchise basis. Its pharmaceutical wholesale and distribution businesses, including its associates and joint ventures, supplied medicines, other healthcare products and related services to more than 170,000 pharmacies, doctors, health centers and hospitals from over 370 distribution centers in 21 countries.

Pharmacy-led Health and Beauty Retailing. Alliance Boots is a market leader in the pharmacy industry with stores located in the United Kingdom, Norway, the Republic of Ireland, the Netherlands, Thailand and Lithuania and through its associates and joint ventures in Switzerland, China, Italy, Russia and Croatia. In addition, as of March 31, 2012, there were 58 Boots branded stores operated in the Middle East on a franchised basis. Alliance Boots seeks to locate its stores in convenient locations and to put the pharmacist at the heart of healthcare. Alliance Boots pharmacists are well placed to provide a significant role in the provision of healthcare services, working closely with other primary healthcare providers in the communities they serve. Alliance Boots principal retail brand in the Health & Beauty Division is Boots, which Alliance Boots trades under in the United Kingdom, Norway, the Republic of Ireland, the Netherlands and Thailand. The Boots offering is differentiated from that of competitors due to the product brands that Alliance Boots owns and the "only at Boots" exclusive products.

Pharmaceutical Wholesaling and Distribution. Alliance Boots pharmaceutical wholesaling and distribution businesses seek to provide high core service levels to pharmacists in terms of frequency of delivery, product availability, delivery accuracy, timeliness and reliability at competitive prices. Alliance Boots also offers its customers added value services that help pharmacists develop their own businesses. This includes membership in Alphega Pharmacy, Alliance Boots network for independent pharmacies, which had a membership of over 4,400 pharmacies in six countries as of March 31, 2012. In addition to the wholesale of medicines and other healthcare products, Alliance Boots provides services to pharmaceutical manufacturers who are increasingly seeking to gain greater control over their product distribution while at the same time outsourcing non-core activities. These services include pre-wholesale and contract logistics, direct deliveries to pharmacies, and specialized medicine delivery including related home healthcare.

Product Brands. In its Health & Beauty Division, Alliance Boots has product brands such as No7, Soltan and Botanics, together with newer brands launched in recent years, such as Boots Pharmaceuticals and Boots Laboratories. Alliance Boots is seeking to continue to internationalize its key product brands, selling them to independent pharmacies, retail partners and distributors, and on owned internet shopping sites in countries where Alliance Boots does not have a retail presence. In the United States, Alliance Boots is seeking to grow the No7 brand, and in Europe its Boots Laboratories line of products is now sold by independent pharmacies in five countries as of March 31, 2012. In addition, Alliance Boots has partnerships with a select number of third party brand owners to sell their products in Boots stores on an exclusive basis, sharing in the future brand equity. Alliance Boots also continues to manufacture a significant proportion of its most popular own brand and exclusive products. Through its Pharmaceutical Wholesale Division and several of its associates, Alliance Boots currently sells Almus, its line of generic medicines, in five countries and Alvita, its line of patient care products, in six countries.

Financial Information about Foreign and Domestic Operations and Export Sales

All Company sales during the last three fiscal years occurred within the United States, Puerto Rico and Guam. There were no export sales. We account for our 45% investment in Alliance Boots, described under “Overview of Alliance Boots” above, using the equity method of accounting on a one-month lag basis, as described in Note 5 to the Company's Consolidated Financial Statements in Item 8 of this Form 10-K. As a result, no Alliance Boots sales are included in the net sales reported by the Company in its consolidated financial statements.

Investments accounted for under the equity method are recorded initially at cost and subsequently adjusted for the Company’s share of the net income or loss and cash contributions and distributions to or from these entities. The Company’s investment in Alliance Boots, which closed on August 2, 2012, and the related call option were recorded as assets with a $7.0 billion aggregate value on the Company’s August 31, 2012 balance sheet, which represented 30.9% of the Company’s long-lived assets as of that date. Because the Company's investment in Alliance Boots is denominated in a foreign currency (British pounds sterling), translation gains or losses are expected to impact the value of the investment. See Note 5 to the Company's Consolidated Financial Statements in Item 8 of this Form 10-K for additional information.

Available information

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

Cautionary Note Regarding Forward Looking Statements

This report and other documents that we file or furnish with the Securities and Exchange Commission contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management’s assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, on the Company’s website or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls, conference calls and other communications. Some of such forward-looking statements may be based on certain data and forecasts relating to our business and industry that we have obtained from internal surveys, market research, publicly available information and industry publications. Industry publications, surveys and market research generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Statements that are not historical facts are forward-looking statements, including forward-looking information concerning our investment in Alliance Boots and the other transactions contemplated by the Purchase and Option Agreement with Alliance Boots and their possible effects, levels of business with Express Scripts customers, estimates of the impact of developments on our earnings and earnings per share, network participation, cough/cold and flu season, prescription volume, pharmacy sales trends, prescription margins, number and location of new store openings, vendor, payer and customer relationships and terms, possible new contracts or contract extensions, competition, economic and business conditions, outcomes of litigation and regulatory matters, the level of capital expenditures, industry trends, demographic trends, growth strategies, financial results, cost reduction initiatives, acquisition and joint venture synergies, competitive strengths and changes in legislation or regulations. Words such as “expect,” “likely,” “outlook,” “forecast,” “would,” “could,” “should,” “can,” “will,” “project,” “intend,” “plan,” “goal,” “continue,” “sustain,” “synergy,” “on track,” “believe,” “seek,” “estimate,” “anticipate,” “may,” “possible,” “assume,” variations of such words and similar expressions are intended to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that could cause actual results to vary materially from those indicated, including: risks that the proposed transactions disrupt plans and operations of either us or Alliance Boots, the ability to realize anticipated synergies and achieve anticipated financial results, the amount of costs, fees, expenses and charges incurred by Walgreens or Alliance Boots related to the transactions, the risks associated with international business operations, the risks associated with governance and control matters with respect to Alliance Boots, whether the option to acquire the remainder of the Alliance Boots equity interest will be exercised, changes in vendor, payer and customer relationships and terms, changes in network participation, competition, changes in economic and business conditions generally or in the markets we or Alliance Boots participate, risks associated with new business initiatives and activities, the failure to obtain new contracts or extensions of existing contracts, the availability and cost of real estate and construction, risks associated with acquisitions, joint ventures, strategic investments and divestitures, the ability to realize anticipated results from capital expenditures and cost reduction initiatives, outcomes of legal and regulatory matters, changes in legislation or regulations or interpretations thereof, and those described in Item 1A "Risk Factors" below and in other reports that we file or furnish with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. Except to the extent required by law, we do not undertake, and expressly disclaim, any duty or obligation to update publicly any forward-looking statement after the date the statement is made, whether as a result of new information, future events, changes in assumptions or otherwise.

Item 1A. Risk Factors

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

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

We derive a significant portion of our sales from prescription drug sales reimbursed through prescription drug plans administered by pharmacy benefit management (PBM) companies. PBM companies typically administer multiple prescription drug plans that expire at various times and provide for varying reimbursement rates. There can be no assurance that we will continue to participate in any particular pharmacy benefit manager network in any particular future time period. If our participation in the prescription drug programs administered by one or more of the large PBM companies is restricted or terminated, we expect that our sales would be adversely affected, at least in the short term. If we are unable to replace any such lost sales, either through an increase in other sales or through a resumption of participation in those plans, our operating results may be materially adversely affected. For example, we were not part of the pharmacy provider network of Express Scripts, Inc., one of the largest PBMs, for more than eight months in 2012, which led most patients in plans administered by Express Scripts that we formerly served to transition to a new pharmacy and caused us to lose significant sales and adversely affected our operating results. While we reached an agreement with Express Scripts in July 2012 and became part of the broadest network of pharmacies available to Express Scripts clients as of September 15, 2012, we expect the impact of this new agreement with Express Scripts to be incremental over time. When we exit a pharmacy provider network and later resume network participation, there can be no assurance that we will achieve any particular level of business on any particular pace. In addition, in such circumstances we may incur increased marketing and other costs in connection with initiatives to regain former patients and attract new patients covered by in-network plans. When we exit a pharmacy provider network and later resume network participation, there also can be no assurance that all clients of the PBM sponsor of the network will choose to include us again in their pharmacy network initially or at all. For example, after we reached our agreement with Express Scripts, the United States Department of Defense TRICARE program, an Express Scripts client, announced that Walgreens would continue to be designated as a non-network pharmacy provider for TRICARE beneficiaries.

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

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

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

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

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

Many organizations in the healthcare industry, including pharmacy benefit managers, have consolidated in recent years to create larger healthcare enterprises with greater bargaining power, which has resulted in greater pricing pressures. For example, in April 2012 two of the three largest pharmacy benefit managers, Medco Health Solutions, Inc. and Express Scripts, Inc., merged. The resulting entity is the largest pharmacy benefit manager in the United States. If this consolidation trend continues, it could give the resulting enterprises even greater bargaining power, which may lead to further pressure on the prices for our products and services. If these pressures result in reductions in our prices, our business will become less profitable unless we are able to achieve corresponding reductions in costs or develop profitable new revenue streams. We expect that market demand, government regulation, third-party reimbursement policies, government contracting requirements, and societal pressures will continue to cause the healthcare industry to evolve, potentially resulting in further business consolidations and alliances among the industry participants we engage with, which may adversely impact our business, financial condition and results of operations.

The anticipated strategic and financial benefits of our transaction with Alliance Boots may not be realized.

Walgreens and Alliance Boots entered into the Purchase and Option Agreement with the expectation that the transactions contemplated thereby would result in various benefits including, among other things, procurement cost savings and operating efficiencies, revenue synergies, innovation, sharing of best practices and a strengthened market position that may serve as a platform for future growth. We currently anticipate that the transaction will be accretive to our earnings per share, excluding one-time transaction-related costs. This expectation is based on our preliminary estimates, which may materially change. The processes and initiatives needed to achieve these potential benefits are complex, costly and time-consuming, and we have not previously completed a transaction comparable in size or scope. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. Achieving the anticipated benefits of the Alliance Boots transaction is subject to a number of significant challenges and uncertainties, including, without limitation, whether unique corporate cultures will work collaboratively in an efficient and effective manner, the coordination of geographically separate organizations, the possibility of faulty assumptions underlying expectations regarding potential synergies and the integration process, unforeseen expenses or delays, and competitive factors in the marketplace. In addition, there can be no assurance that we will decide to exercise the option to acquire the remaining 55% interest in Alliance Boots when we have the right to do so during a six-month period beginning 30 months after the initial closing. In the event that we do not exercise that option, under certain circumstances, our ownership interest in Alliance Boots would be reduced from 45% to 42% for nominal consideration to us. We could also encounter unforeseen transaction and integration-related costs or other circumstances such as unforeseen liabilities or other issues existing or arising with respect to the business of Alliance Boots or otherwise resulting from the transaction. Many of these potential circumstances are outside of our control and any of them could result in increased costs, decreased revenue, decreased synergies and the diversion of management time and attention. If we are unable to achieve our objectives within the anticipated time frame, or at all, the expected benefits may not be realized fully or at all, or may take longer to realize than expected, which could have a material adverse impact on our business, financial condition and results of operations and the price of our common stock.

Our strategic relationship with Alliance Boots significantly increases our exposure to the risks of operating internationally, including in Euro zone and neighboring countries.

Prior to our investment in Alliance Boots, substantially all of our operations were conducted within the United States and its territories. The transaction with Alliance Boots significantly increases the importance of international business to our future operations, growth and prospects. A substantial portion of Alliance Boots revenues are generated in the Euro zone and neighboring countries. Our investment in international business operations is subject to a number of risks, including:

- compliance with a wide variety of foreign laws and regulations, including retail and wholesale pharmacy, licensing, tax, foreign trade, intellectual property, privacy and data protection, currency, political and other business restrictions and requirements and local laws and regulations, whose interpretation and enforcement vary significantly among jurisdictions and can change significantly over time;

- additional U.S. and other regulation of non-domestic operations, including regulation under the Foreign Corrupt Practices Act, the U.K. Bribery Act and other anti-corruption laws;

- potential difficulties in managing foreign operations, enforcing agreements and collecting receivables through foreign legal systems;

- tariffs, duties, price controls or other restrictions on foreign currencies or trade barriers imposed by foreign countries;

- potential adverse tax consequences, including tax withholding laws and policies and restrictions on repatriation of funds to the United States;

- fluctuations in currency exchange rates, including uncertainty regarding the Euro;

- impact of recessions and economic slowdowns in economies outside the United States, including foreign currency devaluation, higher interest rates, inflation, and increased government regulation or ownership of traditional private businesses; and

- the instability of foreign economies, governments and currencies and unexpected regulatory, economic or political changes in foreign markets.

We cannot assure you that one or more of these factors will not have a material adverse effect on our or Alliance Boots business, results of operation or financial condition.

From time to time, we make investments in companies over which we do not have sole control, including our investment in Alliance Boots. Some of these companies may operate in sectors that differ from our current operations and have different risks.

From time to time, we make debt or equity investments in other companies that we may not control or over which we may not have sole control. For example, we currently own only 45% of the outstanding Alliance Boots equity interests. While we have designees serving on the Alliance Boots Board of Directors and veto rights over certain significant Alliance Boots actions under the terms of our shareholder agreement with them, we do not have the ability to control day-to-day operations of that company. Although Alliance Boots and other businesses in which we have made non-controlling investments generally have a significant health and daily living component, some of them operate in businesses that are different from our primary lines of business. Investments in these businesses, among other risks, subject us to the operating and financial risks of the businesses we invest in and to the risk that we do not have sole control over the operations of these businesses. From time to time, we may make additional investments in or acquire other entities that may subject us to similar risks. Investments in entities over which we do not have sole control, including joint ventures and strategic alliances, present additional risks such as having differing objectives from our partners or the entities in which we invest, or becoming involved in disputes, or competing with those persons. In addition, we rely on the internal controls and financial reporting controls of these entities and their failure to maintain effectiveness or comply with applicable standards may adversely affect us.

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

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

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

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

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

Our success depends on our ability to offer a superior shopping experience, a quality assortment of available merchandise and superior customer service. We must identify, obtain supplies of, and offer to our customers, attractive, innovative and high-quality merchandise on a continuous basis. Our products and services must satisfy the needs and desires of our customers, whose preferences may change in the future. It is difficult to predict consistently and successfully the products and services our customers will demand. 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. Failure to timely identify or effectively respond to changing consumer tastes, preferences and spending patterns could negatively affect our relationship with our customers, the demand for our products and services and our market share.

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

While our overall business strategy consists of many components and underlying initiatives, our long-term financial performance will be impacted by our ability to execute certain key initiatives. In fiscal 2013, we plan to pursue strategies designed to further transform our traditional drugstore to a "retail health and daily living" store; advance community pharmacy to play a greater role in healthcare through integration and expanded services; deliver an outstanding customer experience through enhanced employee engagement; expand across new channels and markets; and enhance our cost structure through continuous improvement and innovation. If we are unable to effectively execute one or more of these key initiatives, our business, financial condition and results of operations may be materially adversely affected.

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

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

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

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

Our growth strategy is partially dependent upon acquisitions, joint ventures and other strategic investments, some of which may not prove to be successful.

We have grown our business, in part, through acquisitions in recent years and expect to continue to acquire drugstore chains, independent drugstores, health and well-being businesses and other businesses in the future. Acquisitions involve numerous risks, including difficulties in integrating the operations and personnel of the acquired companies, distraction of management from overseeing our existing operations, difficulties in entering markets or lines of business in which we have no or limited direct prior experience, the possible loss of key employees and customers and difficulties in achieving the synergies we anticipated. These transactions 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 or investment, issue common stock that would dilute our current shareholders' percentage ownership, or incur write-offs and restructuring and other related expenses. Acquisitions, joint ventures and strategic investments involve numerous other risks, including potential exposure to unknown liabilities of acquired or investee companies. In connection with acquisitions, joint ventures or strategic investments outside the United States, we may from time to time, in some instances enter into foreign currency contracts or other derivative instruments to hedge some or all of the foreign currency fluctuation risks, which subjects us to the risks associated with such derivative contracts and instruments. No assurance can be given that our acquisitions, joint ventures and other strategic investments will be successful and will not materially adversely affect our business, financial condition or results of operations.

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

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

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

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

Should a product liability issue, recall or personal injury issue arise it may damage our reputation, which may result in a material adverse effect on our business and financial condition and adversely affect our ability to maintain adequate product or other liability insurance coverage. If we fail or are unable to maintain adequate product or other liability insurance coverage for any reason it may also result in a material adverse effect on our business and financial condition.

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

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

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

The Alliance Boots transaction reduced the percentage ownership interests of our current shareholders and the principal shareholders of Alliance Boots may have significant voting influence over matters requiring shareholder approval.

The principal shareholders of Alliance Boots, Stefano Pessina, Executive Chairman of Alliance Boots, and certain of his affiliates and affiliates of KKR & Co. L.P. (KKR), have the right to designate two members of our Board of Directors and are significant shareholders of our company. In addition, if we elect to exercise the option to acquire the remaining 55% equity interest in Alliance Boots when we have the right to do so, we expect to issue approximately 144.3 million additional shares of our common stock, which amount is subject to adjustment in certain circumstances as described in the risk factor below. KKR and certain of its affiliates (the “KKR Investors”) and Mr. Pessina and certain of his affiliates (the “SP Investors”) have agreed that, for so long as the SP Investors have the right to designate a person for service on our Board of Directors (or Mr. Pessina continues to serve as Executive Chairperson or Chief Executive Officer of Alliance Boots), and for so long as the KKR Investors have the right to designate a person for service on our Board, subject to certain exceptions, the SP Investors and the KKR Investors, as applicable, are obligated to vote all of their Company shares in accordance with the Board’s recommendation on matters submitted to a vote of our shareholders (including the election of directors). These shareholders may be able to exercise significant influence over matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions, and this influence is expected to increase if we exercise the option and complete the second step transaction.

The amount and mix of consideration required to be paid by us upon the exercise of the option in the second step transaction is subject to adjustment in certain circumstances.

If the option to exercise the remaining 55% interest in Alliance Boots is exercised when we have the ability to do so, Walgreens expects to pay £3.133 billion (equivalent to approximately $5.0 billion based on exchange rates as of August 31, 2012) in cash and issue 144.3 million shares for the remaining interest in Alliance Boots, subject to the volume weighted average price of Walgreens common stock not being below $31.18 per share during a period shortly before the closing of the second step transaction. However, if the volume weighted average price per share is below that level and the option is exercised, the difference in value would be made up by a cash payment or the issuance of additional shares of common stock at Walgreens election. In addition, in certain circumstances after a change of control of Walgreens (as defined in the Purchase and Option Agreement), the selling shareholder of Alliance Boots has the right to elect to receive all second step consideration in cash if the option to acquire the remaining 55% interest in Alliance Boots is exercised. These provisions potentially could make the exercise of the second step option more costly or inadvisable by increasing the amount of cash and/or stock consideration we are required to pay. If the amount of cash we are required to pay increases, the amount of indebtedness we incur also may increase, and if the amount of stock we are required to deliver increases, the percentage ownership interests of our existing shareholders would further decrease.

We share certain directors with Alliance Boots and certain of our officers serve on the Alliance Boots Board of Directors, which may give rise to conflicts of interest.

In connection with our initial 45% investment in Alliance Boots on August 2, 2012, four Walgreens executive officers, Gregory Wasson, President and Chief Executive Officer and a director of Walgreens, Wade Miquelon, Executive Vice President, Chief Financial Officer and President, International, Thomas J. Sabatino, Jr., Executive Vice President, General Counsel and Corporate Secretary, and Robert Zimmerman, Senior Vice President, International and International Chief Administration Officer, joined the Alliance Boots Board of Directors. In addition, Stefano Pessina, Executive Chairman of Alliance Boots, and Dominic Murphy, Director and Member of KKR, joined the Walgreens Board of Directors upon the closing. Mr. Pessina and his affiliates and KKR and its affiliates are significant shareholders of Alliance Boots. These persons may have actual or apparent conflicts of interest with respect to matters involving or affecting each company. For example, while our contractual arrangements with Alliance Boots place restrictions on the parties’ conduct in various potential conflict situations and related party transactions are subject to review and approval by independent directors in accordance with the related party transaction approval procedures described in our proxy statement, the potential for a conflict of interest exists when we on one hand, and Alliance Boots on the other hand, consider acquisitions and other corporate opportunities that may be suitable to Alliance Boots and us. Conflicts may also arise if there are issues or disputes under the commercial arrangements that exist between Alliance Boots and us.

We have significant outstanding debt; our debt will increase if we incur additional debt in the future and do not retire existing debt, including if we decide to complete the second step transaction.

We have outstanding debt and other financial obligations and significant unused borrowing capacity. As of August 31, 2012, we had approximately $5.4 billion of outstanding indebtedness, including short-term borrowing. Our indebtedness increased on September 13, 2012, when we completed the issuance and sale of $4.0 billion aggregate principal amount of senior unsecured notes of varying maturities, approximately $3.0 billion of which was used to refinance existing indebtedness. In addition, if we exercise the call option and consummate the second step transaction, we are likely to incur significant additional debt in connection with the financing thereof and the assumption of the Alliance Boots debt then outstanding. Our debt level and related debt service obligations could have negative consequences, including:

- requiring us to dedicate significant cash flow from operations to the payment of principal and interest on our debt, which would reduce the funds we have available for other purposes, such as capital expenditures, acquisitions or dividends to shareholders;
- reducing our flexibility in planning for or reacting to changes in our business and market conditions; and
- exposing us to interest rate risk since a portion of our debt obligations is at variable rates.

We may incur or assume significantly more debt in the future, including, but not limited to, in connection with the second step transaction. If we add new debt and do not retire existing debt, the risks described above could increase.

Our long-term debt obligations include covenants that may adversely affect our ability to incur certain secured indebtedness or engage in certain types of sale and leaseback transactions. Our ability to comply with these restrictions and covenants may be affected by events beyond our control. If we breach any of these restrictions or covenants and do not obtain a waiver from the lenders, then, subject to applicable cure periods, our outstanding indebtedness could be declared immediately due and payable. Alliance Boots GmbH and its subsidiaries are not subsidiaries of Walgreens and therefore are not subject to these restrictions and covenants.

Our credit ratings are important to our business.

The major credit rating agencies have assigned us and our corporate debt investment grade credit ratings. These ratings are based on a number of factors, which include their assessment of our financial strength and financial policies. We aim to maintain investment grade 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. However, there can be no assurance that any particular rating assigned to us will remain in effect for any given period of time or that a rating will not be changed or withdrawn by a rating agency, if in that rating agency's judgment, future circumstances relating to the basis of the rating so warrant. Incurrence of additional debt by Alliance Boots or us could adversely affect our credit ratings. Any downgrade of our credit ratings could adversely affect our cost of funds, liquidity, competitive position and access to capital markets.

Our quarterly results may fluctuate significantly.

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

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

Item 2. Properties

The Company's locations by state at August 31, 2012 and 2011 are listed below.

State	2012	2011	State	2012	2011	State	2012	2011
Alabama	106	101	Louisiana	151	147	Oklahoma	104	105
Alaska	5	5	Maine	15	14	Oregon	76	73
Arizona	254	254	Maryland	73	66	Pennsylvania	138	138
Arkansas	60	60	Massachusetts	179	180	Rhode Island	29	29
California	651	627	Michigan	233	230	South Carolina	114	110
Colorado	170	167	Minnesota	160	156	South Dakota	14	14
Connecticut	119	117	Mississippi	71	71	Tennessee	268	261
Delaware	68	67	Missouri	204	201	Texas	718	700
District of Columbia	5	3	Montana	14	13	Utah	44	43
Florida	878	864	Nebraska	62	61	Vermont	4	4
Georgia	204	203	Nevada	92	87	Virginia	143	133
Hawaii	13	11	New Hampshire	35	35	Washington	137	130
Idaho	41	42	New Jersey	205	199	West Virginia	22	21
Illinois	610	598	New Mexico	66	66	Wisconsin	234	231
Indiana	216	211	New York	526	524	Wyoming	11	11
Iowa	73	72	North Carolina	211	201	Guam	1	1
Kansas	71	69	North Dakota	1	1	Puerto Rico	113	110
Kentucky	103	102	Ohio	270	271	TOTAL	8,385	8,210

The Company owns approximately 20% of the retail drugstore locations open at August 31, 2012. The remaining drugstore locations are leased. The leases are for various terms and periods. See Note 3, "Leases" on page 32 of the 2012 Annual Report, which section is incorporated herein by reference. The Company has a strategic expansion program of adding new stores and remodeling and relocating existing stores. Net retail selling space increased from 86 million square feet at August 31, 2011 to 87 million square feet at August 31, 2012. Not including the approximately 5,000 locations that were converted under the Customer Centric Retailing initiative concluded in fiscal 2012, approximately 28% of Company stores have been opened or remodeled during the past five years. As of August 31, 2012, we had opened or converted stores with our pilot "Well Experience" store format in approximately 350 locations, including a market-wide transformation in the Indianapolis area and new flagship stores in select markets including Chicago, New York City, Las Vegas and Puerto Rico.

The Company's retail store operations are supported by 18 major distribution centers with a total of approximately 10 million square feet of space, of which 15 locations are owned. The remaining space is leased. All distribution centers are served by modern systems for order processing control, operating efficiencies and rapid merchandise delivery to stores. In addition, the Company uses public warehouses to handle certain distribution needs.

The Company operates 31 principal office facilities containing approximately three million square feet, of which 18 locations are owned. The Company operates two mail service facilities containing approximately 237 thousand square feet, one of which is owned.

The Company also owns 32 strip shopping malls containing approximately 2 million square feet.

The foregoing does not include properties acquired in connection with the USA Drug transaction, which closed in September 2012. It also does not include properties of unconsolidated partially owned entities, such as Alliance Boots GmbH, of which we own 45% of the outstanding share capital.

Item 3. Legal Proceedings

The information in response to this item is incorporated herein by reference to Note 11 "Commitments and Contingencies" on pages 37 through 38 of the 2012 Annual Report.

Item 4. Mine Safety Disclosures
Not Applicable.

Executive Officers of the Registrant

The following table sets forth, for each person serving as an executive officer of Walgreens as of October 19, 2012, the name, age and principal occupations and employment of such person for the past five years. Unless otherwise stated, employment is by Walgreens. Executive officers of Walgreens are elected annually by the Board of Directors and serve until a successor has been duly elected or appointed and qualified or until the officer's death, resignation or removal. There are no family relationships between any of the Company's executive officers or directors.

Name and Business Experience	Age	Office(s) Held
Gregory D. Wasson President and Chief Executive Officer since February 2009 Director since February 2009 President and Chief Operating Officer – May 2007 to February 2009 Executive Vice President – October 2005 to May 2007 President, Walgreens Health Services – March 2002 to May 2007 Director of Alliance Boots GmbH since August 2012	54	President and Chief Executive Officer
Sona Chawla President, E-Commerce since January 2011 Senior Vice President, E-Commerce – July 2008 to January 2011 Vice President, Global Online Business, Dell, Inc. – December 2006 to May 2008	45	President, E-Commerce
Kermit R. Crawford President, Pharmacy, Health and Wellness Services and Solutions since September 2010 Executive Vice President – January 2010 to September 2010 Senior Vice President - October 2007 to January 2010 Vice President – October 2005 to October 2007 Senior Vice President, Walgreens Health Services – October 2005 to September 2007	53	President, Pharmacy, Health and Wellness Services and Solutions
Joseph C. Magnacca President, Daily Living Products and Solutions since April 2011 President of Duane Reade Holdings, Inc. – July 2010 to April 2011 Senior Vice President and Chief Merchandising Officer of Duane Reade Holdings, Inc. – September 2008 to July 2010 Executive Vice President of Shoppers Drug Mart Corporation – 2001 to 2008	50	President, Daily Living Products and Solutions
Wade D. Miquelon President, International since October 2012 Executive Vice President and Chief Financial Officer since July 2009 Senior Vice President and Chief Financial Officer – June 2008 to July 2009 Executive Vice President and Chief Financial Officer, Tyson Foods, Inc. – June 2006 to June 2008 Director of Alliance Boots GmbH since August 2012	47	Executive Vice President and Chief Financial Officer and President, International
Mark A. Wagner President, Community Management since September 2010 Executive Vice President – March 2006 to September 2010	51	President, Community Management
Thomas J. Sabatino, Jr. Executive Vice President, General Counsel and Corporate Secretary since September 2011 Executive Vice President and General Counsel of UAL Corporation and United Air Lines, Inc. – March 2010 to December 2010 Executive Vice President and General Counsel of Schering- Plough Corporation – April 2004 to November 2009 Director of Alliance Boots GmbH since August 2012	53	Executive Vice President, General Counsel and Corporate Secretary
Graham W. Atkinson Senior Vice President and Chief Marketing and Customer Experience Officer since October 2012 Senior Vice President and Chief Customer Experience Officer – January 2011 to October 2012 Executive Vice President of UAL Corporation and United Air Lines, Inc.	61	Senior Vice President and Chief Marketing and Customer Experience Officer

and President of Mileage Plus frequent flyer program – October 2008 to December 2010 Executive Vice President – Chief Customer Officer of UAL Corporation and United Air Lines, Inc. – September 2006 to September 2008		
Bradley M. Fluegel Senior Vice President and Chief Strategy Officer since October 2012 Executive in Residence at Health Evolution Partners – April 2011 to September 2012 Executive Vice President and Chief Strategy and External Affairs Officer of Wellpoint, Inc. – September 2007 to December 2010	51	Senior Vice President and Chief Strategy Officer
Mia M. Scholz Senior Vice President - Corporate Financial Operations since October 2012 Senior Vice President since January 2011 Vice President since October 2007 Controller and Chief Accounting Officer since January 2004 Divisional Vice President – January 2004 to October 2007	46	Senior Vice President - Corporate Financial Operations, Controller and Chief Accounting Officer
Timothy J. Theriault Senior Vice President and Chief Information Officer since October 2009 President, Corporate and Institutional Services, Northern Trust Corporation – January 2006 to October 2009	52	Senior Vice President and Chief Information Officer
Kathleen Wilson-Thompson Senior Vice President and Chief Human Resources Officer since January 2010 Senior Vice President, Global Human Resources of Kellogg Company – July 2005 to December 2009	55	Senior Vice President and Chief Human Resources Officer
Robert G. Zimmerman Senior Vice President, International and International Chief Administration Officer since October 2012 Senior Vice President and Chief Strategy Officer – September 2011 to September 2012 Senior Vice President since January 2011 Vice President – September 2007 to January 2011 Vice President and Chief Financial Officer, Walgreens Health Services – September 2001 to September 2007 Director of Alliance Boots GmbH since August 2012	60	Senior Vice President, International and International Chief Administration Officer
W. Bryan Pugh Vice President, Merchandising since February 2009 Chief Retail Operations Officer, Fresh & Easy Neighborhood Markets, USA, Tesco PLC – March 2005 to December 2008	49	Vice President, Merchandising

PART II

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

The Company's common stock is listed on the New York Stock Exchange, Chicago Stock Exchange and The Nasdaq Stock Market LLC under the symbol WAG. As of August 31, 2012, there were approximately 81,446 holders of record of Company common stock.

The range of the sales prices of the Company's common stock by quarters during the years ended August 31, 2012 and August 31, 2011 are incorporated herein by reference to the caption "Common Stock Prices" on page 41 of the 2012 Annual Report.

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

Quarter Ended	2012	2011
November	$ .225	$ .175
February	.225	.175
May	.225	.175
August	.275	.225
Fiscal Year	$ .950	$ .750

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

The following table provides information about purchases by the Company during the quarter ended August 31, 2012 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act. Subject to applicable law, share purchases may be made in open market transactions, privately negotiated transactions, or pursuant to instruments and plans complying with Rule 10b5-1.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
6/01/2012 - 6/30/2012	3,711	$ 31.62	-	425,062,173
7/01/2012 - 7/31/2012	1,617	30.09	-	425,062,173
8/01/2012 - 8/31/2012	5,735	35.81	-	425,062,173
Total	11,063	$ 33.56	-	

(1) The Company purchased 11,063 shares of its common stock in open-market transactions to satisfy the requirements of the Company's employee stock purchase and option plans, as well as the Company's Nonemployee Director Stock Plan.
(2) On July 13, 2011, the Board of Directors approved a share repurchase program (2012 repurchase program) that allows for the repurchase of up to $2.0 billion of the Company’s common stock prior to its expiration on December 31, 2015. The total remaining authorization under the 2012 repurchase program was $425 million as of August 31, 2012.

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 2012 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 25 of the 2012 Annual Report.

Item 7A. Qualitative and Quantitative Disclosures about Market Risk

We are exposed to interest rate volatility with regard to future issuances of fixed-rate debt, and existing and future issuances of floating-rate debt. Primary exposures include U.S. Treasury rates, LIBOR, and commercial paper rates. From time to time, we use interest rate swaps and forward-starting interest rate swaps to hedge our exposure to interest rate changes, to reduce the volatility of our financing costs, and to achieve a desired proportion of fixed versus floating-rate debt, based on current and projected market conditions. Generally under these swaps, we agree with a counterparty to exchange the difference between fixed-rate and floating-rate interest amounts based on an agreed upon notional principal amount.

In January 2010, we entered into two interest rate swap transactions converting our $1.3 billion 4.875% fixed rate notes to a floating interest rate based on the six month LIBOR in arrears plus a constant spread. In May 2011, we entered into two additional interest rate swap transactions converting $250 million 5.25% fixed rate notes to a floating interest rate based on the six month LIBOR in arrears plus a constant spread. In March 2012, the Company entered into interest rate swaps with the same two counterparties converting an additional $250 million of its 5.25% fixed rate notes to a floating interest rate based on the one-month LIBOR in arrears plus a constant spread. All swap termination dates coincide with the respective note maturity dates.

In July 2012, the Company entered into a forward starting interest rate swap with two counterparties locking in the then current interest rate on $350 million of its anticipated debt issuance in connection with the Alliance Boots transaction. In August 2012, two additional swaps totaling $650 million were entered into with four different counterparties, hedging the same anticipated debt instrument, for a total of $1.0 billion. In September 2012, the Company issued $4.0 billion in notes, which terminated all forward starting interest rate swaps. The proceeds and gains resulting from the swaps were immaterial.

These financial instruments are sensitive to changes in interest rates. On August 31, 2012, we had $4.8 billion in long-term debt obligations that had floating interest rates. A one percentage point increase or decrease in interest rates would increase or decrease the annual interest expense we recognize and the cash we pay for interest expense by approximately $48 million. In conjunction with the September 2012 notes issuance we refinanced $3.0 billion of the $4.8 billion outstanding floating rate long-term debt at August 31, 2012. This refinancing included $550 million of floating rate notes which accrue interest at the rate equal to the three-month U.S. dollar LIBOR as determined at the beginning of each quarterly period, plus 0.500%. The remaining notes that were part of the refinancing were at fixed rates. A one percentage point increase or decrease in the three-month U.S. dollar LIBOR would increase or decrease the annual interest expense we recognize and the cash we pay for interest expense on these floating rate notes by approximately $6 million.

In connection with our Purchase and Option Agreement with Alliance Boots and the transactions contemplated thereby, our exposure to foreign currency risks, primarily with respect to the British pound sterling, and to a lesser extent the Euro and certain other foreign currencies, is expected to increase. We are exposed to the translation of foreign currency earnings to the U.S. dollar as a result of our 45% interest in Alliance Boots GmbH, which we account for using the equity method of accounting on a one month lag. Foreign currency forward contracts and other derivative instruments may be used from time to time in some instances to hedge in full or in part certain risks relating to foreign currency denominated assets and liabilities, intercompany transactions, and in connection with acquisitions, joint ventures or investments outside the United States. As of August 31, 2012 and August 31, 2011, we did not have any outstanding foreign exchange derivative instruments.

Item 8. Financial Statements and Supplementary Data

See Item 15.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Report on Internal Control Over Financial Reporting

Management's report on internal control over financial reporting and the report of Deloitte & Touche LLP, the Company's independent registered public accounting firm, related to their assessment of the effectiveness of internal control over financial reporting are included in our fiscal 2012 Annual Report and are incorporated in this Item 9A by reference.

Changes in Internal Control over Financial Reporting

In connection with the evaluation pursuant to Exchange Act Rule 13a-15(d) of the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) by the Company's management, including its CEO and CFO, no changes during the quarter ended August 31, 2012 were identified that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10, with the exception of the information relating to the executive officers of the Company, which is presented in Part I above under the heading "Executive Officers of the Registrant," is incorporated herein by reference to the following sections of the Company's 2012 Proxy Statement: Proposal 1, Election of Directors; The Board of Directors, Board Committees and

Corporate Governance; and Section 16(a) Beneficial Ownership Reporting Compliance.

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

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

Item 11. Executive Compensation

The information required by Item 11 is incorporated herein by reference to the following sections of the Company's 2012 Proxy Statement: Director Compensation; and Executive Compensation.

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

The information required by Item 12 is incorporated herein by reference to the following sections of the Company's 2012 Proxy Statement: Security Ownership of Certain Beneficial Owners and Management; and Equity Compensation Plans.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by Item 13 is incorporated herein by reference to the following sections of the Company's 2012 Proxy Statement: Certain Relationships and Related Party Transactions; and The Board of Directors, Board Committees and Corporate Governance.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 is incorporated herein by reference to the following sections of the Company's 2012 Proxy Statement: Independent Registered Public Accounting Firm Fees and Services.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

(1) ***Financial statements.*** The following financial statements, supplementary data, and report of independent public accountants appearing in the 2012 Annual Report are incorporated herein by reference.

	2012 Annual Report Page Number (printed)
Consolidated Statements of Comprehensive Income and Shareholders' Equity for the years ended August 31, 2012, 2011 and 2010	26 – 27
Consolidated Balance Sheets at August 31, 2012 and 2011	28
Consolidated Statements of Cash Flows for the years ended August 31, 2012, 2011 and 2010	29
Notes to Consolidated Financial Statements	30 – 42
Management's Report on Internal Control	43
Report of Independent Registered Public Accounting Firm	43

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

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

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

Other Financial Statements -

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

Alliance Boots GmbH

Since August 2, 2012, we have had an investment in Alliance Boots GmbH that we account for using the equity method of accounting. SEC Rule 3-09 of Regulation S-X requires that we include or incorporate by reference Alliance Boots GmbH financial statements in this Annual Report on Form 10-K since our investment was considered to be significant in the context of Rule 3-09 for the year ended August 31, 2012. Alliance Boots GmbH audited consolidated financial statements for the years ended March 31, 2012, 2011 and 2010 are filed as Exhibit 99.1 hereto and incorporated herein by reference. We plan to file with the SEC on or before September 30, 2013 the audited consolidated financial statements of Alliance Boots GmbH as of and for the years ended March 31, 2013 and 2012.

(3) ***Exhibits.*** Exhibits 10.1 through 10.58 constitute management contracts or compensatory plans or arrangements required to be filed as exhibits pursuant to Item 15(b) of this Form 10-K.

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

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

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

(b) Exhibits

Exhibit No.	Description	SEC Document Reference
2.1*	Purchase and Option Agreement by and among Walgreen Co., Alliance Boots GmbH and AB Acquisitions Holdings Limited dated June 18, 2012 and related annexes	Incorporated by reference to Exhibit 2.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on June 19, 2012.
3.1	Amended and Restated Articles of Incorporation of Walgreen Co.	Incorporated by reference to Exhibit 3.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on January 19, 2011.
3.2	Amended and Restated By-Laws of Walgreen Co., as amended effective as of August 2, 2012.	Incorporated by reference to Exhibit 3.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on August 6, 2012.
4.1**	Form of Indenture between Walgreen Co. and Wells Fargo Bank, National Association.	Incorporated by reference to Exhibit 4.1 to Walgreen Co.'s registration statement on Form S-3ASR (File No. 333-152315) filed with the SEC on July 14, 2008.
4.2	Form of 4.875% Note due 2013.	Incorporated by reference to Exhibit 4.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on July 17, 2008.
4.3	Form of 5.25% Note due 2019.	Incorporated by reference to Exhibit 4.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on January 13, 2009.
4.4	Form of Floating Rate Note due 2014.	Incorporated by reference to Exhibit 4.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on September 13, 2012.
4.5	Form of 1.000% Note due 2015.	Incorporated by reference to Exhibit 4.2 to Walgreen Co.'s Current

		Report on Form 8-K (File No. 1-00604) filed with the SEC on September 13, 2012.
4.6	Form of 1.800% Note due 2017.	Incorporated by reference to Exhibit 4.3 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on September 13, 2012.
4.7	Form of 3.100% Note due 2022.	Incorporated by reference to Exhibit 4.4 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on September 13, 2012.
4.8	Form of 4.400% Note due 2042.	Incorporated by reference to Exhibit 4.5 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on September 13, 2012.
4.9	Shareholders Agreement, dated as of August 2, 2012, among Walgreen Co., Stefano Pessina, KKR Sprint (European II) Limited, KKR Sprint (2006) Limited and KKR Sprint (KPE) Limited, Alliance Santé Participations S.A., Kohlberg Kravis Roberts & Co. L.P. and certain other investors party thereto	Incorporated by reference to Exhibit 4.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on August 6, 2012.
10.1	Walgreen Co. Management Incentive Plan (as amended and restated effective September 1, 2008).	Incorporated by reference to Exhibit 10.3 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2008 (File No. 1-00604).
10.2	Walgreen Co. 2011 Cash-Based Incentive Plan.	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on January 17, 2012.
10.3	Walgreen Co. Long-Term Performance Incentive Plan (amendment and restatement of the Walgreen Co. Restricted Performance Share Plan).	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on January 11, 2007.
10.4	Walgreen Co. Long-Term Performance Incentive Plan Amendment No. 1 (effective January 10, 2007).	Incorporated by reference to Exhibit 10.2 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 2007 (File No. 1-00604).
10.5	Walgreen Co. Long-Term Performance Incentive Plan Amendment No. 2.	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on April 14, 2011.
10.6	Form of Restricted Stock Unit Award Agreement (August 15, 2011 grants).	Incorporated by reference to Exhibit 10.5 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2011 (File No. 1-00604).
10.7	Form of Restricted Stock Unit Award Agreement (effective November 1, 2012).	Filed herewith.
10.8	Form of Performance Share Contingent Award Agreement (effective September 1, 2008).	Incorporated by reference to Exhibit 10.14 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2008 (File No. 1-00604).
10.9	Form of Performance Share Contingent Award Agreement (effective September 1, 2011).	Incorporated by reference to Exhibit 10.8 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2011 (File No. 1-00604).
10.10	Form of Restricted Stock Award Agreement (effective June 2008).	Incorporated by reference to Exhibit 10.15 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2008 (File No. 1-00604).
10.11	Walgreen Co. Executive Stock Option Plan (as amended and restated effective January 13, 2010).	Incorporated by reference to Exhibit 99.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on January 20, 2010.
10.12	Form of Stock Option Agreement (Benefit Indicator 512 - 515) (effective September 1, 2011).	Incorporated by reference to Exhibit 10.11 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2011 (File No. 1-00604).

10.13	Form of Stock Option Agreement (Benefit Indicator 516 and above) (effective September 1, 2011).	Incorporated by reference to Exhibit 10.12 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2011 (File No. 1-00604).
10.14	Walgreen Co. 1986 Executive Deferred Compensation/Capital Accumulation Plan.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1986 (File No. 1-00604).
10.15	Walgreen Co. 1988 Executive Deferred Compensation/Capital Accumulation Plan.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 1987 (File No. 1-00604).
10.16	Amendments to Walgreen Co. 1986 and 1988 Executive Deferred Compensation/ Capital Accumulation Plans.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 1988 (File No. 1-00604).
10.17	Walgreen Co. 1992 Executive Deferred Compensation/Capital Accumulation Plan Series 1.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1992 (File No. 1-00604).
10.18	Walgreen Co. 1992 Executive Deferred Compensation/Capital Accumulation Plan Series 2.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1992 (File No. 1-00604).
10.19	Walgreen Co. 1997 Executive Deferred Compensation/Capital Accumulation Plan Series 1.	Incorporated by reference to Exhibit 10(c) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 1997 (File No. 1-00604).
10.20	Walgreen Co. 1997 Executive Deferred Compensation/Capital Accumulation Plan Series 2.	Incorporated by reference to Exhibit 10(d) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 1997 (File No. 1-00604).
10.21	Walgreen Co. 2001 Executive Deferred Compensation/Capital Accumulation Plan.	Incorporated by reference to Exhibit 10(g) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2001 (File No. 1-00604).
10.22	Walgreen Co. 2002 Executive Deferred Compensation/Capital Accumulation Plan.	Incorporated by reference to Exhibit 10(g) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2002 (File No. 1-00604).
10.23	Amendment to the Walgreen Co. 1986, 1988, 1992 (Series 1), 1992 (Series 2), 1997 (Series 1), 1997 (Series 2), 2001 and 2002 Executive Deferred Compensation/ Capital Accumulation Plans.	Incorporated by reference to Exhibit 10.3 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2009 (File No. 1-00604).
10.24	Walgreen Co. 2006 Executive Deferred Compensation/Capital Accumulation Plan (effective January 1, 2006).	Incorporated by reference to Exhibit 10(b) to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2005 (File No. 1-00604).
10.25	Walgreen Co. 2011 Executive Deferred Compensation Plan.	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on November 12, 2010.
10.26	Amendment No. 1 to the Walgreen Co. 2011 Executive Deferred Compensation Plan.	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on January 19, 2011.
10.27	Walgreen Co. Executive Deferred Profit-Sharing Plan, as amended and restated effective January 1, 2012.	Incorporated by reference to Exhibit 10.2 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on July 15, 2011.
10.28	Share Walgreens Stock Purchase/Option Plan (effective October 1, 1992), as amended.	Incorporated by reference to Exhibit 10(d) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 2003 (File No. 1-00604).
10.29	Share Walgreens Stock Purchase/Option Plan Amendment No. 4 (effective July 15, 2005), as amended.	Incorporated by reference to Exhibit 10(h)(ii) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31,

		2005 (File No. 1-00604).
10.30	Share Walgreens Stock Purchase/Option Plan Amendment No. 5 (effective October 11, 2006).	Incorporated by reference to Exhibit 10(b) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2006 (File No. 1-00604).
10.31	Walgreen Select Senior Executive Retiree Medical Expense Plan.	Incorporated by reference to Exhibit 10(j) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1996 (File No. 1-00604).
10.32	Walgreen Select Senior Executive Retiree Medical Expense Plan Amendment No. 1 (effective August 1, 2002).	Incorporated by reference to Exhibit 10(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 2003 (File No. 1-00604).
10.33	Walgreen Co. Profit-Sharing Restoration Plan (as restated effective January 1, 2003).	Incorporated by reference to Exhibit 10(b) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended May 31, 2003 (File No. 1-00604).
10.34	Walgreen Co. Profit-Sharing Restoration Plan Amendment No. 1 (effective January 1, 2008).	Incorporated by reference to Exhibit 10.36 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2008 (File No. 1-00604).
10.35	Walgreen Co. Profit-Sharing Restoration Plan Amendment No. 2 (effective January 1, 2010).	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 2010 (File No. 1-00604).
10.36	Amendment to the Walgreen Co. Profit-Sharing Restoration Plan.	Incorporated by reference to Exhibit 10.3 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2010 (File No. 1-00604).
10.37	Amendment to the Walgreen Co. Profit-Sharing Restoration Plan.	Incorporated by reference to Exhibit 10.2 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on January 19, 2011.
10.38	Amendment to the Walgreen Co. Profit-Sharing Restoration Plan.	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on April 13, 2012.
10.39	Walgreen Co. 162(m) Deferred Compensation Plan, as amended and restated.	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on October 17, 2011.
10.40	Walgreen Co. Nonemployee Director Stock Plan, as amended and restated (effective January 14, 2004).	Incorporated by reference to Exhibit 10(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 29, 2004 (File No. 1-00604).
10.41	Walgreen Co. Nonemployee Director Stock Plan Amendment No. 1 (effective October 12, 2005).	Incorporated by reference to Exhibit 10(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2005 (File No. 1-00604).
10.42	Walgreen Co. Nonemployee Director Stock Plan Amendment No. 2 (effective October 11, 2006).	Incorporated by reference to Exhibit 10(f) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2006 (File No. 1-00604).
10.43	Walgreen Co. Nonemployee Director Stock Plan Amendment No. 3 (effective September 1, 2009).	Incorporated by reference to Exhibit 10.43 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2010 (File No. 1-00604).
10.44	Walgreen Co. Broad-Based Stock Option Plan (effective July 10, 2002).	Incorporated by reference to Exhibit 10(p) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2002 (File No. 1-00604).
10.45	Walgreen Co. Broad-Based Employee Stock Option Plan Amendment No. 1 (effective April 1, 2003).	Incorporated by reference to Exhibit 10(c) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended May 31, 2003 (File No. 1-00604).
10.46	Walgreen Co. Broad-Based Employee Stock Option Plan Amendment No. 2 (effective October 11, 2006).	Incorporated by reference to Exhibit 10(e) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30,

		2006 (File No. 1-00604).
10.47	Form of Change of Control Employment Agreements.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Current Report on Form 8-K dated October 18, 1988 (File No. 1-00604).
10.48	Form of Amendment to Change of Control Employment Agreements (effective January 1, 2009).	Incorporated by reference to Exhibit 10.2 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2009 (File No. 1-00604).
10.49	Amendment to Employment Agreements adopted July 12, 1989.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1989 (File No. 1-00604).
10.50	Walgreen Co. Executive Severance and Change in Control Plan effective January 1, 2013	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on July 16, 2012.
10.51	Executive Stock Option Plan – Stock Option Agreement made as of October 10, 2008 between Alan G. McNally and Walgreen Co.	Incorporated by reference to Exhibit 10.8 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2008 (File No. 1-00604).
10.52	Long-Term Performance Incentive Plan – Restricted Stock Unit Award Agreement made as of October 10, 2008 between Alan G. McNally and Walgreen Co.	Incorporated by reference to Exhibit 10.9 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2008 (File No. 1-00604).
10.53	Agreement and Release between Hal F. Rosenbluth and Walgreen Co.	Incorporated by reference to Exhibit 10.2 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2011 (File No. 1-00604).
10.54	Separation Agreement and Release Agreement between Kimberly L. Feil and Walgreen Co.	Incorporated by reference to Exhibit 10.2 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2011 (File No. 1-00604).
10.55	Offer letter agreement dated March 10, 2011 between Joseph C. Magnacca and Walgreen Co.	Incorporated by reference to Exhibit 10.3 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2011 (File No. 1-00604).
10.56	Offer letter agreement dated August 9, 2011 between Thomas J. Sabatino and Walgreen Co.	Incorporated by reference to Exhibit 10.55 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2011 (File No. 1-00604).
10.57	drugstore.com, inc., 1998 Stock Plan, as amended.	Incorporated by reference to Exhibit 99.1 to Walgreen Co.'s Registration Statement on Form S-8 (File No. 333-174811) filed with the SEC on June 9, 2011.
10.58	drugstore.com, inc., 2008 Equity Incentive Plan, as amended.	Incorporated by reference to Exhibit 99.2 to Walgreen Co.'s Registration Statement on Form S-8 (File No. 333-174811) filed with the SEC on June 9, 2011.
10.59	364-Day Bridge Term Loan Agreement, dated as of July 23, 2012, among Walgreen Co., the lenders party thereto, and Goldman Sachs Bank USA, as administrative agent	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on July 26, 2012.
10.60	Credit Agreement, dated as of July 23, 2012, among Walgreen Co., the lenders party thereto, Bank of America, N.A., as administrative agent and a letter of credit issuer, and Wells Fargo Bank, National Association, as a letter of credit issuer	Incorporated by reference to Exhibit 10.2 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on July 26, 2012.
10.61	Second Amendment to Credit Agreement, dated as of July 23, 2012, by and among Walgreen Co., the lenders party thereto, Bank of America, N.A., as administrative agent and a letter of credit issuer and Wells Fargo Bank, National Association, as a letter of credit issuer (including the Credit Agreement, dated as of July 20, 2011, as amended by such Second Amendment to Credit Agreement, as an exhibit thereto)	Incorporated by reference to Exhibit 10.3 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on July 26, 2012.

10.62	Shareholders' Agreement, dated as of August 2, 2012, by and among Alliance Boots GmbH, AB Acquisition Holdings Limited and Walgreen Co.	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on August 6, 2012.
12.	Computation of Ratio of Earnings to Fixed Charges.	Filed herewith.
13.	Portions of the Walgreen Co. Annual Report to Shareholders for the fiscal year ended August 31, 2012.	This report, except for those portions thereof which are expressly incorporated by reference in this Form 10-K, is being furnished for the information of the SEC and is not deemed to be "filed" as a part of the filing of this Form 10-K.
21.	Subsidiaries of the Registrant.	Filed herewith.
23.	Consent of Independent Registered Public Accounting Firm.	Filed herewith.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished herewith.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.	Furnished herewith.
99.1	Alliance Boots GmbH audited consolidated financial statements for the years ended March 31, 2012, 2011 and 2010.	Incorporated by reference to Exhibit 99.1 to Walgreen Co.'s Current Report on Form 8-K/A (File No. 1-00604) filed with the SEC on September 10, 2012.
101	The following financial statements and footnotes from the Walgreen Co. Annual Report on Form 10-K for the year ended August 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statement of Earnings; (ii) Consolidated Statement of Cash Flows; (iii) Consolidated Balance Sheet; (iv) Consolidated Statement of Shareholders' Equity, and (v) the Notes to Consolidated Financial Statements.	Filed herewith.

* Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Copies of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.

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

WALGREEN CO. AND SUBSIDIARIES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED AUGUST 31, 2012, 2011 AND 2010

(Dollars in Millions)

	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, 2012	$ 101	$ 107	$ (109)	$ 99
Year Ended August 31, 2011	$ 104	$ 88	$ (91)	$ 101
Year Ended August 31, 2010	$ 110	$ 111	$ (117)	$ 104

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, 2012 and 2011, and for each of the three years in the period ended August 31, 2012, and the Company’s internal control over financial reporting as of August 31, 2012, and have issued our report thereon dated October 19, 2012; such consolidated financial statements and report are included in your 2012 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedule of the Company listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company’s management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Chicago, Illinois
October 19, 2012

SIGNATURES

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

WALGREEN CO.

October 19, 2012

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

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

Name	Title	Date
/s/ Gregory D. Wasson Gregory D. Wasson	President and Chief Executive Officer (Principal Executive Officer)	October 19, 2012
/s/ Wade D. Miquelon Wade D. Miquelon	Executive Vice President and Chief Financial Officer and President, International (Principal Financial Officer)	October 19, 2012
/s/ Mia M. Scholz Mia M. Scholz	Senior Vice President – Corporate Financial Operations, Controller and Chief Accounting Officer (Principal Accounting Officer)	October 19, 2012
/s/ Jan Babiak Jan Babiak	Director	October 19, 2012
/s/ David J. Brailer David J. Brailer	Director	October 19, 2012
/s/ Steven A. Davis Steven A. Davis	Director	October 19, 2012
/s/ William C. Foote William C. Foote	Director	October 19, 2012
/s/ Mark P. Frissora Mark P. Frissora	Director	October 19, 2012
/s/ Ginger L. Graham Ginger L. Graham	Director	October 19, 2012
/s/ Alan G. McNally Alan G. McNally	Director	October 19, 2012
/s/ Dominic P. Murphy Dominic P. Murphy	Director	October 19, 2012
/s/ Stefano Pessina Stefano Pessina	Director	October 19, 2012
/s/ Nancy M. Schlichting Nancy M. Schlichting	Director	October 19, 2012
/s/ David Y. Schwartz David Y. Schwartz	Director	October 19, 2012
/s/ Alejandro Silva Alejandro Silva	Director	October 19, 2012
	Chairman of the Board	October 19, 2012

/s/ James A. Skinner

James A. Skinner

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Exhibit No.	Description
10.7	Form of Restricted Stock Unit Award Agreement (effective November 1, 2012).
12	Computation of Ratio of Earnings to Fixed Charges.
13	Portions of the Walgreen Co. Annual Report to shareholders for the fiscal year ended August 31, 2012. This report, except for those portions thereof which are expressly incorporated by reference in this Form 10-K, is being furnished for the information of the Securities and Exchange Commission and is not deemed to be "filed" as a part of the filing of this Form 10-K.
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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WALGREEN CO.

LONG-TERM PERFORMANCE INCENTIVE PLAN

RESTRICTED SHARE UNIT AWARD AGREEMENT

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

Participant Name:
Participant ID:
Grant Date: November 1, 2012
Units Granted:
Vesting Date: [November 1, 2015, provided the Performance Goal described in Section 4 is met]
Acceptance Date:
Electronic Signature:

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

The parties hereto agree as follows:

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

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

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

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

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

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

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

4. Period of Restriction . The period prior to the date the Restricted Share Units become vested is referred to as the "Period of Restriction." Subject to the provisions of the Plan and this Agreement, unless vested or forfeited earlier as described in Section 5, 6, 7 or 8 of this Agreement, as applicable, the Period of Restriction for the Restricted Share Units awarded hereunder shall end, and the Restricted Share Units shall become vested and settled as described in Section 9 below, as of November 1, 2015, provided the performance goal described below in this Section 4 ("Performance Goal") is satisfied in the fiscal year ending August 31, 2013. The Performance Goal is attainment of 50% of threshold FIFO Adjusted EBIT established as a goal for the fiscal year ending August 31, 2013, as determined under the Management Incentive Plan and certified by the Committee. If the Performance Goal is not attained as of the end of the 2013 fiscal year, the Restricted Share Units awarded hereunder shall be thereupon forfeited.

5. Vesting upon Termination due to Disability or Death . If (a) on or prior to August 31, 2013, or (b) after August 31, 2013 but solely if the Performance Goal has been attained, the Employee terminates employment with the Company (or a Subsidiary of the Company if the Employee is then in the employ of such Subsidiary) by reason of Disability (as defined in the Plan) or death during the Period of Restriction, then the Restricted Share Units shall become fully vested as of the date of employment termination without regard to the Period of Restriction. The term "Subsidiary" is defined in the Plan and means a corporation with respect to which the Company directly or indirectly owns 50% or more of the voting power. Any Restricted Share Units becoming vested by reason of the Employee's death or Disability shall be settled on the date of the Employee's separation from service (within the meaning of Internal Revenue Code ("Code") Section 409A), or as soon as practicable thereafter, but in no event later than 90 days after such date; provided, however, to the extent required under Code Section 409A, if the Employee is a specified employee (within the meaning of Code Section 409A at the time of separation from service), payment shall not be made until the date which is six months after the Employee's separation from service.

6. Vesting upon Termination due to Retirement. If (a) on or prior to August 31, 2013, or (b) after August 31, 2013 but solely if the Performance Goal has been attained, the Employee terminates employment with the Company (or a Subsidiary of the Company if the Employee is then in the employ of such Subsidiary) by reason of Retirement (as defined in the Plan) during the Period of Restriction, then a pro-rated portion of the Restricted Stock Units subject to the Period of Restriction shall become fully vested as of the date of employment termination, and the Period of Restriction shall end with respect to those units. Such pro-rated portion shall equal the number of Restricted Stock Units, multiplied by a fraction equal to the number of full months completed between the Award Date and the Employee's retirement date, divided by thirty six (36). The remaining Restricted Stock Units shall be forfeited as of the Employee's termination of employment due to Retirement. Any Restricted Stock Units becoming vested by reason of the Employee's Retirement shall be settled on the date of the Employee's separation from service (within the meaning of Internal Revenue Code Section 409A), or as soon as practicable thereafter, but in no event later than 90 days after such date; provided, however, to the extent required under Code Section 409A, if the Employee is a specified employee (within the meaning of Code Section 409A), payment shall not be made until date which is six months after the Employee's separation from service.

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

8. Vesting upon Change in Control. In the event of a "Change in Control" of the Company, as defined in Section 11.2 of the Plan, occurring either (a) on or prior to August 31, 2013, or (b) after August 31, 2013, but solely if the Performance Goal has been attained, then, pursuant to Section 11.1 of the Plan the Restricted Share Units shall cease to be subject to the Period of Restriction and shall be settled in accordance with Section 10; provided that, if the Change in Control is not also considered a change in control within the meaning of Internal Revenue Code Section 409A, then the Restricted Share Units shall become vested and the Period of Restriction shall lapse on the date of the Change in Control, but settlement shall not occur until the earlier of the Participant's separation from service (within the meaning of Code Section 409A), or November 1, 2015.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

****

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

Very truly yours,

/s/ Gregory Wasson

EXHIBIT A

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

This Exhibit forms a part of the Restricted Share Unit Award Agreement covering Restricted Share Units awarded to an employee of W Co., on behalf of itself, its affiliates, subsidiaries, and successors (collectively referred to as "Employee" and the "Company").

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

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

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

NOW THEREFORE, in consideration of the Restricted Share Unit award issued to Employee pursuant the Award Agreement to which this is attached as Exhibit A, Employee agrees to be bound by the terms of this Agreement:

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

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

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

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

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

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

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

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

6. **Nondisparagment .** I agree (whether or not then an Employee) not to make negative comments or otherwise disparage the Company, its Affiliates, or any of their officers, directors, employees, shareholders, members, agents or products other than in the good faith performance of my duties to the Company and its Affiliates while I am employed by the Company and its Affiliates and thereafter. The foregoing shall not be violated by truthful statements in response to legal process, required governmental testimony or filings, or administrative or arbitral proceedings (including, without limitation, depositions in connection with such proceedings).

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

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

9. Enforceability; General Provisions .

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

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

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

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

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

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

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

(h) Waiver of any of the provisions of this Agreement by the Company in any particular instance shall not be deemed to be a waiver of any provision in any other instance and/or of the Company's other rights at law or under this Agreement.

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

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

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

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

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

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

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

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

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

	Fiscal Year Ended				
	8/31/2012	**8/31/2011**	**8/31/2010**	**8/31/2009**	**8/31/2008**
Income before income taxes	**$ 3,376**	$ 4,294	$ 3,373	$ 3,164	$ 3,429
Add:					
Minority Interests					
Fixed charges	**1,260**	1,212	1,100	996	842
Amortization of capitalized interest	**6**	5	-	-	-
Less: Capitalized interest	**(9)**	(10)	(12)	(16)	(19)
Earnings as defined	**$ 4,633**	$ 5,501	$ 4,461	$ 4,144	$ 4,252
Interest expense, net of capitalized interest	**$ 94**	$ 77	$ 90	$ 91	$ 18
Capitalized interest	**9**	10	12	16	19
Portions of rentals representative of the interest factor	**1,157**	1,125	998	889	804
Fixed charges as defined	**$ 1,260**	$ 1,212	$ 1,100	$ 996	$ 841
Ratio of earnings to fixed charges	**3.68**	4.54	4.06	4.16	5.06

Five-Year Summary of Selected Consolidated Financial Data

Walgreen Co. and Subsidiaries

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

Fiscal Year	2012(1)	2011	2010(4)	2009	2008
Net sales	**$ 71,633**	$ 72,184	$ 67,420	$ 63,335	$ 59,034
Cost of sales (2)	**51,291**	51,692	48,444	45,722	42,391
Gross Profit	**20,342**	20,492	18,976	17,613	16,643
Selling, general and administrative expenses (1) (2) (6)	**16,878**	16,561	15,518	14,366	13,202
Gain on sale of business (3)	**-**	434	-	-	-
Operating Income	**3,464**	4,365	3,458	3,247	3,441
Interest expense, net (1)	**(88)**	(71)	(85)	(83)	(11)
Earnings Before Income Tax Provision	**3,376**	4,294	3,373	3,164	3,430
Income tax provision (5)	**1,249**	1,580	1,282	1,158	1,273
Net Earnings	**$ 2,127**	$ 2,714	$ 2,091	$ 2,006	$ 2,157
Per Common Share					
Net earnings					
Basic	**$ 2.43**	$ 2.97	$ 2.13	$ 2.03	$ 2.18
Diluted	**2.42**	2.94	2.12	2.02	2.17
Dividends declared	**.95**	.75	.59	.48	.40
Book value	**19.32**	16.69	15.34	14.54	13.01
Non-Current Liabilities					
Long-term debt	**$ 4,073**	$ 2,396	$ 2,389	$ 2,336	$ 1,337
Deferred income taxes	**545**	343	318	265	150
Other non-current liabilities	**1,886**	1,785	1,735	1,396	1,410
Assets and Equity					
Total Assets	**$ 33,462**	$ 27,454	$ 26,275	$ 25,142	$ 22,410
Shareholders' Equity	**18,236**	14,847	14,400	14,376	12,869
Return on average shareholders' equity	**12.9%**	18.6%	14.5%	14.7%	18.0%
Locations					
Year-end (7)	**8,385**	8,210	8,046	7,496	6,934

(1) On August 2, 2012, the Company completed the acquisition of 45% of the issued and outstanding share capital of Alliance Boots GmbH in exchange for cash and Company shares. The Company accounts for this investment using the equity method of accounting on a one-month lag basis. Because the closing of this investment occurred within one month of the Company's fiscal year-end, the results of operations of Alliance Boots GmbH are not reflected in the Company's reported net earnings for fiscal 2012. Transaction costs associated with the investment were $90 million pre-tax, $82 million or $.11 per diluted share, after tax and after including the earnings per share impact of issuing shares to finance the investment. Costs included $69 million in selling, general and administrative expenses and $21 million of interest expense.

(2) Fiscal 2011, 2010 and 2009 included Rewiring for Growth restructuring and restructuring-related charges of $45 million pre-tax, $28 million after tax, $106 million pre-tax, $67 million after tax; and $252 million pre-tax, $160 million after tax, respectively. Charges included in cost of sales for fiscal 2011, 2010 and 2009 were $3 million, $40 million and $95 million, respectively. Selling, general and administrative expenses related to the initiative for fiscal 2011, 2010 and 2009 were $42 million, $66 million and $157 million, respectively. Fiscal 2012, 2011, 2010 and 2009 included expenses related to Customer Centric Retailing store conversions of $15 million, $84 million, $45 million and $5 million, respectively, all of which were included in selling, general and administrative expenses.

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

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

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

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

(7) Locations include drugstores, worksite health and wellness centers, infusion and respiratory services facilities, specialty pharmacies and mail service facilities. The foregoing does not include locations of unconsolidated partially owned entities, such as Alliance Boots GmbH, of which the Company owns 45% of the outstanding share capital.

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

The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes included elsewhere herein. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under "Cautionary Note Regarding Forward-Looking Statements" below and in Item 1A (Risk Factors) in our Annual Report on Form 10-K. References herein to "Walgreens," the "Company," "we," "us" or "our" refer to Walgreen Co. and its subsidiaries included in the consolidated financial statements and does not include unconsolidated partially owned entities, such as Alliance Boots GmbH, of which we own 45% of the outstanding share capital, except as otherwise indicated or the context otherwise requires.

INTRODUCTION

Walgreens is principally a retail drugstore chain that sells prescription and non-prescription drugs and general merchandise. General merchandise includes, among other things, household items, convenience and fresh foods, personal care, beauty care, photofinishing and candy. Customers can have prescriptions filled in retail pharmacies as well as through the mail, and customers may also place orders by telephone and online. At August 31, 2012, we operated 8,385 locations in 50 states, the District of Columbia, Guam and Puerto Rico. Total locations do not include 360 Take Care Clinics that are operated primarily within other Walgreens locations or locations of unconsolidated partially owned entities such as Alliance Boots GmbH.

	Number of Locations		
Location Type	**2012**	**2011**	**2010**
Drugstores	**7,930**	7,761	7,562
Worksite Health and Wellness Centers	**366**	355	367
Infusion and Respiratory Services Facilities	**76**	83	101
Specialty Pharmacies	**11**	9	14
Mail Service Facilities	**2**	2	2
Total	**8,385**	8,210	8,046

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, online pharmacies, warehouse clubs and dollar stores.

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

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

Following our June 21, 2011 announcement that contract renewal negotiations with pharmacy benefit manager Express Scripts, Inc. (Express Scripts) had been unsuccessful, Walgreens exited the Express Scripts pharmacy provider network as of January 1, 2012. On July 19, 2012, Walgreens and Express Scripts announced their entry into a new multiyear agreement pursuant to which Walgreens began participating in the broadest Express Scripts retail pharmacy provider network available to Express Scripts clients as of September 15, 2012. From January 1, 2012, until September 14, 2012, however, Express Scripts' network did not include Walgreens pharmacies. Express Scripts, in its capacity as a pharmacy benefits manager, processed approximately 88 million prescriptions filled by Walgreens in fiscal 2011, representing approximately $5.3 billion of our fiscal 2011 net sales. Compared to fiscal 2011, we estimate that the negative impact of not being part of the Express Scripts, Inc. pharmacy provider network, net of associated cost reductions, was $0.21 per diluted share.

We expect the positive impact of our new agreement with Express Scripts will be incremental over time, particularly over the first several quarters after September 15, 2012. While we cannot predict with certainty which Express Scripts clients will choose to include us in their pharmacy networks after September 15, 2012, we expect that our pharmacies will participate in the pharmacy networks of most clients for which Express Scripts serves as pharmacy benefit manager. However, one substantial client of Express Scripts, the United States Department of

Defense TRICARE program, has announced that Walgreens will continue to not be a part of its pharmacy network and will be designated as a non-network pharmacy provider for TRICARE beneficiaries. Most of the patients we served in calendar 2011 who participated in a plan for which Express Scripts served as pharmacy benefit manager transitioned to another pharmacy after we exited the Express Scripts network on January 1, 2012. We expect to incur marketing and other costs in connection with efforts to regain former patients and attract new patients covered by plans for which we become a network pharmacy provider as a result of our agreement with Express Scripts.

Ultimately, the magnitude and timing of the impact on our financial results of rejoining the Express Scripts retail pharmacy provider network will depend on our ability to regain former patients and attract new patients covered by existing and new Express Scripts clients; however, we cannot predict with certainty what level of business we will achieve as a result of rejoining the Express Scripts retail pharmacy provider network in any particular future time period. We also intend to continue to pursue initiatives seeking to align our costs with anticipated business levels and requirements over time. Rejoining the Express Scripts retail pharmacy provider network is expected to positively affect our net sales, net earnings and cash flows over time relative to the levels we would otherwise achieve if we were not in the Express Scripts network and to mitigate the adverse effects related to our non-participation in the Express Scripts retail pharmacy provider network during the period from January 1, 2012 through September 14, 2012. See "Cautionary Note Regarding Forward-Looking Statements."

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

Periodically, we make strategic acquisitions and investments that fit our long-term growth objectives. Consideration is given to retail, health and well-being enterprises and other potential acquisitions and investments that provide unique opportunities and fit our business objectives. On August 2, 2012, we completed the initial investment contemplated by the Purchase and Option Agreement dated June 18, 2012, by and among Walgreens, Alliance Boots GmbH and AB Acquisitions Holdings Limited (the "Purchase and Option Agreement"), which resulted in our acquisition of 45% of the issued and outstanding share capital of Alliance Boots GmbH, in exchange for $4.025 billion in cash and 83,392,670 shares of Walgreens common stock (first step transaction). Alliance Boots is the largest retail pharmacy, health and daily living destination in Europe with over 3,330 retail locations. Its pharmaceutical wholesaling and distribution businesses, together with associates and joint ventures, operate over 370 distribution centers supplying more than 170,000 pharmacies, doctors, health centers and hospitals. We account for our 45% investment in Alliance Boots using the equity method of accounting on a one-month lag basis. Because the closing of this investment occurred within one month of the Company's fiscal year-end, the results of operations of Alliance Boots GmbH are not reflected in the Company's reported net earnings for the fiscal quarter or year ended August 31, 2012. Our 45% proportionate interest in the profit of Alliance Boots GmbH for the three-month period ended October 31, 2012, will be reflected in the Company's reported net earnings for the fiscal quarter ended November 30, 2012.

The Purchase and Option Agreement also provides, among other things and subject to the satisfaction or waiver of specified conditions, that we will have the right, but not the obligation, to acquire the remaining 55% interest in Alliance Boots GmbH in exchange for £3.133 billion in cash, payable in British pounds sterling, and 144,333,468 shares of Walgreens common stock, subject to certain specified adjustments (second step transaction). If Walgreens exercises the call option, in certain limited circumstances, Walgreens may be required to make the entire second step transaction payment in cash. The call option is exercisable by us, in our sole discretion, at any time during the period beginning February 2, 2015 and ending August 2, 2015. In addition, in certain specified cases, if Walgreens does not exercise the call option, or Walgreens has exercised the call option but the second step transaction does not close, Walgreens may be required to return to the sellers an approximately 3% interest in Alliance Boots GmbH in exchange for a nominal amount. Walgreens initial investment and the call option excludes the Alliance Boots minority interest in Galenica Ltd. (Galenica). The Alliance Boots investment in Galenica continues to be legally owned by Alliance Boots for the benefit of Alliance Boots shareholders other than Walgreeens. Additional information regarding our investment in Alliance Boots GmbH is available in our Current Reports on Form 8-K filed on June 19, 2012 and August 6, 2012 (as amended by the Form 8-K/A filed on September 10, 2012). The amendment to our August 6, 2012 Form 8-K filed on September 10, 2012, includes as exhibits thereto Alliance Boots audited consolidated financial statements for the years ended March 31, 2012, 2011 and 2010 (prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board) and unaudited pro forma consolidated financial information related to our 45% investment in Alliance Boots GmbH.

Other strategic acquisitions in fiscal 2012 included certain assets of BioScrip, Inc.'s (BioScrip) community specialty pharmacies, and centralized specialty and mail services pharmacy businesses, which advance community pharmacy and bring additional specialty pharmacy products and services closer to patients. The Company also grew its infusion business in select markets through the acquisition of Crescent Pharmacy Holdings, LLC (Crescent). On September 17, 2012, the Company completed its acquisition of USA Drug, which includes 144 drugstore locations operating under the USA Drug, Super D Drug, May's Drug, Med-X and Drug Warehouse names. Significant acquisitions in prior years include the purchase of drugstore.com, inc. in fiscal 2011, which enhanced our online presence, and the acquisition of Duane Reade Holdings, Inc., and Duane Reade Shareholders, LLC (Duane Reade) in fiscal 2010, which included all of the Duane Reade stores in the New York City metropolitan area.

All Company sales during the last three fiscal years occurred within the United States, Puerto Rico and Guam. There were no export sales. Investments accounted for under the equity method are recorded initially at cost and subsequently adjusted for the Company's share of the net income or loss and cash contributions and distributions to or from these entities. The Company's investment in Alliance Boots, which closed on August 2, 2012, and the related second step purchase option were recorded as assets with a $7.0 billion aggregate value on the Company's August 31, 2012 Consolidated Balance Sheet, which represented 30.9% of the Company's long-lived assets as of that date. See Note 5 to Consolidated Financial Statements for additional information.

RESTRUCTURING CHARGES

In 2008, we announced a series of strategic initiatives, approved by the Board of Directors, to enhance shareholder value. One of these initiatives was a program known as "Rewiring for Growth," which was designed to reduce cost and improve productivity through strategic sourcing of indirect spend, reducing corporate overhead and work throughout our stores, rationalization of inventory categories, and realignment of pharmacy operations. These initiatives were completed in the fourth quarter of fiscal 2011.

We recorded $42 million of pre-tax charges in selling, general and administrative expenses in fiscal 2011 associated with our Rewiring for Growth program and $66 million in fiscal 2010. In addition, as a part of our restructuring efforts, we sold an incremental amount of inventory below traditional retail prices. The dilutive effect of these sales on gross profit for fiscal years 2011 and 2010 were $3 million and $21 million, respectively.

We realized total savings related to Rewiring for Growth of approximately $1.1 billion in fiscal 2011 compared to our base year of fiscal 2008. Selling, general and administrative expenses realized total savings of $953 million, while cost of sales benefited by approximately $122 million. The savings were primarily the result of reduced store labor and personnel and expense reductions.

Additionally, as a part of our Customer Centric Retailing (CCR) initiative, we have modified our store format to enhance category layouts and adjacencies, shelf heights and sight lines, and brand and private brand assortments, all of which were designed to positively impact the shopper experience. This initiative was completed in the first quarter of fiscal 2012. In total, we converted 5,843 stores and opened 559 new stores with the CCR format. In the first quarter of fiscal 2012, we incurred $33 million in total program costs, of which $15 million was included in selling, general and administrative expenses and $18 million in capital costs. In fiscal 2011, we incurred $144 million in total program costs, of which $84 million was included in selling, general and administrative expenses and $60 million in capital costs. In fiscal 2010, we incurred $71 million in total program costs, of which $45 million was included in selling, general and administrative expenses and $26 million in capital costs.

OPERATING STATISTICS

	Percentage Increases/ (Decreases)		
Fiscal Year	**2012**	**2011**	**2010**
Net Sales	**(0.8)**	7.1	6.4
Net Earnings	**(21.6)**	29.8	4.2
Comparable Drugstore Sales	**(3.6)**	3.3	1.6
Prescription Sales	**(3.1)**	6.3	6.3
Comparable Drugstore Prescription Sales	**(6.1)**	3.3	2.3
Front-End Sales	**3.6**	8.5	6.8
Comparable Drugstore Front-End Sales	**0.6**	3.3	0.5
Gross Profit	**(0.7)**	8.0	7.7
Selling, General and Administrative Expenses	**1.9**	6.7	8.0

	Percent to Net Sales		
Fiscal Year	**2012**	**2011**	**2010**
Gross Margin	**28.4**	28.4	28.1
Selling, General and Administrative Expenses	**23.6**	23.0	23.0

	Other Statistics		
Fiscal Year	**2012**	**2011**	**2010**
Prescription Sales as a % of Net Sales	**63.2**	64.7	65.2
Third Party Sales as a % of Total Prescription Sales	**95.6**	95.6	95.3
Number of Prescriptions (in millions)	**664**	718	695
Comparable Prescription % Increase/(Decrease)	**(8.4)**	1.5	3.3
30-Day Equivalent Prescriptions (in millions) *	**784**	819	778
Comparable 30-Day Equivalent Prescription % Increase/ (Decrease) *	**(5.1)**	3.7	4.5
Total Number of Locations	**8,385**	8,210	8,046

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

RESULTS OF OPERATIONS

Fiscal 2012 net earnings decreased 21.6% to $2.1 billion, or $2.42 per diluted share, versus last year's earnings of $2.7 billion, or $2.94 per diluted share.   The decrease was primarily attributable to lower sales, the sale of our pharmacy benefit management business in fiscal 2011 and higher selling, general and administrative expenses as a percentage of sales. Included in fiscal 2012 net earnings and net earnings per diluted share, respectively, was $195 million, or $.22 per diluted share, from the year's LIFO provision and $161 million, or $.18 per diluted share, in acquisition-related amortization. Fiscal 2012 net earnings and net earnings per diluted share, respectively, also included $82 million, or $.11 per diluted share, of transaction costs and interest, some of which are non-deductible for tax purposes, and share issuance impact (which affected net earnings per diluted share only) related to the Alliance Boots transaction. Included in fiscal 2011 net earnings and net earnings per diluted share, respectively, were $273 million, or $.30 per diluted share, associated with the gain on the sale of Walgreens Health Initiatives, Inc., $138 million, or $.15 per diluted share, in acquisition-related amortization and $131 million, or $.14 per diluted share, from the year's LIFO provision.

Net sales decreased by 0.8% to $71.6 billion in fiscal 2012 compared to increases of 7.1% in 2011 and 6.4% in 2010. The acquisitions of BioScrip assets and drugstore.com increased total sales by 1.0% in fiscal 2012. Net sales in fiscal 2012 were negatively impacted by our strategic decision to no longer be a part of the Express Scripts pharmacy provider network, partially offset by sales gains in existing stores and added sales from new stores, each of which included an indeterminate amount of market-driven price changes. Sales in comparable drugstores were down 3.6% in 2012 and up 3.3% and 1.6% in fiscal years 2011 and 2010, respectively. Comparable drugstores are defined as those that have been open for at least twelve consecutive months without closure for seven or more consecutive days and without a major remodel or a natural disaster in the past twelve months. Remodels associated with our CCR initiative are not considered major and therefore do not affect comparable drugstore results. Relocated and acquired stores are not included as comparable stores for the first twelve months after the relocation or acquisition. We operated 8,385 locations (7,930 drugstores) at August 31, 2012, compared to 8,210 locations (7,761 drugstores) at August 31, 2011, and 8,046 locations (7,562 drugstores) at August 31, 2010.

Prescription sales decreased 3.1% in 2012 compared to increases of 6.3% in 2011 and 6.3% in 2010. Comparable drugstore prescription sales were down 6.1% in 2012 compared to increases of 3.3% in 2011 and 2.3% in 2010. Prescription sales were negatively impacted by our strategic decision to no longer be part of the Express Scripts pharmacy provider network. Prescription sales as a percent of total net sales were 63.2% in 2012, 64.7% in 2011 and 65.2% in 2010. The effect of generic drugs, which have a lower retail price, replacing brand name drugs reduced prescription sales by 3.5% for 2012, 2.4% for 2011 and 2.2% for 2010, while the effect on total sales was 1.9% for 2012, 1.4% for 2011 and 1.3% for 2010. Third party sales, where reimbursement is received from managed care organizations, the government, employers or private insurers, were 95.6% of prescription sales in 2012 and 2011 and 95.3% in 2010. We receive market-driven reimbursements from third party payers, a number of which typically reset in January. The total number of prescriptions filled (including immunizations) was approximately 664 million in 2012, 718 million in 2011 and 695 million in 2010. Prescriptions adjusted to 30-day equivalents were 784 million in 2012, 819 million in 2011 and 778 million in 2010.

Front-end sales increased 3.6% in 2012, 8.5% in 2011 and 6.8% in 2010. The increase over the prior year was due, in part, to new store openings and improved sales related to non-prescription drugs, beer and wine, beauty, convenience and fresh foods and photofinishing products. Front-end sales were 36.8% of total sales in fiscal 2012, 35.3% of total sales in fiscal 2011 and 34.8% of total sales in fiscal 2010. Comparable drugstore front-end sales increased 0.6% in 2012, 3.3% in 2011 and 0.5% in 2010. The increase in fiscal 2012 comparable front-end sales was primarily due to the beer and wine, non-prescription drugs, beauty and photofinishing categories, which were partially offset by decreased sales in household products.

Gross margin as a percent of sales was 28.4% in fiscal 2012 and 2011. Gross margin in fiscal 2012 was positively impacted by higher front-end margins in the household items, convenience and fresh foods and non-prescription drug categories but offset by lower retail pharmacy margins where lower market-driven reimbursements and a higher provision for LIFO more than offset the impact of new generics including the generic Lipitor. Gross margin as a percent of sales was 28.4% in fiscal 2011 as compared to 28.1% in fiscal 2010. Overall margins were positively impacted by higher front-end margins in the non-prescription drug, beauty, personal care and convenience and fresh food categories. Retail pharmacy margins were also higher as the positive effect of generic drug sales more than offset market-driven reimbursements and the write-down of flu shot inventory. These positive effects were partially offset by a higher provision for LIFO.

Gross profit dollars in fiscal 2012 decreased 0.7% over the prior year. The decrease is primarily attributed to lower sales volumes and a higher provision for LIFO. Gross profit dollars in fiscal 2011 increased 8.0% over fiscal 2010. The increase is attributed to higher sales volumes and increased front-end and retail pharmacy 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 3.30% in 2012, 2.39% in 2011, and 1.70% in 2010, which resulted in charges to cost of sales of $309 million in 2012, $208 million in 2011 and $140 million in 2010. Inflation on prescription inventory was 10.04% in 2012, 4.64% in 2011 and 4.72% in 2010. As a result of declining inventory levels, the fiscal 2012 LIFO provision was reduced by $268 million of LIFO liquidation. In fiscal 2010, we experienced deflation in some non-prescription inventories. The anticipated LIFO inflation rate for fiscal 2013 is 2.50%.

Selling, general and administrative expenses were 23.6% of sales in fiscal 2012 as compared to 23.0% in 2011. The increase was primarily due to higher occupancy expense, drugstore.com expenses, including costs associated with the acquisition and integration, investments in strategic initiatives and capabilities, expenses associated with our investment in Alliance Boots GmbH and store direct expense, which were partially offset by lower expenses associated with our CCR remodeling program which was completed in the first quarter of fiscal 2012. Selling, general and administrative expenses as a percentage of sales remained at 23.0% in 2011 as compared to fiscal 2010. Increased corporate costs and Duane Reade operational expenses were offset by lower Rewiring for Growth costs and incremental savings from our Rewiring for Growth activities, primarily from expense reduction initiatives and reduced store payroll, as a percentage of sales.

Selling, general and administrative expense dollars increased $317 million, or 1.9% over fiscal 2011. Operating and integration costs related to drugstore.com added 0.6% and costs associated with our investment in Alliance Boots GmbH added 0.4%. The remaining increase was primarily attributed to new stores. Selling, general and administrative expense dollars in fiscal 2011 increased 6.7% over fiscal 2010. The increase was attributed to higher comparable store spending, new stores and the acquisition of Duane Reade.

Interest was a net expense of $88 million in fiscal 2012, $71 million in fiscal 2011 and $85 million in fiscal 2010. Interest expense for fiscal 2012, 2011 and 2010 is net of $9 million, $10 million and $12 million, respectively, that was capitalized to construction projects. In fiscal 2012, we incurred $21 million in interest expense on the bridge term loan facility in conjunction with our investment in Alliance Boots GmbH. This was partially offset by lower interest expense as a result of the additional $500 million in fixed to variable interest rate swaps, $250 million of which was entered into in May 2012 and $250 million of which was entered into in March 2011. The reduction in net interest expense from fiscal 2010 to fiscal 2011 was attributed to reduced interest rates associated with our $1.3 billion of fixed to variable interest rate swaps entered into in January 2010.

The effective income tax rate was 37.0% for fiscal 2012, 36.8% for 2011, and 38.0% for 2010. The increase in the effective tax rate from fiscal

2011 was attributed to certain non-deductible transaction costs associated with the investment in Alliance Boots GmbH. Fiscal 2010 included a $43 million charge to deferred taxes for the repeal of the tax benefit for the Medicare Part D subsidy for retiree benefits. We anticipate an effective tax rate of approximately 37.0% in fiscal 2013 before incorporating the investment in Alliance Boots GmbH.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $1.3 billion at August 31, 2012, compared to $1.6 billion at August 31, 2011. 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.

On October 14, 2009, our Board of Directors approved a long-term capital policy: to maintain a strong balance sheet and financial flexibility; reinvest in our core strategies; invest in strategic opportunities that reinforce our core strategies and meet return requirements; and return surplus cash flow to shareholders in the form of dividends and share repurchases over the long term.

Net cash provided by operating activities was $4.4 billion at August 31, 2012, compared to $3.6 billion a year ago. The increase was primarily as a result of changes in working capital balances including reduced inventory levels. Cash provided by operations is the principal source of funds for expansion, investments, acquisitions, remodeling programs, dividends to shareholders and stock repurchases.

Net cash used for investing activities was $5.9 billion versus $1.5 billion last year. Additions to property and equipment were $1.6 billion compared to $1.2 billion last year. In fiscal 2012, we added a total of 266 locations (175 net) compared to last year's 297 locations (164 net). There were 34 owned locations added during the year and 41 under construction at August 31, 2012, versus 62 owned locations added and 44 under construction as of August 31, 2011.

	Drugstores	Worksites	Infusion and Respiratory Services	Specialty Pharmacy	Mail Service	Total
August 31, 2010	7,562	367	101	14	2	8,046
New/Relocated	237	21	1	2	-	261
Acquired	32	-	4	-	-	36
Closed/Replaced	(70)	(33)	(23)	(7)	-	(133)
August 31, 2011	7,761	355	83	9	2	8,210
New/Relocated	**169**	**36**	**5**	**2**	**-**	**212**
Acquired	**43**	**-**	**10**	**1**	**-**	**54**
Closed/Replaced	**(43)**	**(25)**	**(22)**	**(1)**	**-**	**(91)**
August 31, 2012	**7,930**	**366**	**76**	**11**	**2**	**8,385**

Investing activities in 2012 include the August 2012 purchase of a 45% equity interest in Alliance Boots GmbH for $7.0 billion, of which $4.0 billion was cash. This investment is accounted for as an equity method investment. Business acquisitions this year were $490 million versus $630 million in fiscal 2011. Business acquisitions in fiscal 2012 included certain assets from BioScrip's community specialty pharmacies and centralized specialty and mail services pharmacy businesses for $144 million plus inventory; the purchase of Crescent Pharmacy Holdings, LLC, an infusion pharmacy business, for $73 million, net of assumed cash; and selected other assets (primarily prescription files). Business acquisitions in 2011 included the purchase of drugstore.com, inc., for $398 million net of assumed cash, $29 million of infusion and respiratory services assets and selected other assets (primarily prescription files). In fiscal 2011, we sold our pharmacy benefit management business, Walgreens Health Initiatives, Inc. (WHI), to Catalyst Health Solutions Inc. (Catalyst) and recorded net cash proceeds of $442 million. In fiscal 2012, we paid $45 million to Catalyst which was the result of a working capital adjustment in accordance with the June 2011 sales agreement. On July 5, 2012, we entered into an agreement to purchase a regional drugstore chain in the mid-South region of the United States from Stephen L. LaFrance Holdings, Inc. and members of the LaFrance family for $438 million, subject to adjustment in certain circumstances (the USA Drug transaction). The transaction included 144 stores operated under the USA Drug, Super D Drug, May's, Med-X and Drug Warehouse names. The transaction closed subsequent to our fiscal year end on September 17, 2012.

Capital expenditures for fiscal 2013 are expected to be between $1.6 billion and $1.8 billion, excluding business acquisitions, joint ventures and prescription file purchases, although the actual amount may vary depending upon a variety of factors, including, among other things, the timing of implementation of certain capital projects. We expect new drugstore organic growth of approximately 1.5 to 2.5 percent in fiscal 2013. During fiscal 2012, we added a total of 212 locations, of which 169 were new or relocated drugstores. We are continuing to relocate stores to more convenient and profitable freestanding locations.

Net cash provided by financing activities was $1.2 billion compared to the prior year's net cash use of $2.4 billion. We borrowed $3.0 billion under a 364-day bridge term loan facility in connection with the Alliance Boots GmbH investment, which borrowings were repaid subsequent to year-end using net proceeds from the September 2012 public offering of unsecured notes described below. We repurchased shares totaling $1.2 billion in fiscal 2012, $1.2 billion in conjunction with our share buyback programs and $40 million to support the needs of the employee stock plans. In the prior year, we repurchased shares totaling $2.0 billion, $1.8 billion in conjunction with our share buyback programs and $244 million to support the needs of the employee stock plans. We had proceeds related to employee stock plans of $165 million compared to $235 million last year. Cash dividends paid were $787 million versus $647 million a year ago. On June 19, 2012, we announced an increase in the quarterly dividend to 27.5 cents per share from the previous rate of 22.5 cents per share. The increase raises the annual dividend rate from 90 cents per share to $1.10 per share.

In connection with our capital policy, our Board of Directors has authorized several share repurchase programs and set a long-term dividend payout ratio target between 30 and 35 percent of net earnings. The 2009 and 2011 stock repurchase programs, which were both completed in fiscal 2011, allowed for the repurchase of up to $2.0 billion and $1.0 billion of the Company's common stock, respectively. Additionally, on July 13, 2011, our Board of Directors authorized the 2012 stock repurchase program, which allows for the repurchase of up to $2.0 billion of the Company's common stock prior to its expiration on December 31, 2015. Activity related to these programs was as follows (in millions):

	Fiscal Year Ended		
	2012	2011	2010
2009 stock repurchase program	**$ -**	$ 360	$ 1,640
2011 stock repurchase program	**-**	1,000	-
2012 stock repurchase program	**1,151**	424	-
	$ 1,151	$ 1,784	$ 1,640

We determine the timing and amount of repurchases from time to time based on our assessment of various factors including prevailing market conditions, alternate uses of capital, liquidity, the economic environment and other factors. We anticipate that the pace of any future share repurchase activity may be significantly curtailed from the levels achieved in the preceding two years due to the debt levels incurred for the investment in Alliance Boots GmbH. The timing and amount of these purchases may change at any time and from time to time. The Company has repurchased and may from time to time in the future repurchase shares on the open market through Rule 10b5-1 plans, which enable a company to repurchase shares at times when it otherwise might be precluded from doing so under insider trading laws.

We had no commercial paper outstanding at August 31, 2012. In connection with our commercial paper program, we maintain two unsecured backup syndicated lines of credit that total $1.35 billion. The first $500 million facility expires on July 20, 2015, and allows for the issuance of up to $250 million in letters of credit. The second $850 million facility expires on July 23, 2017, and allows for the issuance of up to $200 million in letters of credit. The issuance of letters of credit under either of these facilities reduces available borrowings. Our ability to access these facilities is subject to our compliance with the terms and conditions of the credit facility, including financial covenants. The covenants require us to maintain certain financial ratios related to minimum net worth and priority debt, along with limitations on the sale of assets and purchases of investments. At August 31, 2012, we were in compliance with all such covenants. The Company pays a facility fee to the financing banks to keep these lines of credit active. At August 31, 2012, there were no letters of credit issued against these facilities and we do not anticipate any future letters of credit to be issued against these facilities.

As of October 19, 2012, our credit ratings were:

Rating Agency	Long-Term Debt Rating	Commercial Paper Rating	Outlook
Moody's	Baa1	P-2	Negative
Standard & Poor's	BBB	A-2	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.

On September 13, 2012, we completed the issuance and sale via an underwritten public offering of $4.0 billion aggregate principal amount of senior unsecured notes of varying maturities and interest rates, the majority of which are fixed rate. See Note 16 of Notes to the Company's Consolidated Financial Statements. Approximately $3.0 billion of the net proceeds of the offering was used to refinance the 364-day bridge term loan described above and approximately $438 million was used to pay the purchase price upon the closing of the USA Drug transaction described above in September 2012.

Pursuant to our Purchase and Option Agreement with Alliance Boots GmbH, we have the right, but not the obligation, to purchase the remaining 55% interest in Alliance Boots during the period beginning February 2, 2015 and ending August 2, 2015. If we exercise this call option, we would, subject to the terms and conditions of such agreement, be obligated to make a cash payment of £3.133 billion (equivalent to approximately $5.0 billion based on exchange rates as of August 31, 2012) and issue approximately 144.3 million shares of our common stock, with the amount and form of such consideration being subject to adjustment in certain circumstances including if the volume weighted average price of our common stock is below $31.18 per share during a period shortly before the closing of the second step transaction. We also would assume the then-outstanding debt of Alliance Boots upon the closing of the second step transaction.

COMMITMENTS AND CONTINGENCIES

The information set forth in Note 11 to the Consolidated Financial Statements is incorporated herein by reference.

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 comprehensive income and corresponding balance sheet accounts would be necessary. These adjustments would be made in future statements. Some of the more significant estimates include goodwill and other intangible asset impairment, allowance for doubtful accounts, vendor allowances, asset impairments, liability for closed locations, liability for insurance claims, cost of sales and income taxes. We use the following methods to determine our estimates:

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

The determination of the fair value of the reporting units and the allocation of that value to individual assets and liabilities within those reporting units requires us to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: the selection of appropriate peer group companies; control premiums appropriate for acquisitions in the industries in which we compete; the discount rate; terminal growth rates; and forecasts of revenue, operating income, depreciation and amortization and capital expenditures. The allocation requires several analyses to determine fair value of assets and liabilities including, among other things, purchased prescription files, customer relationships and trade names. Although we believe our estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting units, the amount of the goodwill impairment charge, or both.

We also compared the sum of the estimated fair values of the reporting units to the Company’s total value as implied by the market value of the Company’s equity and debt securities. This comparison indicated that, in total, our assumptions and estimates were reasonable. However, future declines in the overall market value of the Company’s equity and debt securities may indicate that the fair value of one or more reporting units has declined below its carrying value.

One measure of the sensitivity of the amount of goodwill impairment charges to key assumptions is the amount by which each reporting unit “passed” (fair value exceeds the carrying amount) or “failed” (the carrying amount exceeds fair value) the first step of the goodwill impairment test. Our reporting units’ fair values exceeded their carrying amounts by less than 10% to more than 140%. The fair value of one reporting unit exceeded its carrying amount by less than 10%. Goodwill allocated to this reporting unit was $255 million at May 31, 2012. For this reporting unit, relatively modest changes in the Company’s key assumptions may have resulted in the recognition of a goodwill impairment charge. Our Long Term Care Pharmacy’s goodwill was impaired by $16 million in fiscal 2010 as a result of the asset sale agreement with Omnicare, Inc., which was signed on August 31, 2010.

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

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

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

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

Asset impairments – The impairment of long-lived assets is assessed based upon both qualitative and quantitative factors, including years of operation and expected future cash flows, and tested for impairment annually or whenever events or circumstances indicate that a certain asset may be impaired. If the future cash flows reveal that the carrying value of the asset group may not be recoverable, an impairment charge is immediately recorded. We have not made any material changes to the method of estimating our asset impairments during the last three years. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine asset impairments.

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

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

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

Equity method investments - We use the equity method to account for investments in companies if the investment provides the ability to exercise significant influence, but not control, over operating and financial policies of the investee. Our proportionate share of the net income or loss of these companies is included in consolidated net earnings. Judgment regarding the level of influence over each equity method investment includes considering key factors such as our ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions.

Income taxes – We are subject to routine income tax audits that occur periodically in the normal course of business. U.S. federal, state, 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 comprehensive income.

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table lists our contractual obligations and commitments at August 31, 2012 (in millions):

	Payments Due by Period				
	Total	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**Over 5 Years**
Operating leases (1)	$ 35,356	$ 2,412	$ 4,758	$ 4,517	$ 23,669
Purchase obligations (2):					
Open inventory purchase orders	1,679	1,679	-	-	-
Real estate development	227	146	24	57	-
Other corporate obligations	1,566	907	409	182	68
Long-term debt*(3)	5,388	1,315	10	7	4,056
Interest payment on long-term debt	407	116	105	105	81
Insurance*	635	240	178	88	129
Retiree health*	342	10	25	31	276
Closed location obligations*	116	25	31	20	40
Capital lease obligations*(1)	134	9	11	8	106
Other long-term liabilities reflected on the balance sheet* (4)	984	76	219	152	537
Total	$ 46,834	$ 6,935	$ 5,770	$ 5,167	$ 28,962

*Recorded on balance sheet.

(1) Amounts for operating leases and capital leases do not include certain operating expenses under these leases such as common area maintenance, insurance and real estate taxes. These expenses were $419 million for the fiscal year ended August 31, 2012.
(2) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including open purchase orders.
(3) Total long-term debt on the Consolidated Balance Sheet includes a $34 million fair market value adjustment and $4 million of unamortized discount.
(4) Includes $141 million ($86 million in 1-3 years, $43 million in 3-5 years and $12 million over 5 years) of unrecognized tax benefits recorded under Accounting Standards Codification Topic 740, Income Taxes.

The obligations and commitments included in the table above do not include unconsolidated partially owned entities, such as Alliance Boots GmbH, of which we own 45% of the outstanding share capital. The expected timing of payments of the obligations above is estimated based on current information. Timing of payments and actual amounts paid may be different, depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations.

In connection with the Alliance Boots Purchase and Option Agreement dated June 18, 2012, we have the right, but not the obligation, to purchase the remaining 55% interest in Alliance Boots GmbH at any time during the period beginning February 2, 2015, and ending August 2, 2015. If we exercise this call option, we would, subject to the terms and conditions of such agreement, be obligated to make a cash payment of £3.133 billion (equivalent to approximately $5.0 billion based on exchange rates as of August 31, 2012) and issue approximately 144.3 million shares of our common stock, with the amount and form of such consideration being subject to adjustment in certain circumstances including if the volume weighted average price of our common stock is below $31.18 per share during a period shortly before the closing of the second step transaction. We also would assume the then-outstanding debt of Alliance Boots GmbH upon the closing of the second step transaction. In the event that we do not exercise the option, under certain circumstances, our ownership of Alliance Boots GmbH will reduce from 45% to 42% in exchange for nominal consideration to Walgreens.

OFF – BALANCE SHEET ARRANGEMENTS

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

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

	August 31, 2012
Inventory purchase commitments	$ 157
Insurance	38
Real estate development	229
Total	$ 424

We have no off – balance sheet arrangements other than those disclosed on the Contractual Obligations and Commitments table. Both on – balance sheet and off – balance sheet financing alternatives are considered when pursuing our capital structure and capital allocation objectives.

RECENT ACCOUNTING PRONOUNCEMENTS

In August 2010, the Financial Accounting Standards Board (FASB) issued an exposure draft on lease accounting that would require entities to recognize assets and liabilities arising from lease contracts on the balance sheet. The proposed exposure draft states that lessees and lessors should apply a "right-of-use model" in accounting for all leases. Under the proposed model, lessees would recognize an asset for the right to use the leased asset, and a liability for the obligation to make rental payments over the lease term. The lease term is defined as the longest possible term that is "more likely than not" to occur. The accounting by a lessor would reflect its retained exposure to the risks or benefits of the underlying leased asset. A lessor would recognize an asset representing its right to receive lease payments based on the expected term of the lease. On the basis of feedback received from comment letters, roundtables, and outreach sessions, the FASB has made significant changes to the proposals in the exposure draft and therefore has decided to re-expose the revised exposure draft in the first quarter of calendar 2013. The proposed standard, as currently drafted, will have a material impact on the Company's reported results of operations and financial position. The impact of this exposure draft is non-cash in nature and will not affect the Company's cash position.

In July 2012, FASB issued Accounting Standards Update (ASU) 2012-02, which permits an entity to make a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired. If an entity concludes, based on an evaluation of all relevant qualitative factors, that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it will not be required to perform the quantitative impairment for that asset. The ASU is effective for impairment tests performed for fiscal years beginning after September 15, 2012 (fiscal 2014), with early adoption permitted. The ASU will not have a material impact on the Company's reported results of operations and financial position. The impact is non-cash in nature and will not affect the Company's cash position.

FINANCING AND MARKET RISK

We are exposed to interest rate volatility with regard to future issuances of fixed-rate debt, and existing and future issuances of floating-rate debt. Primary exposures include U.S. Treasury rates, LIBOR, and commercial paper rates. From time to time, we use interest rate swaps and forward-starting interest rate swaps to hedge our exposure to interest rate changes, to reduce the volatility of our financing costs, and to achieve a desired proportion of fixed versus floating-rate debt, based on current and projected market conditions. Generally under these swaps, we agree with a counterparty to exchange the difference between fixed-rate and floating-rate interest rate amounts based on an agreed upon notional principal amount.

Information regarding our interest rate swap transactions is set forth in Note 9 to the Consolidated Financial Statements. These financial instruments are sensitive to changes in interest rates. On August 31, 2012, we had $4.8 billion in long-term debt obligations that had floating interest rates. A one percentage point increase or decrease in interest rates would increase or decrease the annual interest expenses we recognize and the cash we pay for interest expense by approximately $48 million. In conjunction with the September 2012 notes issuance we refinanced $3.0 billion of the $4.8 billion outstanding floating rate long-term debt at August 31, 2012. This refinancing included $550 million of floating rate notes which accrue interest at the rate equal to the three-month U.S. dollar LIBOR as determined at the beginning of each quarterly period, plus 0.500%. The remaining notes that were part of the refinancing were at fixed rates. A one percentage point increase or decrease in the three-month U.S. dollar LIBOR would increase or decrease the annual interest expense we recognize and the cash we pay for interest expense on these floating rate notes by approximately $6 million.

In connection with our Purchase and Option Agreement with Alliance Boots and the transactions contemplated thereby, our exposure to foreign currency risks, primarily with respect to the British pound sterling, and to a lesser extent the Euro and certain other foreign currencies, is expected to increase. We are exposed to the translation of foreign currency earnings to the U.S. dollar as a result of our 45% interest in Alliance Boots GmbH, which we account for using the equity method of accounting on a one month lag. Foreign currency forward contracts and other derivative instruments may be used from time to time in some instances to hedge in full or in part certain risks relating to foreign currency denominated ass4ets and liabilities, intercompany transactions, and in connection with acquisitions, joint venture or investments outside the United States. As of August 31, 2012 and August 31, 2011, we did not have any outstanding foreign exchange derivative instruments.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report and other documents that we file or furnish with the Securities and Exchange Commission contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management's assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, on the Company's website or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls, conference calls and other communications. Statements that are not historical facts are forward-looking statements, including forward-looking information concerning our investment in Alliance Boots GmbH and the other transactions contemplated by the Purchase and Option Agreement with Alliance Boots and their possible effects, levels of business with Express Scripts customers, estimates of the impact of developments on our earnings and earnings per share, network participation, cough/cold and flu season, prescription volume, pharmacy sales trends, prescription margins, number and location of new store openings, vendor, payer and customer relationships and terms, possible new contracts or contract extensions, competition, economic and business conditions, outcomes of litigation and regulatory matters, the level of capital expenditures, industry trends, demographic trends, growth strategies, financial results, cost reduction initiatives, acquisition and joint venture synergies, competitive strengths and changes in legislation or regulations. Words such as "expect," "likely," "outlook," "forecast," "would," "could," "should," "can," "will," "project," "intend," "plan," "goal," "continue," "sustain," "synergy," "on track," "believe," "seek," "estimate," "anticipate," "may," "possible," "assume," variations of such words and similar expressions are intended to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that could cause actual results to vary materially from those indicated, including: risks that the proposed transactions disrupt plans and operations of either us or Alliance Boots GmbH, the ability to realize anticipated synergies and achieve anticipated financial results, the amount of costs, fees, expenses and charges incurred by Walgreens or Alliance Boots related to the transactions, the risks associated with international business operations, the risks associated with governance and control matters with respect to Alliance Boots GmbH, whether the option to acquire the remainder of the Alliance Boots equity interest will be exercised, changes in vendor, payer and customer relationships and terms, changes in network participation, competition, changes in economic and business conditions generally or in the markets we or Alliance Boots participate, risks associated with new business initiatives and activities, the failure to obtain new contracts or extensions of existing contracts, the availability and cost of real estate and construction, risks associated with acquisitions, joint ventures, strategic investments and divestitures, the ability to realize anticipated results from capital expenditures and cost reduction initiatives, outcomes of legal and regulatory matters, changes in legislation or regulations or interpretations thereof, and those described in Item 1A "Risk Factors" in our Form 10-K for the fiscal year ended August 31, 2012, and in other reports that we file or furnish with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are initially made. Except to the extent required by law, we do not undertake, and expressly disclaim, any duty or obligation to update publicly any forward-looking statement after the date the statement is made, whether as a result of new information, future events, changes in assumptions or otherwise.

Consolidated Statements of Comprehensive Income

Walgreen Co. and Subsidiaries
For the years ended August 31, 2012, 2011 and 2010
(In millions, except per share amounts)

	2012	2011	2010
Net sales	**$ 71,633**	$ 72,184	$ 67,420
Cost of sales	**51,291**	51,692	48,444
Gross Profit	**20,342**	20,492	18,976
Selling, general and administrative expenses	**16,878**	16,561	15,518
Gain on sale of business	**-**	434	-
Operating Income	**3,464**	4,365	3,458
Interest expense, net	**(88)**	(71)	(85)
Earnings Before Income Tax Provision	**3,376**	4,294	3,373
Income tax provision	**1,249**	1,580	1,282
Net Earnings	**$ 2,127**	$ 2,714	$ 2,091

Other comprehensive income (loss), net of tax:			
Reduction (addition) of postretirement liability	**52**	40	(61)
Comprehensive Income	**$ 2,179**	$ 2,754	$ 2,030
Net earnings per common share – basic	**$ 2.43**	$ 2.97	$ 2.13
Net earnings per common share – diluted	**2.42**	2.94	2.12
Average shares outstanding	**874.7**	915.1	981.7
Dilutive effect of stock options	**5.4**	9.4	6.2
Average diluted shares	**880.1**	924.5	987.9

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, 2012, 2011 and 2010
(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, 2009	988,561,390	$ 80	$ 605	$ (140)	$ 15,327	$ 37	$ (1,533)
Net earnings	-	-	-	-	2,091	-	-
Dividends declared ($.5875 per share)	-	-	-	-	(570)	-	-
Treasury stock purchases	(55,716,733)	-	-	-	-	-	(1,756)
Employee stock purchase and option plans	5,760,396	-	(5)	-	-	-	188
Stock-based compensation	-	-	84	-	-	-	-
Employee stock loan receivable	-	-	-	53	-	-	-
Additional postretirement liability, net of $34 tax benefit	-	-	-	-	-	(61)	-
Balance, August 31, 2010	938,605,053	$ 80	$ 684	$ (87)	$ 16,848	$ (24)	$ (3,101)
Net earnings	-	-	-	-	2,714	-	-
Dividends declared ($.7500 per share)	-	-	-	-	(685)	-	-
Treasury stock purchases	(54,739,474)	-	-	-	-	-	(2,028)
Employee stock purchase and option plans	5,428,551	-	(12)	-	-	-	203
Other	-	-	27	-	-	-	-
Stock-based compensation			135	-	-	-	-
Employee stock loan receivable	-	-	-	53	-	-	-
Reduction of postretirement liability, net of $22 tax expense	-	-	-	-	-	40	-
Balance, August 31, 2011	889,294,130	$ 80	$ 834	$ (34)	$ 18,877	$ 16	$ (4,926)
Net earnings	**-**	**-**	**-**	**-**	**2,127**	**-**	**-**
Dividends declared ($.9500 per share)	**-**	**-**	**-**	**-**	**(848)**	**-**	**-**
Treasury stock purchases	**(34,720,215)**	**-**	**-**	**-**	**-**	**-**	**(1,191)**
Employee stock purchase and option plans	**6,088,749**	**-**	**(75)**	**-**	**-**	**-**	**229**
Stock-based compensation	**-**	**-**	**99**	**-**	**-**	**-**	**-**
Employee stock loan receivable	**-**	**-**		**15**	**-**	**-**	**-**
Shares issued for investment in Alliance Boots	**83,392,670**	**0**	**78**	**-**	**-**	**-**	**2,903**
Reduction of postretirement liability, net of $32 tax expense	**-**	**-**	**-**	**-**	**-**	**52**	**-**
Balance, August 31, 2012	**944,055,334**	**$ 80**	**$ 936**	**$ (19)**	**$ 20,156**	**$ 68**	**$ (2,985)**

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

Consolidated Balance Sheets
Walgreen Co. and Subsidiaries
At August 31, 2012 and 2011
(In millions, except shares and per share amounts)

Assets	**2012**	2011
Current Assets		
Cash and cash equivalents	**$ 1,297**	$ 1,556
Accounts receivable, net	**2,167**	2,497
Inventories	**7,036**	8,044
Other current assets	**260**	225
Total Current Assets	**10,760**	12,322
Non-Current Assets		
Property and equipment, at cost, less accumulated depreciation and amortization	**12,038**	11,526
Equity investment in Alliance Boots	**6,140**	-
Alliance Boots call option	**866**	-
Goodwill	**2,161**	2,017
Other non-current assets	**1,497**	1,589
Total Non-Current Assets	**22,702**	15,132
Total Assets	**$ 33,462**	$ 27,454
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings	**$ 1,319**	$ 13
Trade accounts payable	**4,384**	4,810
Accrued expenses and other liabilities	**3,019**	3,075
Income taxes	**-**	185
Total Current Liabilities	**8,722**	8,083
Non-Current Liabilities		
Long-term debt	**4,073**	2,396
Deferred income taxes	**545**	343
Other non-current liabilities	**1,886**	1,785
Total Non-Current Liabilities	**6,504**	4,524
Commitments and Contingencies (see Note 11)		
Shareholders' Equity		
Preferred stock, $.0625 par value; authorized 32 million shares; none issued	**-**	-
Common stock, $.078125 par value; authorized 3.2 billion shares; issued 1,028,180,150 shares in 2012 and 1,025,400,000 shares in 2011	**80**	80
Paid-in capital	**936**	834
Employee stock loan receivable	**(19)**	(34)
Retained earnings	**20,156**	18,877
Accumulated other comprehensive income	**68**	16
Treasury stock at cost, 84,124,816 shares in 2012 and 136,105,870 shares in 2011	**(2,985)**	(4,926)
Total Shareholders' Equity	**18,236**	14,847
Total Liabilities and Shareholders' Equity	**$ 33,462**	$ 27,454

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, 2012, 2011 and 2010
(In millions)

	2012	2011	2010
Cash Flows from Operating Activities			
Net earnings	**$ 2,127**	$ 2,714	$ 2,091
Adjustments to reconcile net earnings to net cash provided by operating activities –			
Depreciation and amortization	**1,166**	1,086	1,030
Gain on sale of business	**-**	(434)	-
Deferred income taxes	**265**	132	63
Stock compensation expense	**99**	135	84
Other	**43**	53	60
Changes in operating assets and liabilities -			
Accounts receivable, net	**394**	(243)	124
Inventories	**1,083**	(592)	(307)
Other current assets	**(4)**	(24)	50
Trade accounts payable	**(439)**	384	167
Accrued expenses and other liabilities	**(184)**	218	262
Income taxes	**(228)**	102	10
Other non-current assets and liabilities	**109**	112	110
Net cash provided by operating activities	**4,431**	3,643	3,744
Cash Flows from Investing Activities			
Additions to property and equipment	**(1,550)**	(1,213)	(1,014)
Purchases of short-term investments – held to maturity	**-**	-	(3,000)
Proceeds from short-term investments – held to maturity	**-**	-	3,500
Return of (investment in) restricted cash	**191**	(191)	-
Proceeds from sale of assets	**123**	79	51
Business and intangible asset acquisitions, net of cash received	**(491)**	(630)	(779)
(Payments) proceeds from sale of business	**(45)**	442	-
Investment in Alliance Boots	**(4,025)**	-	-
Other	**(63)**	(12)	(32)
Net cash used for investing activities	**(5,860)**	(1,525)	(1,274)
Cash Flows from Financing Activities			
Payments of long-term debt	**-**	(17)	(576)
Issuance of long-term debt	**3,000**	-	-
Stock purchases	**(1,191)**	(2,028)	(1,756)
Proceeds related to employee stock plans	**165**	235	233
Cash dividends paid	**(787)**	(647)	(541)
Other	**(17)**	15	(37)
Net cash provided by (used for) financing activities	**1,170**	(2,442)	(2,677)
Changes in Cash and Cash Equivalents			
Net decrease in cash and cash equivalents	**(259)**	(324)	(207)
Cash and cash equivalents at beginning of year	**1,556**	1,880	2,087
Cash and cash equivalents at end of year	**$ 1,297**	$ 1,556	$ 1,880

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, 2012, there were 8,385 drugstore and other locations in all 50 states, the District of Columbia, Guam and Puerto Rico. Prescription sales were 63.2% of total sales for fiscal 2012 compared to 64.7% in 2011 and 65.2% in 2010.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions have been eliminated. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include amounts based on management's prudent judgments and estimates. Actual results may differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with an original maturity of three months or less. Credit and debit card receivables from banks, which generally settle within two business days, of $88 million and $83 million were included in cash and cash equivalents at August 31, 2012 and 2011, respectively. At August 31, 2012 and 2011, the Company had $820 million and $1,239 million, respectively, in money market funds, all of which was included in cash and cash equivalents.

The Company's cash management policy provides for controlled disbursement. As a result, the Company had outstanding checks in excess of funds on deposit at certain banks. These amounts, which were $256 million at August 31, 2012, and $229 million at August 31, 2011, are included in trade accounts payable in the accompanying Consolidated Balance Sheets.

In fiscal 2011, the Company held $191 million in restricted cash to support certain insurance obligations. In fiscal 2012, the restricted cash was released and the obligations were supported by issued letters of credit.

Inventories

Inventories are valued on a lower of last-in, first-out (LIFO) cost or market basis. At August 31, 2012 and 2011, inventories would have been greater by $1,897 million and $1,587 million, respectively, if they had been valued on a lower of first-in, first-out (FIFO) cost or market basis. As a result of declining inventory levels, the fiscal 2012 LIFO provision was reduced by $268 million of LIFO liquidation. Inventory includes product costs, inbound freight, warehousing costs and vendor allowances not classified as a reduction of advertising expense.

Equity Method Investments

The Company uses the equity method to account for investments in companies if the investment provides the ability to exercise significant influence, but not control, over operating and financial policies of the investee. The Company’s proportionate share of the net income or loss of these companies is included in consolidated net earnings. Judgment regarding the level of influence over each equity method investment includes considering key factors such as the Company’s ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions.

Property and Equipment

Depreciation is provided on a straight-line basis over the estimated useful lives of owned assets. Leasehold improvements and leased properties under capital leases are amortized over the estimated useful life of the property or over the term of the lease, whichever is shorter. Estimated useful lives range from 10 to 39 years for land improvements, buildings and building improvements; and 2 to 13 years for equipment. Major repairs, which extend the useful life of an asset, are capitalized; routine maintenance and repairs are charged against earnings. The majority of the business uses the composite method of depreciation for equipment. Therefore, gains and losses on retirement or other disposition of such assets are included in earnings only when an operating location is closed, completely remodeled or impaired. Fully depreciated property and equipment are removed from the cost and related accumulated depreciation and amortization accounts. Property and equipment consists of (in millions):

	2012	2011
Land and land improvements		
Owned locations	**$ 3,189**	$ 3,209
Distribution centers	**96**	96
Other locations	**232**	240
Buildings and building improvements		
Owned locations	**3,684**	3,651
Leased locations (leasehold improvements only)	**1,518**	1,235
Distribution centers	**608**	596
Other locations	**525**	372
Equipment		
Locations	**4,995**	4,468
Distribution centers	**1,158**	1,098
Other locations	**586**	423
Capitalized system development costs	**420**	328
Capital lease properties	**149**	118
	17,160	15,834

Less: accumulated depreciation and amortization	**5,122**	4,308
	$ 12,038	$ 11,526

Depreciation expense for property and equipment was $841 million in fiscal 2012, $809 million in fiscal 2011 and $804 million in fiscal 2010.

The Company capitalizes application stage development costs for significant internally developed software projects, such as upgrades to the store point-of-sale system. These costs are amortized over a five-year period. Amortization expense was $70 million in fiscal 2012, $58 million in fiscal 2011 and $44 million in fiscal 2010. Unamortized costs at August 31, 2012 and 2011, were $292 million and $230 million, respectively.

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

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 $27 million in fiscal 2012, $44 million in fiscal 2011 and $17 million in fiscal 2010.

The Company also provides for future costs related to closed locations. The liability is based on the present value of future rent obligations and other related costs (net of estimated sublease rent) to the first lease option date. The reserve for store closings was $117 million, $145 million and $151 million in fiscal 2012, 2011 and 2010, respectively. See Note 3 for additional disclosure regarding the Company's reserve for future costs related to closed locations.

Financial Instruments
The Company had $157 million and $143 million of outstanding letters of credit at August 31, 2012 and 2011, respectively, which guarantee the purchase of foreign goods, and additional outstanding letters of credit of $38 million and $40 million at August 31, 2012 and 2011, respectively, which guarantee payments of insurance claims. The insurance claim letters of credit are annually renewable and will remain in place until the insurance claims are paid in full. Letters of credit of $229 million and $13 million were outstanding at August 31, 2012, and August 31, 2011, 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 $206 million and $240 million at August 31, 2012 and 2011, respectively.

The Company uses interest rate swaps to manage its interest rate exposure associated with some of its fixed-rate borrowings. At August 31, 2012, $1.8 billion of fixed rate debt was converted to variable rate. These swaps are accounted for according to ASC Topic 815, Derivatives and Hedging. The swaps are measured at fair value in accordance with ASC Topic 820, Fair Value Measurement and Disclosures. Additionally, in fiscal 2012, the Company entered into three forward starting interest rate swap transactions locking in fixed rates on $1.0 billion of its anticipated debt financing in connection with the Alliance Boots transaction, which debt was subsequently issued in fiscal 2013. These swaps are designated as cash flow hedges and are measured at fair value. See Notes 9 and 10 for additional disclosure regarding financial instruments.

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.

Revenue from the pharmacy benefit management (PBM) business was included in the Company's Consolidated Statement of Comprehensive Income prior to being sold in fiscal 2011. The services the Company provided to its PBM clients included: plan setup, claims adjudication with network pharmacies, formulary management, and reimbursement services. Through its PBM, the Company acted as an agent in administering pharmacy reimbursement contracts and did not assume credit risk. Therefore, revenue was recognized as only the differential between the amount receivable from the client and the amount owed to the network pharmacy. The Company acted as an agent to its clients with respect to administrative fees for claims adjudication. Those service fees were recognized as revenue.

Gift Cards
The Company sells Walgreens gift cards to retail store customers and through its website. The Company does not charge administrative fees on unused gift cards and most gift cards do not have an expiration date. Income from gift cards is recognized when (1) the gift card is redeemed by the customer; or (2) the likelihood of the gift card being redeemed by the customer is remote ("gift card breakage") and there is no legal obligation to remit the value of unredeemed gift cards to the relevant jurisdictions. The Company's gift card breakage rate is determined based upon historical redemption patterns. Gift card breakage income, which is included in selling, general and administrative expenses, was not significant in fiscal 2012, 2011 or 2010.

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

Vendor Allowances
Vendor allowances are principally received as a result of purchases, sales or promotion of vendors' products. Allowances are generally recorded as a reduction of inventory and are recognized as a reduction of cost of sales when the related merchandise is sold. Those allowances received for promoting vendors' products are offset against advertising expense and result in a reduction of selling, general and administrative expenses to the extent of advertising costs incurred, with the excess treated as a reduction of inventory costs.

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

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 $291 million in fiscal 2012, $271 million in fiscal 2011 and $271 million in fiscal 2010. Included in net advertising expenses were vendor advertising allowances of $239 million in fiscal 2012, $218 million in fiscal 2011 and $197 million in fiscal 2010.

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.

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

Total stock-based compensation expense for fiscal 2012, 2011 and 2010 was $99 million, $135 million and $84 million, respectively. The recognized tax benefit was $9 million, $49 million and $29 million for fiscal 2012, 2011 and 2010, respectively.

Unrecognized compensation cost related to non-vested awards at August 31, 2012, was $115 million. This cost is expected to be recognized over a weighted average of three years.

Interest Expense
The Company capitalized $9 million, $10 million and $12 million of interest expense as part of significant construction projects during fiscal 2012, 2011 and 2010, respectively. Interest paid, which is net of capitalized interest, was $108 million in fiscal 2012 and $89 million in fiscal years 2011 and 2010.

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

In determining the Company's provision for income taxes, an annual effective income tax rate based on full-year income, permanent differences between book and tax income, and statutory income tax rates are used. The effective income tax rate also reflects the Company's assessment of the ultimate outcome of tax audits. Discrete events such as audit settlements or changes in tax laws are recognized in the period in which they occur.

The Company is subject to routine income tax audits that occur periodically in the normal course of business. U.S. federal, state and local and foreign tax authorities raise questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the tax benefits associated with its various tax filing positions, the Company records a tax benefit for uncertain tax positions using the highest cumulative tax benefit that is more likely than not to be realized. Adjustments are made to the liability for unrecognized tax benefits in the period in which the Company determines the issue is effectively settled with the tax authorities, the statute of limitations expires for the return containing the tax position or when more information becomes available. The Company's liability for unrecognized tax benefits, including accrued penalties and interest, is included in other long-term liabilities on the Consolidated Balance Sheets and in income tax expense in the Consolidated Statements of Comprehensive Income.

Earnings Per Share
The dilutive effect of outstanding stock options on earnings per share is calculated using the treasury stock method. Stock options are anti-dilutive and excluded from the earnings per share calculation if the exercise price exceeds the average market price of the common shares. Outstanding options to purchase common shares that were anti-dilutive and excluded from earnings per share totaled 32,593,870, 16,869,061 and 30,661,551 in fiscal 2012, 2011 and 2010, respectively.

New Accounting Pronouncements
In August 2010, the Financial Accounting Standards Board (FASB) issued an exposure draft on lease accounting that would require entities to recognize assets and liabilities arising from lease contracts on the balance sheet. The proposed exposure draft states that lessees and lessors should apply a "right-of-use model" in accounting for all leases. Under the proposed model, lessees would recognize an asset for the right to use the leased asset, and a liability for the obligation to make rental payments over the lease term. The lease term is defined as the longest possible term that is "more likely than not" to occur. The accounting by a lessor would reflect its retained exposure to the risks or benefits of the underlying leased asset. A lessor would recognize an asset representing its right to receive lease payments based on the expected term of the lease. On the basis of feedback received from comment letters, roundtables and outreach sessions, the FASB has made significant changes to the proposals in the exposure draft and therefore has decided to re-expose the revised exposure draft in the first quarter of calendar 2013. The proposed standard, as currently drafted, will have a material impact on the Company's reported results of operations and financial position. The impact of this exposure draft is non-cash in nature and will not affect the Company's cash position.

In July 2012, FASB issued Accounting Standards Update (ASU) 2012-02, which permits an entity to make a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired. If an entity concludes, based on an evaluation of all relevant qualitative factors, that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it will not be required to perform the quantitative impairment for that asset. The ASU is effective for impairment tests performed for fiscal years beginning after September 15, 2012 (fiscal year 2014), with early adoption permitted. The ASU will not have a material impact on the Company's reported results of operations and financial position. The impact is non-cash in nature and will not affect the Company's cash position.

(2) Restructuring

In 2008, the Company announced a series of strategic initiatives, approved by the Board of Directors, to enhance shareholder value. One of these initiatives was a program known as "Rewiring for Growth," which was designed to reduce cost and improve productivity through strategic sourcing of indirect spend, reducing corporate overhead and work throughout the Company's stores, rationalization of inventory categories, and realignment of pharmacy operations. These initiatives were completed in fiscal 2011. The Company recorded $42 million of pre-tax charges in selling, general and administrative expenses in fiscal 2011 associated with the Rewiring for Growth program and $66 million in fiscal 2010.

Additionally, as a part of the Company's Customer Centric Retailing (CCR) initiative, it has modified the store format to enhance category layouts and adjacencies, shelf heights and sight lines, and brand and private brand assortments, all of which were designed to positively impact the shopper experience. This initiative was completed in the first quarter of fiscal 2012. In total, the Company converted 5,843 stores and opened 559 new stores with the CCR format. In fiscal 2012, the Company incurred $33 million in total program costs, of which $15 million was included in selling, general and administrative expenses and $18 million in capital costs. In fiscal 2011, the Company incurred $144 million in total program costs, of which $84 million was included in selling, general and administrative expenses and $60 million in capital costs. In fiscal 2010, the Company incurred $71 million in total program costs, of which $45 million was included in selling, general and administrative expenses and $26 million in capital costs.

(3) Leases

The Company owns approximately 20% of its operating locations; the remaining locations are leased premises. Initial terms are typically 20 to 25 years, followed by additional terms containing renewal 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. The Company recognizes rent expense on a straight-line basis over the term of the lease. In addition to minimum fixed rentals, some leases provide for contingent rentals based upon a portion of sales.

Minimum rental commitments at August 31, 2012, under all leases having an initial or remaining non-cancelable term of more than one year are shown below (in millions):

	Capital Lease	Operating Lease
2013	$ 16	$ 2,447
2014	12	2,437
2015	11	2,385
2016	11	2,325
2017	9	2,250
Later	158	23,996
Total minimum lease payments	$ 217	$ 35,840

The capital lease amount includes $122 million of executory costs and imputed interest. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately $29 million on leases due in the future under non-cancelable subleases.

The Company provides for future costs related to closed locations. The liability is based on the present value of future rent obligations and other related costs (net of estimated sublease rent) to the first lease option date. In fiscal 2012, 2011 and 2010, the Company recorded charges of $20 million, $54 million and $90 million, respectively, for facilities that were closed or relocated under long-term leases. These charges are reported in selling, general and administrative expenses on the Consolidated Statements of Comprehensive Income.

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

Twelve Months Ended

	August 31	
	2012	2011
Balance – beginning of period	**$ 145**	$ 151
Provision for present value of non-cancellable lease payments of closed facilities	**6**	49
Assumptions about future sublease income, terminations and changes in interest rates	**(11)**	(19)
Interest accretion	**25**	24
Cash payments, net of sublease income	**(48)**	(60)
Balance – end of period	**$ 117**	$ 145

The Company remains secondarily liable on 24 assigned leases. The maximum potential undiscounted future payments are $15 million at August 31, 2012. Lease option dates vary, with some extending to 2041.

Rental expense, which includes common area maintenance, insurance and taxes, was as follows (in millions):

	2012	2011	2010
Minimum rentals	**$ 2,585**	$ 2,506	$ 2,218
Contingent rentals	**6**	9	9
Less: Sublease rental income	**(20)**	(15)	(9)
	$ 2,571	$ 2,500	$ 2,218

(4) Acquisitions and Divestitures

In May 2012, the Company completed its acquisition of certain assets of BioScrip, Inc.'s (BioScrip) community specialty pharmacies and centralized specialty and mail services pharmacy business for $144 million plus inventory. Based on preliminary purchase accounting, the acquisition added $92 million to goodwill and $50 million to other intangible assets. The addition of BioScrip's community specialty pharmacies and centralized specialty and mail services pharmacy businesses advances community pharmacy and brings additional specialty pharmacy products and services closer to patients.

In February 2012, the Company purchased Crescent Pharmacy Holdings, LLC (Crescent), an infusion pharmacy business, for $73 million, net of assumed cash. The Crescent acquisition added $28 million to goodwill and $26 million to intangible assets, primarily payer contracts. The acquisition is a strategic investment to expand the Company's infusion services in select California markets.

The aggregate purchase price of all business and intangible asset acquisitions, excluding BioScrip and Crescent, was $259 million in fiscal 2012. These acquisitions added $220 million to intangible assets, primarily prescription files. The remaining fair value relates to immaterial amounts of tangible assets, less liabilities assumed. Operating results of businesses acquired have been included in the Consolidated Statements of Comprehensive Income from their respective acquisition dates forward and were not material.

In fiscal 2011, the Company acquired drugstore.com, inc. (drugstore.com) for cash proceeds of $398 million including the assumption of $17 million of debt. The acquisition added $156 million to goodwill and $160 million related to intangible assets. The addition of drugstore.com's online business across its health, personal care, beauty and vision categories better positions the Company as the most convenient multichannel retailer of health and daily living needs in America.

Also in fiscal 2011, the Company completed the sale of its pharmacy benefit management business, Walgreens Health Initiatives, Inc. (WHI), to Catalyst Health Solutions, Inc. (Catalyst) in a cash transaction for $525 million, $40 million of which was withheld in escrow. Net cash proceeds related to the transaction were $442 million. The Company recorded a pre-tax gain in the fourth quarter of fiscal 2011 of $434 million on the transaction. In fiscal 2012, the Company made a payment of $45 million to Catalyst reflecting a net working capital adjustment to the sales price.

(5) Equity Method Investments

Equity method investments as of August 31, 2012 and 2011, were as follows (in millions, except percentages):

	2012		**2011**	
	Carrying Value	**Ownership Percentage**	**Carrying Value**	**Ownership Percentage**
Alliance Boots	**$ 6,140**	**45%**	$ -	-
Other equity method investments	**7**	**30% - 50%**	7	30% - 50%
Total equity method investments	**$ 6,147**		$ 7	

Alliance Boots

On August 2, 2012, the Company acquired 45% of the issued and outstanding share capital of Alliance Boots in exchange for $4.025 billion in cash and approximately 83.4 million shares of Company common stock. The agreement also provides a call option that allows the Company to acquire the remaining 55% of Alliance Boots in exchange for an additional £3.1 billion in cash (approximately $5.0 billion using August 31, 2012 exchange rates) as well as an additional 144.3 million Company shares, subject to certain adjustments. The call option can be exercised beginning six months prior to the third anniversary of the first step transaction (February 2, 2015) and ending on the third anniversary (August 2, 2015). In the event that the Company does not exercise the option, under certain circumstances, Walgreens ownership of Alliance Boots will reduce from 45% to 42% in exchange for nominal consideration.

The call option was valued using a Monte Carlo simulation using assumptions surrounding Walgreens equity value as well as the potential impacts of certain provisions of the Purchase and Option Agreement dated June 18, 2012, by and among the Company, Alliance Boots and AB Acquisitions Holdings Limited that are described in the Form 8-K filed by the Company on June 19, 2012. The preliminary allocation resulted in $6.1 billion of the total consideration being allocated to the investment and $866 million being allocated to the call option based on their relative fair values.

The Company accounts for its 45% investment in Alliance Boots using the equity method of accounting. Investments accounted for under the equity method are recorded initially at cost and subsequently adjusted for the Company's share of the net income or loss and cash contributions and distributions to or from these entities. Because the underlying net assets in Alliance Boots are denominated in a foreign currency, translation gains or losses will impact the recorded value of the Company's investment. The Company adopted a one-month lag in reporting equity income in Alliance Boots and as a result, no earnings or translation adjustments were recorded in fiscal 2012. The Company's investment is recorded as "Equity investment in Alliance Boots" in the Consolidated Balance Sheet.

As of August 31, 2012, the Company's investment in Alliance Boots of $6.1 billion exceeded its proportionate share of the net assets of Alliance Boots by $2.4 billion based on preliminary estimates. This premium of $2.4 billion is recognized as part of the carrying value in the Company's equity investment in Alliance Boots. The difference is primarily related to the fair value of Alliance Boots indefinite-lived intangible assets and goodwill. The Company's equity method income from the investment in Alliance Boots will be adjusted in future periods to reflect the amortization of fair value adjustments in certain definite-lived assets of Alliance Boots. Based on its preliminary estimates, the Company expects the incremental amortization expense associated with the Alliance Boots investment to be approximately $75 million during fiscal 2013, with a larger amount recognized in the first quarter representing the inventory step-up, which is amortized over the first inventory turn.

Other Equity Method Investments

Other equity method investments relate to joint ventures associated with the purchase of Option Care, Inc. in fiscal 2007. These investments are included within other non-current assets on the Consolidated Balance Sheet. The Company's share of equity income is reported within selling, general and administrative expenses in the Consolidated Statements of Comprehensive Income.

Summarized Financial Information

Summarized financial information for the Company's equity method investees is as follows:

Balance Sheet (in millions)

	At August 31, 2012	At August 31, 2011
Current assets	**$ 9,193**	$ 12
Noncurrent assets	**20,085**	6
Current liabilities	**7,254**	2
Noncurrent liabilities	**13,269**	3
Equity [(1)]	**8,755**	13

Income Statement (in millions)

	Year Ended August 31, 2012 [(2)]	2011	2010
Net revenue	**$ 37**	$ 37	$ 31
Gross Profit	**17**	19	11
Net income	**2**	5	2
Share of pre-tax income from investments accounted for using the equity method [(2)]	**1**	2	1

[(1)] Equity includes $380 million related to non-controlling interests.
[(2)] The Company adopted a one-month lag in reporting its share of equity income in Alliance Boots and as a result, no earnings were recorded in fiscal 2012.

(6) Goodwill and Other Intangible Assets

Goodwill and other indefinite-lived intangible assets are not amortized, but are evaluated for impairment annually during the fourth quarter, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company adopted in fiscal 2012 ASU 2011-08, *Testing Goodwill for Impairment* , which permits a qualitative assessment to determine whether it is more likely than not (a more than 50 percent likelihood) that the fair value of a reporting unit is less than its carrying amount, which would then require performing step one of impairment testing. Otherwise, no further evaluation would be necessary. As part of the Company's impairment analysis for each reporting unit, the Company engaged a third party appraisal firm to assist in the determination of estimated fair value for each unit. This determination included estimating the fair value using both the income and market approaches. The income approach requires management to estimate a number of factors for each reporting unit, including projected future operating results, economic projections, anticipated future cash flows and discount rates. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping.

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

One measure of the sensitivity of the amount of goodwill impairment charges to key assumptions is the amount by which each reporting unit "passed" (fair value exceeds the carrying amount) or "failed" (the carrying amount exceeds fair value) the first step of the goodwill impairment test. The Company's reporting units' fair values exceeded their carrying amounts by less than 10% to more than 140%. The fair value of one reporting unit exceeded its carrying amount by less than 10%. Goodwill allocated to this reporting unit was $255 million at May 31, 2012. For this reporting unit, relatively modest changes in the Company's key assumptions may have resulted in the recognition of a goodwill impairment charge. The Company's Long Term Care Pharmacy's goodwill was impaired by $16 million in fiscal 2010 as a result of the asset sale agreement with Omnicare, Inc., which was signed on August 31, 2010.

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

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

	2012	2011
Net book value – September 1		
Goodwill	**$ 2,045**	$ 1,915
Accumulated impairment losses	**(28)**	(28)
Total	**2,017**	1,887
Acquisitions	**120**	158
Other	**24**	(28)
Net book value – August 31	**$ 2,161**	$ 2,017

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

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

	2012	2011
Gross Intangible Assets		
Purchased prescription files	**$ 984**	$ 913
Favorable lease interests	**388**	385
Purchasing and payer contracts	**334**	308
Non-compete agreements	**120**	95
Trade name	**189**	71
Other amortizable intangible assets	**4**	4
Total gross intangible assets	**2,019**	1,776
Accumulated amortization		
Purchased prescription files	**(417)**	(338)
Favorable lease interests	**(109)**	(76)
Purchasing and payer contracts	**(119)**	(94)
Non-compete agreements	**(53)**	(43)
Trade name	**(32)**	(11)

Other amortizable intangible assets	**(3)**	(2)
Total accumulated amortization	**(733)**	(564)
Total intangible assets, net	**$ 1,286**	$ 1,212

Amortization expense for intangible assets was $255 million in fiscal 2012, $219 million in fiscal 2011 and $182 million in fiscal 2010. The weighted-average amortization period for purchased prescription files was seven years for fiscal 2012 and 2011. The weighted-average amortization period for favorable lease interests was 11 years for fiscal 2012 and 2011. The weighted-average amortization period for purchasing and payer contracts was 13 years for fiscal 2012 and 2011. The weighted-average amortization period for non-compete agreements was six years for fiscal 2012 and five years for fiscal 2011. The weighted-average amortization period for trade names was 13 years for fiscal 2012 and nine years for fiscal 2011. The weighted-average amortization period for other amortizable intangible assets was 10 years for fiscal 2012 and 2011.

Expected amortization expense for intangible assets recorded at August 31, 2012, not including amounts related to Alliance Boots that will be amortized through equity method investment income, is as follows (in millions):

2013	**2014**	**2015**	**2016**	**2017**
$ 252	$ 217	$ 182	$ 144	$ 99

(7) Income Taxes

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

	2012	2011	2010
Current provision -			
Federal	**$ 890**	$ 1,301	$ 1,129
State	**120**	147	90
	1,010	1,448	1,219
Deferred provision -			
Federal	**251**	113	62
State	**(12)**	19	1
	239	132	63
Income tax provision	**$ 1,249**	$ 1,580	$ 1,282

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

	2012	2011	2010
Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal benefit	**2.1**	2.6	2.2
Medicare Part D Subsidy	**-**	-	1.3
Other	**(0.1)**	(0.8)	(0.5)
Effective income tax rate	**37.0%**	36.8%	38.0%

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

	2012	2011
Deferred tax assets -		
Postretirement benefits	**$ 217**	$ 214
Compensation and benefits	**182**	165
Insurance	**157**	226
Accrued rent	**142**	112
Tax benefits	**214**	327
Stock compensation	**189**	179
Inventory	**96**	143
Other	**92**	78
Subtotal	**1,289**	1,444
Less: Valuation allowance	**19**	91
Total deferred tax assets	**1,270**	1,353
Deferred tax liabilities -		
Accelerated depreciation	**1,332**	1,176
Inventory	**534**	476
Intangible assets	**28**	49
Other	**80**	31
Subtotal	**1,974**	1,732
Net deferred tax liabilities	**$ 704**	$ 379

At August 31, 2012, the Company has recorded deferred tax assets of $171 million reflecting the benefit of $328 million in federal and $1,248 million in state loss carryforwards. These deferred tax assets will expire at various dates from 2013 through 2031.

The Company believes it is more likely than not that the benefit from certain net operating loss carryforwards will not be realized. In recognition of this risk, the Company has recorded a valuation allowance of $19 million on certain deferred tax assets relating to these net operating losses as of August 31, 2012.

Income taxes paid were $1,203 million, $1,320 million and $1,195 million during the fiscal years ended August 31, 2012, 2011 and 2010, respectively.

ASC Topic 740, Income Taxes, provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file in a particular jurisdiction. All unrecognized benefits at August 31, 2012, and August 31, 2011, were classified as long-term liabilities on the Consolidated Balance Sheets.

The following table provides a reconciliation of the total amounts of unrecognized tax benefits for fiscal 2012 (in millions):

	2012	2011	2010
Balance at beginning of year	**$ 94**	$ 93	$ 128
Gross increases related to tax positions in a prior period	**100**	25	12
Gross decreases related to tax positions in a prior period	**(49)**	(68)	(57)
Gross increases related to tax positions in the current period	**53**	54	37
Settlements with taxing authorities	**(1)**	(8)	(21)
Lapse of statute of limitations	**-**	(2)	(6)
Balance at end of year	**$ 197**	$ 94	$ 93

At August 31, 2012, 2011 and 2010, $118 million, $81 million and $57 million, respectively, of unrecognized tax benefits would favorably impact the effective tax rate if recognized.

The Company recognizes interest and penalties in the income tax provision in its Consolidated Statements of Comprehensive Income. At August 31, 2012, and August 31, 2011, the Company had accrued interest and penalties of $23 million and $24 million, respectively.

The Company files a consolidated U.S. federal income tax return, as well as income tax returns in various states. It is no longer under audit examination for U.S. federal income tax purposes for any years prior to fiscal 2010. One issue related to fiscal 2008 and 2009 remains unresolved and is currently in appeals. The Company anticipates that this issue will be resolved in fiscal 2013. With few exceptions, it is no longer subject to state and local income tax examinations by tax authorities for years before fiscal 2006.

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

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

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

	2012	2011
Short-Term Borrowings -		
Current maturities of loans assumed through the purchase of land and buildings; various interest rates from 5.00% to 8.75%; various maturities from 2013 to 2035	**$ 9**	$ 8
4.875% unsecured notes due 2013 net of unamortized discount and interest rate swap fair market value adjustment (see Note 9)	**1,305**	-
Other	**5**	5
Total short-term borrowings	**$ 1,319**	$ 13
Long-Term Debt -		
4.875% unsecured notes due 2013 net of unamortized discount and interest rate swap fair market value adjustment (see Note 9)	**$ -**	$ 1,339
5.250% unsecured notes due 2019 net of unamortized discount and interest rate swap fair market value adjustment (see Note 9)	**1,030**	1,011
Bridge Facility (see Note 16)	**3,000**	-
Loans assumed through the purchase of land and buildings; various interest rates from 5.00% to 8.75%; various maturities from 2013 to 2035	**52**	54

	4,082	2,404
Less current maturities	**(9)**	(8)
Total long-term debt	**$ 4,073**	$ 2,396

On July 17, 2008, the Company issued notes totaling $1.3 billion bearing an interest rate of 4.875% paid semiannually in arrears on February 1 and August 1 of each year, beginning on February 1, 2009. The notes will mature on August 1, 2013. The Company may redeem the notes, at any time in whole or from time to time in part, at its option at a redemption price equal to the greater of: (1) 100% of the principal amount of the notes to be redeemed; or (2) the sum of the present values of the remaining scheduled payments of principal and interest, discounted to the date of redemption on a semiannual basis at the Treasury Rate, plus 30 basis points, plus accrued interest on the notes to be redeemed to, but excluding, the date of redemption. If a change of control triggering event occurs, unless the Company has exercised its option to redeem the notes, it will be required to offer to repurchase the notes at a purchase price equal to 101% of the principal amount of the notes plus accrued and unpaid interest to the date of redemption. The notes are unsecured senior debt obligations and rank equally with all other unsecured senior indebtedness of the Company. The notes are not convertible or exchangeable. Total issuance costs relating to this offering were $9 million, which included $8 million in underwriting fees. The fair value of the notes as of August 31, 2012 and 2011, was $1,350 million and $1,403 million, respectively. Fair value for these notes was determined based upon quoted market prices.

On January 13, 2009, the Company issued notes totaling $1.0 billion bearing an interest rate of 5.250% paid semiannually in arrears on January 15 and July 15 of each year, beginning on July 15, 2009. The notes will mature on January 15, 2019. The Company may redeem the notes, at any time in whole or from time to time in part, at its option at a redemption price equal to the greater of: (1) 100% of the principal amount of the notes to be redeemed; or (2) the sum of the present values of the remaining scheduled payments of principal and interest, discounted to the date of redemption on a semiannual basis at the Treasury Rate, plus 45 basis points, plus accrued interest on the notes to be redeemed to, but excluding, the date of redemption. If a change of control triggering event occurs, unless the Company has exercised its option to redeem the notes, it will be required to offer to repurchase the notes at a purchase price equal to 101% of the principal amount of the notes plus accrued and unpaid interest to the date of redemption. The notes are unsecured senior debt obligations and rank equally with all other unsecured senior indebtedness of the Company. The notes are not convertible or exchangeable. Total issuance costs relating to this offering were $8 million, which included $7 million in underwriting fees. The fair value of the notes as of August 31, 2012 and 2011, was $1,160 million and $1,173 million, respectively. Fair value for these notes was determined based upon quoted market prices.

On August 2, 2012, the Company borrowed $3.0 billion of its available $3.5 billion variable rate 364-day bridge term loan obtained in connection with the investment in Alliance Boots. Interest was reset monthly based upon the one-month LIBOR plus a fixed margin, paid on a monthly basis. In fiscal 2012, interest expense on the bridge loan was $21 million, which included $18 million in one-time costs. On September 13, 2012, the Company repaid in full all amounts borrowed under the bridge loan with a portion of the net proceeds from a public offering of $4.0 billion of notes (see Note 16).

The Company has had no activity or outstanding balances in its commercial paper program since fiscal 2009. In connection with the commercial paper program, the Company maintains two unsecured backup syndicated lines of credit that total $1.35 billion. The first $500 million facility expires on July 20, 2015, and allows for the issuance of up to $250 million in letters of credit. The second $850 million facility expires on July 23, 2017, and allows for the issuance of up to $200 million in letters of credit. The issuance of letters of credit under either of these facilities reduces available borrowings. The Company's ability to access these facilities is subject to compliance with the terms and conditions of the credit facilities, including financial covenants. The covenants require the Company to maintain certain financial ratios related to minimum net worth and priority debt, along with limitations on the sale of assets and purchases of investments. At August 31, 2012, the Company was in compliance with all such covenants. The Company pays a facility fee to the financing banks to keep these lines of credit active. At August 31, 2012, there were no letters of credit issued against these credit facilities and the Company does not anticipate any future letters of credit to be issued against these facilities.

(9) Financial Instruments

The Company uses derivative instruments to manage its interest rate exposure associated with some of its fixed-rate borrowings. The Company does not use derivative instruments for trading or speculative purposes. All derivative instruments are recognized in the Consolidated Balance Sheets at fair value. The Company designates interest rate swaps as fair value hedges of fixed-rate borrowings. For derivatives designated as fair value hedges, the change in the fair value of both the derivative instrument and the hedged item are recognized in earnings in the current period. At the inception of a hedge transaction, the Company formally documents the hedge relationship and the risk management objective for undertaking the hedge. In addition, it assesses both at inception of the hedge and on an ongoing basis whether the derivative in the hedging transaction has been highly effective in offsetting changes in fair value of the hedged item and whether the derivative is expected to continue to be highly effective. The impact of any ineffectiveness is recognized currently in earnings.

Counterparties to derivative financial instruments expose the Company to credit-related losses in the event of nonperformance, but the Company regularly monitors the creditworthiness of each counterparty.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in interest expense on the Consolidated Statement of Comprehensive Income. Fair value changes in derivatives that are designated and qualify as cash flow hedges are recorded in other comprehensive income, with any ineffectiveness recorded in interest expense.

In January 2010, the Company terminated its existing one-month future LIBOR swaps that converted all $1.3 billion of its 4.875% fixed-rate debt to floating. Upon termination, the Company received payment from its counterparty that consisted of accrued interest and an amount representing the fair value of the swaps. The related fair value benefit attributed to the Company's debt continues to amortize over the life of the debt, which matures on August 1, 2013. The Company then entered into six-month LIBOR in arrears swaps with two counterparties for all of its $1.3 billion 4.875% fixed-rate debt.

In May 2011, the Company entered into interest rate swaps with two counterparties converting $250 million of its 5.250% fixed-rate notes to a floating interest rate based on the six-month LIBOR in arrears plus a constant spread. In March 2012, the Company entered into interest rate swaps with the same two counterparties converting an additional $250 million of its 5.250% fixed rate notes to a floating interest rate based on the one-month LIBOR in arrears plus a constant spread. All swap termination dates coincide with the notes maturity date, January 15, 2019.

In the fourth quarter of fiscal 2012, the Company entered into three forward starting interest rate swap transactions locking in the then current interest rate on $1.0 billion of its anticipated debt issuance in connection with the Alliance Boots investment. The swaps were terminated subsequent to year end when the hedged debt was issued in September 2012. The swap transactions were designated as cash flow hedges.

The notional amounts of derivative instruments outstanding at August 31, 2012 and 2011, were as follows (in millions):

	2012	2011
Derivatives designated as hedges:		
Interest rate swaps	**$ 1,800**	$ 1,550
Forward interest rate swaps	**1,000**	-

The changes in fair value of the notes attributable to the hedged risk are included in long-term debt on the Consolidated Balance Sheets (see Note 8) and amortized through maturity. At August 31, 2012 and 2011, the Company had net unamortized fair value changes of $40 million and $57 million, respectively. Changes in fair value of the cash flow hedges are included in other comprehensive income, with any ineffectiveness recorded directly to interest expense. Upon termination of the cash flow hedges, cumulative changes included in other comprehensive income will be amortized with the anticipated debt's cash flow. No material fair value changes or ineffectiveness was recorded through other comprehensive income in fiscal 2012.

The fair value and balance sheet presentation of derivative instruments at August 31, 2012, were as follows (in millions):

	Location in Consolidated Balance Sheet	**2012**	2011
Asset derivatives designated as hedges:			
Interest rate swaps	Other current assets	**$ 24**	$ -
Forward interest rate swaps	Other non-current assets	**-**	-
Interest rate swaps	Other non-current assets	**39**	63

Gains and losses relating to the ineffectiveness of the Company's derivative instruments are recorded in interest expense on the Consolidated Condensed Statement of Comprehensive Income. The Company recorded a $2 million gain in fiscal 2012 and $1 million in fiscal 2011.

(10) Fair Value Measurements

The Company measures certain assets and liabilities in accordance with ASC Topic 820, Fair Value Measurements and Disclosures. ASC Topic 820 defines fair value as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. In addition, it establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels:

Level 1 - Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
Level 2 - Observable inputs other than quoted prices in active markets.
Level 3 - Unobservable inputs for which there is little or no market data available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

	August 31, 2012	**Level 1**	**Level 2**	**Level 3**
Assets:				
Money market funds	**$ 820**	**$ 820**	**$ -**	**$ -**
Interest rate swaps	**63**	**-**	**63**	**-**
Forward interest rate swaps	**-**	**-**	**-**	**-**

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

Interest rate swaps	63	-	63	-

Interest rate swaps are valued using the six-month and one-month LIBOR in arrears rates. See Note 9 for additional disclosure regarding financial instruments.

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

	August 31, 2012	**Level 1**	**Level 2**	**Level 3**
Assets:				
Alliance Boots call option	**$ 866**	**$ -**	**$ -**	**$ 866**

The call option was valued using a Monte Carlo simulation using assumptions surrounding Walgreens equity value as well as the potential impacts of the certain provisions of the Purchase and Option Agreement dated June 18, 2012, by and among the Company, Alliance Boots and AB Acquisitions Holdings Limited.

The Company reports its debt instruments under the guidance of ASC Topic 825, Financial Instruments, which requires disclosure of the fair value of the Company's debt in the footnotes to the consolidated condensed financial statements. See Note 8 for further details.

(11) Commitments and Contingencies

The Company is involved in legal proceedings, including the matters described below, and is subject to investigations, inspections, audits, inquiries and similar actions by governmental authorities, arising in the normal course of the Company's business. Litigation, in general, and securities and class action litigation, in particular, can be expensive and disruptive. Some of these suits may purport or may be determined to be class actions and/or involve parties seeking large and/or indeterminate amounts, including punitive or exemplary damages, and may remain unresolved for several years. From time to time, the Company is also involved in legal proceedings as a plaintiff involving antitrust, tax, contract, intellectual property and other matters. Gain contingencies, if any, are recognized when they are realized. The results of legal proceedings are often uncertain and difficult to predict, and the costs incurred in litigation can be substantial, regardless of the outcome.

On a quarterly basis, the Company assesses its liabilities and contingencies for outstanding legal proceedings and reserves are established on a case-by-case basis for those legal claims for which management concludes that it is probable that a loss will be incurred and that the amount of such loss can be reasonably estimated. Management's assessment of current litigation and other legal proceedings, including the corresponding accruals, could change because of the discovery of facts with respect to legal actions or other proceedings pending against the Company which are not presently known. Adverse determinations by judges, juries or other parties could also result in changes to management's assessment of current liabilities and contingencies. The ultimate costs of resolving these claims may be substantially higher or lower than the amounts reserved. Due to the inherent difficulty of predicting the outcome of litigation and other legal proceedings, the Company cannot predict the eventual outcome of these matters, and it is reasonably possible that some of them could be resolved unfavorably to the Company. As a result, it is possible that the Company's results of operations or cash flows in a particular fiscal period could be materially affected by an unfavorable resolution of pending litigation or contingencies. However, based on its current knowledge, management does not expect reasonably possible losses relating to the outcome of current litigation and legal proceedings, after consideration of applicable reserves and rights to indemnification, to be material to the Company's consolidated financial position.

On April 4, 2012, the United States Drug Enforcement Administration (DEA) served administrative inspection warrants on six Walgreen retail pharmacies in Florida and removed certain controlled substance prescription records and other related documents. DEA also served an inspection warrant and an administrative subpoena for records on the Walgreens distribution center in Jupiter, Florida. DEA issued a separate administrative subpoena for records from the Walgreens facility in Orlando, Florida on August 8, 2012. On September 14, 2012, DEA served an Order to Show Cause (OSC) and Immediate Suspension Order (ISO) on the Jupiter Distribution Center and placed under seal the controlled substance inventory at that facility. Walgreens timely requested a hearing to demonstrate why DEA should not permanently revoke the controlled substance registration from the Jupiter Distribution Center. On October 10, 2012, Walgreens filed a petition in the U.S. Court of Appeals for the District of Columbia challenging DEA's authority to issue the ISO.

SEC regulations require disclosure of certain environmental matters when a governmental authority is a party to the proceedings and the proceedings involve potential monetary sanctions that management reasonably believes could exceed $100,000. On July 2, 2012, a number of California District Attorneys served the Company with a civil complaint filed in the Alameda County Superior Court alleging certain violations of the state's hazardous waste regulations related to the proper disposal of various materials from the Company's retail stores and seeking injunctive relief, civil penalties and certain fees and expenses. The California District Attorneys filed an amended complaint on July 12, 2012, and a motion for preliminary injunction on August 6, 2012. The Company intends to work with state and local officials in an effort to resolve this matter, but cannot predict the ultimate outcome of these efforts.

(12) Capital Stock

The Board of Directors' long-term capital policy is to maintain a strong balance sheet and financial flexibility; reinvest in its core strategies; invest in strategic opportunities that reinforce its core strategies and meet return requirements; and return surplus cash flow to shareholders in the form of dividends and share repurchases over the long term. In connection with the Company's capital policy, its Board of Directors authorized a share repurchase program (2009 repurchase program) and set a long-term dividend payout ratio target between 30 and 35 percent of net income. The 2009 repurchase program, which was completed in September 2010, allowed for the repurchase of up to $2.0 billion of the Company's common stock. On October 13, 2010, the Board of Directors authorized the 2011 repurchase program, which was completed in July 2011, which allowed for the repurchase of up to $1.0 billion of the Company's common stock. On July 13, 2011, the Board of Directors authorized the 2012 repurchase program, which allows for the repurchase of up to $2.0 billion of the Company's common stock prior to its expiration on December 31, 2015. Activity related to these programs was as follows (in millions):

	Fiscal Year Ended		
	2012	2011	2010
2009 stock repurchase program	**$ -**	$ 360	$ 1,640
2011 stock repurchase program	**-**	1,000	-
2012 stock repurchase program	**1,151**	424	-
	$ 1,151	$ 1,784	$ 1,640

The Company determines the timing and amount of repurchases from time to time based on its assessment of various factors including prevailing market conditions, alternate uses of capital, liquidity, the economic environment and other factors. The Company anticipates that the pace of any future share repurchase activity may be significantly curtailed from the levels achieved in the preceding two years due to its investment in Alliance Boots. The timing and amount of these purchases may change at any time and from time to time. The Company has and may from time to time in the future repurchase shares on the open market through Rule 10b5-1 plans, which enable a company to repurchase shares at times when it otherwise might be precluded from doing so under insider trading laws.

In addition, the Company continued to repurchase shares to support the needs of the employee stock plans. Shares totaling $40 million were purchased to support the needs of the employee stock plans during fiscal 2012 as compared to $244 million in fiscal 2011. At August 31, 2012, 58,849,238 shares of common stock were reserved for future issuances under the Company's various employee benefit plans.

(13) Stock Compensation Plans

The Walgreen Co. Stock Purchase/Option Plan (Share Walgreens) provides for the granting of options to purchase common stock over a 10-year period to eligible non-executive employees upon the purchase of Company shares, subject to certain restrictions. Employees may purchase Company shares through cash purchases or loans. The option price is the closing price of a share of common stock on the grant date. Options may be granted under this Plan until September 30, 2012, for an aggregate of 42,000,000 shares of common stock. At August 31, 2012, there were 13,366,481 shares available for future grants. The options granted during fiscal 2012, 2011 and 2010 have a three-year vesting period.

The Walgreen Co. Executive Stock Option Plan provides for the granting of options to eligible key employees to purchase common stock over a 10-year period, at a price not less than the fair market value on the date of the grant. Under this Plan, options may be granted until January 13, 2020, for an aggregate of 63,400,000 shares of common stock. At August 31, 2012, 15,984,563 shares were available for future grants. The options granted during fiscal 2012, 2011 and 2010 have a three-year vesting period.

The Walgreen Co. Broad Based Employee Stock Option Plan provides for the granting of options to eligible non-executive employees to purchase common stock over a 10-year period, at a price not less than the fair market value on the date of the grant. Under this Plan, on March 11, 2003, substantially all non-executive employees, in conjunction with the opening of the Company's 4,000th store, were granted a stock option to purchase 100 shares. The Plan authorized the grant of an aggregate of 15,000,000 shares of common stock. At August 31, 2012, 7,905,555 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.

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

Options	**Shares**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (Years)**	**Aggregate Intrinsic Value (in millions)**
Outstanding at August 31, 2011	49,033,846	$ 33.70	6.04	$ 193
Granted	7,801,023	38.34		
Exercised	(3,245,380)	27.46		
Expired/Forfeited	(3,553,520)	35.22		
Outstanding at August 31, 2012	50,035,969	$ 34.18	5.60	$ 175
Vested or expected to vest at August 31, 2012	29,037,001	$ 35.35	3.90	$ 108
Exercisable at August 31, 2012	20,147,917	$ 32.76	7.99	$ 65

The fair value of each option grant was determined using the Black-Scholes option pricing model with the following weighted-average assumptions used in fiscal 2012, 2011 and 2010:

	2012	2011	2010
Risk-free interest rate (1)	**1.73%**	2.12%	3.14%
Average life of option (years) (2)	**7.9**	7.2	7.3
Volatility (3)	**27.02%**	28.08%	28.01%
Dividend yield (4)	**2.90%**	1.94%	1.91%
Weighted-average grant-date fair value			
Granted at market price	**$ 8.08**	$ 8.12	$ 9.80

(1) Represents the U.S. Treasury security rates for the expected term of the option.

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

The intrinsic value for options exercised in fiscal 2012, 2011 and 2010 was $22 million, $33 million and $29 million, respectively. The total fair value of options vested in fiscal 2012, 2011 and 2010 was $125 million, $58 million and $53 million, respectively.

Cash received from the exercise of options in fiscal 2012 was $89 million compared to $147 million in the prior year. The related tax benefit realized was $8 million in fiscal 2012 compared to $14 million in the prior year.

The Walgreen Co. 1982 Employees Stock Purchase Plan permits eligible employees to purchase common stock at 90% of the fair market value at the date of purchase. Employees may make purchases by cash, loans or payroll deductions up to certain limits. The aggregate number of shares that may be purchased under this Plan is 94,000,000. At August 31, 2012, 16,610,192 shares were available for future purchase.

The Walgreen Co. Long-Term Performance Incentive Plan (amended and restated Restricted Performance Share Plan) was approved by shareholders on January 10, 2007. The Plan offers performance-based incentive awards and equity-based awards to key employees. The awards are subject to restrictions as to continuous employment except in the case of death, normal retirement or total and permanent disability. Restrictions generally lapse over a multiyear period from the date of grant. The Long-Term Performance Incentive Plan was authorized to grant an aggregate of 10,000,000 shares of common stock. As of August 31, 2012, 4,982,447 shares were available for future issuance under the Long-Term Performance Incentive Plan. In accordance with ASC Topic 718, Compensation – Stock Compensation, compensation expense is recognized on a straight-line basis over the employee's vesting period or to the employee's retirement eligible date, if earlier.

In fiscal 2009, the Company introduced the Restricted Stock Unit and Performance Share Plans under the Long-Term Performance Incentive Plan. In accordance with ASC Topic 718, Compensation – Stock Compensation, compensation expense is recognized on a straight-line basis based on a three-year cliff vesting schedule for the annual restricted stock units and straight line over a three-year vesting schedule for the performance shares.

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, 2011	48,046	$	36.13
Granted	-		-
Forfeited	(3,690)		36.43
Vested	(31,355)		36.02
Nonvested at August 31, 2012	13,001	$	36.33

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

Outstanding Shares	**Shares**		**Weighted-Average Grant-Date Fair Value**
Outstanding at August 31, 2011	1,911,237	$	33.94
Granted	936,499		36.60
Dividends	64,986		-
Forfeited	(245,033)		33.01
Vested	(857,138)		34.95
Outstanding at August 31, 2012	1,810,551	$	34.04

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

Outstanding Shares	**Shares**		**Weighted-Average Grant-Date Fair Value**
Outstanding at August 31, 2011	1,819,668	$	31.83
Granted	689,605		35.61
Forfeited	(215,948)		31.76
Vested	(313,298)		35.52
Outstanding at August 31, 2012	1,980,027	$	32.57

The Walgreen Co. Nonemployee Director Stock Plan provides that each nonemployee director receives an equity grant of shares each year on November 1. The number of shares granted is determined by dividing $155,000 by the price of a share of common stock on November 1. Each nonemployee director may elect to receive this annual share grant in the form of shares or deferred stock units. Each nonemployee director received a grant of 4,788 shares in fiscal 2012, 4,552 shares in fiscal 2011 and 4,097 shares in fiscal 2010. New directors in any of the fiscal years earned a prorated amount. Effective November 1, 2009, the payment of the annual retainer was changed to be paid only in the form of cash, which may still be deferred. Previously, the annual retainer was paid one-half in cash and one-half in Walgreen Co. common stock.

A summary of total stock-based compensation expense follows:

	2012	2011	2010
Stock options	**$ 62**	$ 85	$ 78
Restricted stock units	**24**	20	13
Performance share plans	**7**	25	6
Employee stock purchase plan	**6**	5	5
	$ 99	$ 135	$ 102

(14) Retirement Benefits

The principal retirement plan for employees is the Walgreen Profit-Sharing Retirement Trust, to which both the Company and participating employees contribute. The Company's contribution, which has historically related to FIFO earnings before interest and taxes and a portion of which is in the form of a guaranteed match, is determined annually at the discretion of the Board of Directors. The profit-sharing provision was $283 million in fiscal 2012, $382 million in fiscal 2011 and $300 million in fiscal 2010. The Company's contributions were $372 million in fiscal 2012, $322 million in fiscal 2011 and $293 million in fiscal 2010.

The Company provides certain health insurance benefits for retired employees who meet eligibility requirements, including age, years of service and date of hire. The costs of these benefits are accrued over the service life of the employee. In fiscal 2012, the Company amended its prescription drug program for certain Medicare-eligible retirees to a group-based Company sponsored Medicare Part D program, or employer group waiver program, effective January 1, 2013. The Company's postretirement health benefit plan is not funded.

Components of net periodic benefit costs (in millions):

	2012	2011	2010
Service cost	**$ 13**	$ 15	$ 11
Interest cost	**22**	22	20
Amortization of actuarial loss	**8**	14	7
Amortization of prior service cost	**(10)**	(10)	(10)
Total postretirement benefit cost	**$ 33**	$ 41	$ 28

Change in benefit obligation (in millions):

	2012	2011
Benefit obligation at September 1	**$ 407**	$ 441
Service cost	**13**	15
Interest cost	**22**	22
Amendments	**(139)**	-
Actuarial (gain) loss	**52**	(57)
Benefit payments	**(18)**	(18)
Participants’ contributions	**5**	4
Benefit obligation at August 31	**$ 342**	$ 407

Change in plan assets (in millions):

	2012	2011
Plan assets at fair value at September 1	**$ -**	$ -
Plan participants’ contributions	**5**	4
Employer contributions	**13**	14
Benefits paid	**(18)**	(18)
Plan assets at fair value at August 31	**$ -**	$ -

Funded status (in millions):

	2012	2011
Funded status	**$ (342)**	$ (407)
Unrecognized actuarial gain	**-**	-
Unrecognized prior service cost	**-**	-
Accrued benefit cost at August 31	**$ (342)**	$ (407)

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

	2012	2011
Current liabilities (present value of expected 2013 net benefit payments)	**$ (10)**	$ (11)

Non-current liabilities	**(332)**	(396)
Net liability recognized at August 31	**$ (342)**	$ (407)

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

	2012	2011
Prior service credit	**$ (250)**	$ (121)
Net actuarial loss	**161**	117

Amounts expected to be recognized as components of net periodic costs for fiscal year 2013 (in millions):

	2013
Prior service credit	$ (22)
Net actuarial loss	11

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 4.15% for 2012 and 5.40% for 2011. The discount rate assumption used to determine net periodic benefit cost was 5.40%, 4.95% and 6.15% for fiscal years ending 2012, 2011 and 2010, respectively. The consumer price index assumption used to compute the postretirement benefit obligation was 2.00% for 2012 and 2011.

Future benefit costs were estimated assuming medical costs would increase at a 7.25% annual rate, gradually decreasing to 5.25% over the next ten 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	$ (1)	$ 2
Effect on postretirement obligation	(2)	12

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

	Estimated Future Benefit Payments	**Estimated Federal Subsidy**
2013	$ 10	$ -
2014	12	-
2015	13	-
2016	15	-
2017	16	-
2018-2022	107	1

(15) Supplementary Financial Information

Non-cash transactions in fiscal 2012 include $2,981 million in stock issuance relating to the investment in Alliance Boots, an $53 million decrease in the retiree medical liability and a $58 million increase in the liability for dividends declared. Non-cash transactions in fiscal 2011 include $116 million in accrued liabilities related to the purchase of property and equipment, a $62 million increase in the retiree medical benefit liability and a $36 million increase in the liability for dividends declared. Non-cash transactions in fiscal 2010 include a $95 million increase in the retiree medical benefit liability, a $29 million increase in the liability for dividends declared and $44 million in accrued liabilities related to the purchase of property and equipment.

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

	2012	2011
Accounts receivable -		
Accounts receivable	**$ 2,266**	$ 2,598
Allowance for doubtful accounts	**(99)**	(101)
	$ 2,167	$ 2,497
Other non-current assets -		
Intangible assets, net (see Note 6)	**$ 1,286**	$ 1,212
Other	**211**	377
	$ 1,497	$ 1,589
Accrued expenses and other liabilities -		
Accrued salaries	**$ 772**	$ 856
Taxes other than income taxes	**454**	489
Insurance	**268**	230

Profit sharing	**166**	253
Other	**1,359**	1,247
	$ 3,019	$ 3,075
Other non-current liabilities -		
Postretirement health care benefits	**$ 332**	$ 396
Accrued rent	**347**	418
Insurance	**408**	346
Other	**799**	625
	$ 1,886	$ 1,785

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

	Quarter Ended				Fiscal Year
	November	February	May	August (1)	
Fiscal 2012					
Net Sales	**$ 18,157**	**$ 18,651**	**$ 17,752**	**$ 17,073**	**$ 71,633**
Gross Profit	**5,104**	**5,389**	**5,014**	**4,835**	**20,342**
Net Earnings	**554**	**683**	**537**	**353**	**2,127**
Per Common Share -					
Basic	**$ .63**	**$ .79**	**$ .63**	**$ .40**	**$ 2.43**
Diluted	**.63**	**.78**	**.62**	**.39**	**2.42**
Cash Dividends Declared Per Common Share	**$ .225**	**$ .225**	**$ .225**	**$ .275**	**$ .950**
Fiscal 2011					
Net Sales	$ 17,344	$ 18,502	$ 18,371	$ 17,967	$ 72,184
Gross Profit	4,945	5,324	5,154	5,069	20,492
Net Earnings	580	739	603	792	2,714
Per Common Share -					
Basic	$ .62	$ .80	$ .66	$ .88	$ 2.97
Diluted	.62	.80	.65	.87	2.94
Cash Dividends Declared Per Common Share	$ .175	$ .175	$ .175	$ .225	$ .750

(1) Results for the fiscal quarter ending August 31, 2011 include a pre-tax gain of $434 million and $273 million, or $.30 per diluted share, after tax, from the sale of Walgreens Health Initiatives, Inc., a pharmacy benefit management business.

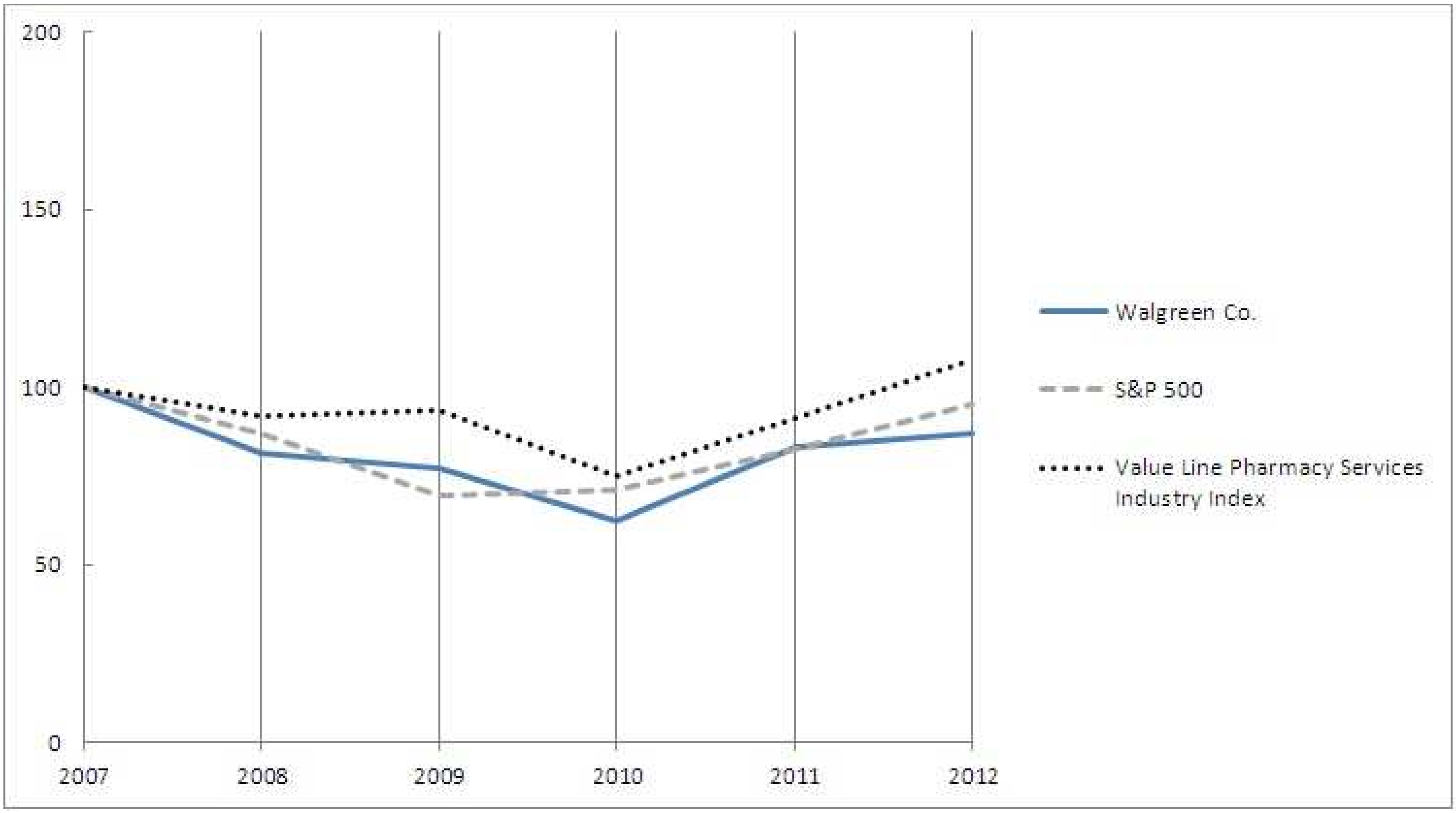
Common Stock Prices

Below is the Consolidated Transaction Reporting System high and low sales price for each quarter of fiscal 2012 and 2011.

		Quarter Ended				Fiscal Year
		November	February	May	August	
Fiscal 2012	High	**$ 36.27**	**$ 34.60**	**$ 35.41**	**$ 36.08**	**$ 36.27**
	Low	**30.10**	**31.95**	**30.28**	**28.77**	**28.77**
Fiscal 2011	High	$ 35.27	$ 42.91	$ 44.67	$ 44.91	$ 44.91
	Low	27.17	35.17	38.82	34.11	27.17

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, 2007, and the reinvestment of all dividends. The historical performance of the Company’s common stock is not necessarily indicative of future stock performance.



	Value of Investment at August 31,					
	2007	2008	2009	2010	2011	2012
Walgreen Co.	$ 100.00	$ 81.71	$ 77.29	$ 62.41	$ 83.34	$ 87.08
S&P 500 Index	100.00	87.03	69.24	71.19	82.69	95.43
Value Line Pharmacy Services Industry Index	100.00	91.74	93.34	75.17	91.51	107.84

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

(16) Subsequent Events

In connection with the Alliance Boots first-step transaction that closed on August 2, 2012, the Company borrowed $3.0 billion under a 364-day bridge loan facility. On September 13, 2012, the Company repaid in full all amounts borrowed under the bridge loan facility with a portion of the net proceeds from a public offering of $4.0 billion of notes with varying maturities and interest rates, the majority of which are fixed rate. In accordance with ASC Topic 470, Debt, the 364-day bridge loan facility was refinanced on a long-term basis prior to the financial statements being issued and as a result, outstanding borrowings under the bridge loan facility that existed as of August 31, 2012, are classified as long-term debt on the Company's balance sheet. The following details each tranche of notes issued on September 13, 2012:

Notes Issued (in Millions)	Maturity Date	Interest Rate	Interest Payment Dates
$ 550	March 13, 2014	Variable; three-month U.S. Dollar LIBOR, reset quarterly, plus 50 basis points	March 13, June 13, September 13 and December 13; commencing on December 13, 2012
750	March 13, 2015	Fixed 1.00%	March 13 and September 13; commencing on March 13, 2013
1,000	September 15, 2017	Fixed 1.80%	March 15 and September 15; commencing on March 15, 2013
1,200	September 15, 2022	Fixed 3.10%	March 15 and September 15; commencing on March 15, 2013
500	September 15, 2042	Fixed 4.40%	March 15 and September 15; commencing on March 15, 2013
$ 4,000			

The Company may redeem the fixed rate notes at its option, at any time in whole, or from time to time in part, at a redemption price equal to the greater of: (1) 100% of the principal amount of the notes being redeemed; and (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 (as defined), plus 12 basis points for the notes due 2015, 20 basis points for the notes due 2017, 22 basis points for the notes due 2022 and 25 basis points for the notes due 2042. If a change of control triggering event occurs, the Company will be required, unless it has exercised its right to redeem the notes, to offer to purchase the notes at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, on the notes repurchased to the date of repurchase. The notes are unsecured senior debt obligations and rank equally with all other unsecured and unsubordinated indebtedness of the Company. Total issuance costs relating to the notes, including underwriting discounts and fees, were an estimated $25 million.

On September 17, 2012, the Company completed its purchase of USA Drug, a regional drugstore chain in the mid-South region of the United States, from Stephen L. LaFrance Holdings, Inc. and members of the LaFrance family. The transaction includes 144 stores that operate under the USA Drug, Super D Drug, May’s Drug, Med-X and Drug Warehouse names located in Arkansas, Kansas, Mississippi, Missouri, New Jersey, Oklahoma and Tennessee. The acquisition also includes corporate offices, a distribution center located in Pine Bluff, Arkansas, and a wholesale and private brand business. Total consideration for the purchase was approximately $438 million subject to adjustment in certain circumstances.

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, 2012. Deloitte & Touche LLP, the Company's independent registered public accounting firm, has audited our internal control over financial reporting, as stated in its report which is included herein.

/s/ Gregory D. Wasson	/s/ Wade D. Miquelon
Gregory D. Wasson	Wade D. Miquelon
President and Chief Executive Officer	Executive Vice President and Chief Financial Officer and President, International

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, 2012 and 2011, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended August 31, 2012. We also have audited the Company's internal control over financial reporting as of August 31, 2012, 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, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2012, 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, 2012, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
October 19, 2012

EXHIBIT 21

As of August 31, 2012 Walgreen Co., (Registrant) had the following subsidiaries:

NAME	STATE OR COUNTRY OF INCORPORATION
Walgreen Arizona Drug Co. (1)	Arizona
Salu Australia Pty Ltd. (37)	Australia
Skincarestore Australia Pty Ltd. (37)	Australia
Superior Bermuda GP (47)	Bermuda
DS Distribution Canada, Ltd. (4)	British Columbia
Crescent Healthcare, Inc. (41)	California
Crescent Therafusion, Inc. (42)	California
Option Care, Inc. (9)	California
Walgreens China Business Trust (35)	China
Accountable Care Network of Arizona, LLC (1)	Delaware
Accountable Care Network of Colorado, LLC (40)	Delaware
Accountable Care Network of Florida, LLC (39)	Delaware
Accountable Care Network of Georgia, LLC (39)	Delaware
Accountable Care Network of Illinois, LLC (1)	Delaware
Accountable Care Network of Missouri, LLC (40)	Delaware
Accountable Care Network of New Jersey, LLC (1)	Delaware
Accountable Care Network of Pennsylvania, LLC (38)	Delaware
Accountable Care Network of Tennessee, LLC (20)	Delaware
Accountable Care Network of Texas, LLC (20)	Delaware
American Occupational Health Management, Inc. (24)	Delaware
Beauty.com, Inc. (4)	Delaware
CHI Holding Corporation (8)	Delaware
Walgreens Sleep and Respiratory Pharmacy, LLC (8)	Delaware
DR Employee Services, LLC (28)	Delaware
drugstore.com, inc.	Delaware
DRI-I, Inc. (34)	Delaware
DS Pharmacy, Inc. (4)	Delaware
Duane Reade, Inc. (33)	Delaware
Duane Reade Holdings, Inc. (33)	Delaware
Duane Reade International, LLC (34)	Delaware
Duane Reade Realty, Inc. (34)	Delaware
Happy Harry’s Inc. (2)	Delaware
Happy Harry’s Discount Drug Stores, Inc. (2)	Delaware
HHDH, Inc. (2)	Delaware
I-Trax Health Management Solutions, Inc. (23)	Delaware
Salu Beauty, Inc. (4)	Delaware
WAGDCO, LLC (20)	Delaware
Walgreens Assistance, Inc.	Delaware
Walgreen International Investments, LLC (43)	Delaware
Walgreen Investments Co	Delaware
Walgreens Network Health Services, LLC (21)	Delaware
Walgreens Specialty Pharmacy Holdings, Inc. (3)	Delaware
Walgreens Specialty Pharmacy, LLC. (3)	Delaware
WVC Investments, LLC	Delaware
MedNow Infusion, LLC (18)	Delaware
Meridian COMP of New York, Inc. (24)	Delaware
Option Care Enterprises, Inc. (7)	Delaware
Walgreens Infusion Services, Inc. (7)	Delaware
Optionet, Inc. (9)	Delaware
Walgreens Specialty Care Centers, LLC (27)	Delaware
Take Care Employer Solutions, LLC (23)	Delaware
Take Care Health Systems, Inc.	Delaware
Take Care Health Systems, LLC (6)	Delaware
Walgreens Venture Capital, LLC	Delaware
Walgreens Store No. 3332, LLC	Delaware
Walgreens Store No. 4650, LLC	Delaware
Walgreens Store No. 4651, LLC	Delaware
Walgreens Store No. 5576, LLC	Delaware
Walgreens Store No. 5838, LLC	Delaware
Waltrust Properties, Inc. (1)	Delaware

Whole Health Management, LLC (29)	Delaware
Walgreen of Hawaii, LLC	Hawaii
Walgreen of Maui, Inc.	Hawaii
Walgreens (Hong Kong) Limited	Hong Kong
Bond Drug Company of Illinois, LLC (1)	Illinois
Bowen Development Company	Illinois
Deerfield Funding Corporation	Illinois
East-West Distributing Co.	Illinois
Medication Adherence Solutions, LLC	Illinois
The 1901 Group, LLC	Illinois
WagBeau LLC	Illinois
Walgreen Medical Supply, LLC (22)	Illinois
Walgreen Mercantile Corporation	Illinois
Walgreen National Corporation	Illinois
Walgreens Market Strategies, LLC (5)	Illinois
Walgreen Realty Resources LLC (5)	Illinois
Walgreens Business Services, LLC	Illinois
Walgreens Home Care, Inc. (8)	Illinois
Walgreens Mail Service, Inc.	Illinois
Walgreens Pharmacy Services Eastern, LLC (20)	Illinois
Walgreens Pharmacy Services Midwest, LLC (19)	Illinois
Walgreens Pharmacy Services Southern, LLC (20)	Illinois
Walgreens Pharmacy Services Western, LLC (20)	Illinois
Walgreens Pharmacy Services WHS, LLC	Illinois
Walgreens Pharmacy Strategies, LLC (1)	Illinois
Walgreens Store No. 3680, LLC	Illinois
Walgreens Store No. 7839, LLC	Illinois
Walgreens.com, Inc.	Illinois
Salient Business Solutions, Ltd. (16)	India
CHDM, LLC (26)	Indiana
Walgreen Louisiana Co., Inc.	Louisiana
Superior LuxCo 1 S.a.r.l. (45)	Luxembourg
Superior LuxCo 2 S.a.r.l. (46)	Luxembourg
Walgreen International S.a.r.l. (48)	Luxembourg
Walgreen Investments Luxembourg SCS (44)	Luxembourg
Walgreens of Massachusetts, LLC (1)	Massachusetts
Full Road Holdings, Ltd. (15)	Mauritius
Walgreen Hastings Co. (1)	Nebraska
Home Health of Option Care, Inc. (9)	Nevada
Walgreen of Nevada, LLC	Nevada
Hunterdon Infusion Services, L.L.C. (14)	New Jersey
Trinity Home Care, LLC (10)	New Jersey
Corporate Health Dimensions, Inc. (24)	New York
Duane Reade (13)	New York
Option Care of New York, Inc. (9)	New York
Springville Pharmacy Infusion Therapy, Inc. (8)	New York
Walgreen Eastern Co., Inc. (1)	New York
Walgreens Store No. 3288, LLC (36)	New York
Option Home Health, Inc. (8)	Ohio
University Option Care, LLC (17)	Ohio
Medicenter, Inc. (24)	Oklahoma
Walgreens Infusion Services at Legacy Health, LLC (17)	Oregon
Option Care Enterprises, Inc. (8)	Pennsylvania
Walgreen of Puerto Rico, Inc.	Puerto Rico
Walgreen of San Patricio, Inc.	Puerto Rico
Walgreen Scotland, Ltd (43)	Scotland
Walgreen Scotland Investments, LP (43)	Scotland
Walgreens (Singapore) PTE, Ltd. (32)	Singapore
Walgreens (Sourcing) Pte. Ltd. (30)	Singapore
Alliance Boots GmbH (31)	Switzerland
Walgreen Swiss International GmbH (49)	Switzerland
Walgreens Infusion and Respiratory Services, LLC (17)	Tennessee
Vision Direct Inc. (4)	Texas
Green Hills Insurance Company, A Risk Retention Group (25)	Vermont
LCA Insurance Co., Inc.	Vermont
Option Care Home Health, L.L.C. (12)	Washington
Walgreen Oshkosh, Inc.	Wisconsin

(1) Walgreens Hastings Co. is a direct parent of Walgreen Arizona Drug Co. Walgreen Arizona Drug Co. is a direct parent of Walgreen Eastern Co and Accountable Care Network of Arizona, LLC. Walgreen Eastern Co is a direct parent of Bond Drug Company of Illinois, LLC, Walgreens of Massachusetts, LLC and Accountable Care Network of New Jersey, LLC. Bond Drug Company of Illinois, LLC is a direct parent of Waltrust Properties, Inc., Walgreens Pharmacy Strategies, LLC, Accountable Care Network of Illinois, LLC, and Walgreens Pharmacy Services Midwest, LLC. Waltrust Properties, Inc. is a real estate investment trust. A minority interest in Waltrust Properties, Inc. is held by outside preferred shareholders.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(16) 30% owned by Full Road Holdings, Ltd. (a Mauritius Entity).

(17) 50% owned by Option Care Enterprises, Inc. (a Delaware Corporation).

(18) 51% owned by Option Care Enterprises, Inc. (a Delaware Corporation).

(19) 97% owned by Bond Drug Company of Illinois, LLC; 2% owned by Walgreens Louisiana Co., Inc.; 1% owned by Happy Harry's, Inc.

(20) Subsidiary of Walgreens Pharmacy Services Midwest, LLC (an Illinois LLC).

(21) Subsidiary of Medication Adherence Solutions, LLC (an Illinois LLC).

(22) Subsidiary of Walgreens Mail Services, Inc. (an Illinois Corporation).

(23) Subsidiary of Take Care Health Systems, Inc. (a Delaware Corporation).

(24) Subsidiary of Take Care Employer Solutions, LLC. (a Delaware LLC).

(25) 99.96% owned by Take Care Employer Solutions, LLC. (a Delaware LLC) and .01% is owned by Take Care Health Systems, Inc. (a Delaware Corporation).

(26) 99% owned by Medicenter, Inc. (an Oklahoma Corporation); 1% owned by Corporate Health Dimensions, Inc. (a New York Corporation).

(27) Walgreens Specialty Care Centers, LLC (a Delaware LLC) is a direct subsidiary of Walgreens Specialty Pharmacy, LLC (a Delaware LLC).

(28) Subsidiary of Duane Reade (A New York General Partnership).

(29) Whole Health Management LLC (a Delaware LLC) is a direct subsidiary of Take Care Health Systems, Inc. (a Delaware Corporation).

(30) Walgreens (Sourcing) Pte. Ltd. (a Singapore Entity) is wholly owned by Walgreens National Corporation (an Illinois Corporation).

(31) Walgreen Swiss International GmbH (a Swiss Entity) owns 45% of Alliance Boots GmbH (a Swiss Entity) and 55% is owned by unrelated parties. Alliance Boots GmbH owns over 300 entities which are not listed on Exhibit 21, due to the registrant's minority ownership of 45%.

(32) Walgreens (Singapore) PTE, Ltd. (a Singapore Entity) is wholly owned by Walgreens China Business Trust (a China Entity).

(33) Duane Reade Holdings, Inc. (a Delaware Corporation) is a direct parent of Duane Reade, Inc. (a Delaware Corporation). Duane Reade, Inc. (a Delaware Corporation) is a direct parent of various subsidiaries (see footnote 34).

(34) Subsidiary of Duane Reade, Inc. (a Delaware Corporation).

(35) Walgreens China Business Trust (a China Entity) is 10% owned by Walgreen Mercantile Corporation (an Illinois Corporation) and 90% owned by East-West Distributing Co. (an Illinois Corporation).

(36) Subsidiary of Walgreen Eastern Co., Inc. (a New York Corporation).

(37) Salu Australia PTY Ltd. (an Australia Company) is a direct subsidiary of Salu Beauty, Inc. (a Delaware Corporation). Skincarestore Australia PTY Ltd. (an Australia Company) is a direct subsidiary of Salu Australia PTY Ltd.

(38) Subsidiary of Walgreens Pharmacy Services Eastern, LLC (an Illinois LLC).

(39) Subsidiary of Walgreens Pharmacy Services Southern, LLC (an Illinois LLC).

(40) Subsidiary of Walgreens Pharmacy Services Western, LLC (an Illinois LLC).

(41) Subsidiary of CHI Holding Corporation (a Delaware Corporation).

(42) Subsidiary of Crescent Healthcare, Inc. (a California Corporation).

(43) Walgreen International Investments, LLC is 99.95% owned by Walgreen Investments Co. (a Delaware Corporation) and .05% owned by Walgreen Scotland, Ltd (a Scotland Entity).

(44) Walgreen Investments Luxembourg SCS is 99% owned by Walgreen Investments Co. (a Delaware Corporation) and 1% owned by Walgreen International Investments LLC (a Delaware Corporation).

(45) Subsidiary of Walgreen Investments Luxembourg SCS (a Luxembourg Entity).

(46) Subsidiary of Superior Luxco 1 S.a.r.l. (a Luxembourg Entity).

(47) Superior Bermuda GP is 99% owned by Superior Luxco 1 S.a.r.l. (a Luxembourg Entity) and 1% owned by Superior Luxco 2 S.a.r.l. (a Luxembourg Entity).
(48) Subsidiary of Superior Bermuda GP (a Bermuda Entity).
(49) Subsidiary of Walgreen International S.a.r.l. (a Luxembourg Entity)

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

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-19467, 333-19501, 333-106967, 333-107841, 333-112343, 333-132272, 333-164382, 333-167836, 333-174810, 333-174811 and 333-175642 on Form S-8 and No. 333-175649 on Form S-3 of our reports dated October 19, 2012, relating to the consolidated financial statements and financial statement schedule of Walgreen Co. and Subsidiaries, and the effectiveness of Walgreen Co. and Subsidiaries' internal control over financial reporting, appearing in or incorporated by reference in the Annual Report on Form 10-K of Walgreen Co. for the year ended August 31, 2012.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois

October 19, 2012

EXHIBIT 31.1

CERTIFICATION

I, Gregory D. Wasson, certify that:

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

/s/	Gregory D. Wasson	Chief Executive Officer	Date: October 19, 2012
	Gregory D. Wasson		

EXHIBIT 31.2

CERTIFICATION

I, Wade D. Miquelon, certify that:

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

/s/	Wade D. Miquelon	Chief Financial Officer	Date: October 19, 2012
	Wade D. Miquelon		

Exhibit 32.1

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

In connection with the Annual Report of Walgreen Co., an Illinois corporation (the "Company"), on Form 10-K for the year ended August 31, 2012 as filed with the Securities and Exchange Commission (the "Report"), I, Gregory D. Wasson, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gregory D. Wasson
Gregory D. Wasson
Chief Executive Officer
Dated: October 19, 2012

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

Exhibit 32.2

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

In connection with the Annual Report of Walgreen Co., an Illinois corporation (the "Company"), on Form 10-K for the year ended August 31, 2012 as filed with the Securities and Exchange Commission (the "Report"), I, Wade D. Miquelon, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Wade D. Miquelon
Wade D. Miquelon
Chief Financial Officer
Dated: October 19, 2012

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