

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended August 31, 2001.

[] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the Transition Period From _____ to _____

Commission file number 1-604

WALGREEN CO .

(Exact name of registrant as specified in its charter)

Illinois

36-1924025

(State of
incorporation)

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

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

Registrant's telephone number, including area code: (847) 940-2500

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
<u>Common Stock (\$.078125 Par Value)</u>	<u>New York Stock Exchange</u> <u>Chicago Stock Exchange</u>
<u>Preferred Share Purchase Rights</u>	<u>New York Stock Exchange</u> <u>Chicago Stock Exchange</u>

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

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

As of October 31, 2001, there were 1,020,077,621 shares of Walgreen Co. common stock, par value \$.078125 per share, issued and outstanding and the aggregate market value of such common stock held by non-affiliates (based upon the closing transaction price on the New York Stock Exchange) was approximately \$32,703,438,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended August 31, 2001, only to the extent expressly so stated herein, are incorporated by reference into parts I, II and IV of Form 10-K. Portions of the registrant's proxy statement for its 2001 annual meeting of shareholders to be held January 9, 2002, are incorporated by reference into part III of Form 10-K.

PART

I

Item 1. Business

(a) General development of business.

Walgreen Co. (The "company" or "Walgreens"), the nation's largest drugstore chain, recorded its 27 th year of consecutive sales and earnings growth. During the year, the company opened 474 stores while 119 were closed, which brought the total to 3,520 stores, including 3 mail service facilities. Most of the closings involved relocations to more convenient and profitable freestanding locations. At August 31, 2001 stores were located in 43 states and Puerto Rico. The company has announced plans to operate 6,000 stores by 2010.

Prescription sales continue to become a larger portion of the company's business. This year prescriptions accounted for 57.5% of sales compared to 55.2% last year. Within prescription sales, third party sales were 88.4% of sales compared to 86.1% a year ago. The company expects these trends to continue due to the aging of the population, availability of new drugs and the shift to managed care.

To support store expansion, distribution centers are under construction in West Palm Beach, the Dallas Metro area, and Northern Ohio. Plans also include opening a Southern California center in 2004.

During the past year the company spent approximately \$1.2 billion on capital expenditures, which includes approximately \$928 million related to stores and approximately \$235 million for distribution centers.

In July the company announced that President David W. Bernauer will become Chief Executive Officer, effective January 9, 2002. He will retain his title as President. Current CEO and Chairman L. Daniel Jorndt will continue as Chairman and remain active in day-to-day business operations.

(b) Financial information about industry segments.

The company's primary business is the operation of retail drugstores.

(c) Narrative description of business.

(i) Principal products produced and services rendered.

The drugstores are engaged in the retail sale of prescription and nonprescription drugs and carry additional product lines such as general merchandise, cosmetics, toiletries, household items, food and beverages. Customer prescription purchases can be made at the drugstores as well as through the mail, by telephone and on the internet.

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

<u>Product Class</u>	<u>Percentage</u>		
	<u>200</u>	<u>200</u>	<u>199</u>
	<u>1</u>	<u>0</u>	<u>9</u>
Prescription Drugs	58%	55%	52%
Nonprescription Drugs	12	11	12
*			
Cosmetics, Toiletries	7	8	8
*			
General Merchandise *	<u>23</u>	<u>26</u>	<u>28</u>
Total Sales	100	100	100
	%	%	%

* Estimates based, in part, on store scanning information.

1

(ii) Status of a product or segment.

Not applicable.

(iii) Sources and availability of raw materials.

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

Fuel and other sources of energy are relied upon for the distribution of merchandise and in the general operations of the retail stores. The company has not experienced significant energy shortages nor have energy costs during the past year materially affected the cost of operations. Energy savings programs continue to further control these costs.

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

Walgreens markets products under various trademarks and trade names and holds assorted business licenses (pharmacy, occupational, liquor, etc.) having various lives, which are necessary for the normal operation of business.

(v) Seasonal variations in business.

The non-pharmacy business is seasonal in nature, with Christmas generating a higher proportion of sales and earnings than other periods. See the note "Summary of Quarterly Results (Unaudited)" on Page 29 of the Annual Report to Shareholders for the year ended August 31, 2001 ("Annual Report"), which is incorporated herein by reference.

(vi) Working capital practices.

The company generally finances its inventory and expansion needs with internally generated funds. During fiscal 2001 the company obtained funds through the placement of commercial paper. See the note "Short-Term Borrowings" on page 27 and "Management's Discussion and Analysis of Financial Condition" on page 21 of the Annual Report. Short-term borrowings are also anticipated in fiscal 2002 to support working capital needs.

Due to the nature of the retail drugstore business, sales are principally for cash. However, 88% of prescription sales are now covered by third party payers. Customer returns are immaterial.

(vii) Dependence upon limited number of customers.

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

(viii) Backlog Orders.

Not applicable.

(ix) Government contracts.

The company fills prescriptions for many state welfare plans. Revenues from all such plans are 6% of total sales.

(x) Competitive conditions.

The drug store industry is highly competitive. As one of the volume leaders in the retail drug industry, Walgreens competes with various retailers, including chain and independent drugstores, mail order prescription providers, internet pharmacies, grocery, variety and discount department stores. Competition remained keen during the fiscal year with the company competing on the basis of price, convenience, service and variety. The company's geographic dispersion tends to offset the impact of temporary economic and competitive conditions in individual markets.

Sales by geographic area for fiscal 2001 were as follows:

<u>State</u>	<u>Percent Of Sales</u>
Florida	18%
Illinois	12
Texas	10
Arizona	6
California	7
Wisconsin	4
37 other states and Puerto Rico	<u>43</u>
	<u>100%</u>

(xi) Research and development activities.

The company does not engage in any material research activities.

(xii) Environmental disclosures.

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

(xiii) Number of employees.

The company employs approximately 129,000 persons, about 46,000 of whom are part-time employees working less than 30 hours per week.

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

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

3

Cautionary Note Regarding Forward Looking Statements

Certain information in this annual report, as well as in other public filings, our web site, press releases and oral statements made by our representatives, is forward-looking information based on current expectations and plans that involve risks and uncertainties. Forward-looking information includes statements concerning pharmacy sales trends, prescription margins, number of new store openings, and the level of capital expenditures; as well as those that include or are preceded by the words "expects," "estimates," "believes" or similar language. For such statements, we claim the protection of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

The following factors, in addition to those discussed elsewhere in this annual report for the fiscal year ended August 31, 2001, could cause results to differ materially from management expectations as projected in such forward-looking statements: the impact of events related to the September 11 terrorist attacks, changes in economic conditions generally or in the markets served by the company; consumer preferences and spending patterns; competition from other drugstore chains, supermarkets, on-line retailers, other retailers and mail order companies; changes in state or federal legislation or regulations; the efforts of third party payers to reduce prescription drug costs; the success of planned advertising and merchandising strategies; the availability and cost of real estate and construction; accounting policies and practices; the company's ability to hire and retain pharmacists and other store and management personnel; the company's relationships with its suppliers; the company's ability to successfully implement new computer systems and technology; and adverse determinations with respect to litigation or other claims. Unless otherwise required by applicable securities laws, the company assumes no obligation to update its forward-looking statements to reflect subsequent events or circumstances.

Item 2. Properties

The number and location of the company's drugstores is incorporated by reference to the table under the caption "On 3,520 Corners" on page 32 of the Annual Report. Most of the company's drugstores are leased. The leases are for various terms and periods. See the caption, "Leases" on page 26 of the Annual Report, which section is incorporated herein by reference. The company owns approximately 20% of the retail stores open at August 31, 2001. The company has an aggressive expansion program of adding new stores and remodeling and relocating existing stores. Net selling space of drugstores was increased from 33.7 million square feet at August 31, 2000, to 38.2 million square feet at August 31, 2001. Approximately 60% of company stores have been opened or remodeled during the past five years.

The company's retail drugstore operations are supported by nine distribution centers with a total of approximately 4.9 million square feet of space, of which 3.6 million square feet is owned. The remaining space is leased. All warehouses are served by modern distribution 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. Three new distribution centers are under construction in West Palm Beach, Florida, Ohio and the Dallas metropolitan area. Another is planned in southern California. An existing center in Woodland, California is being expanded.

There are five principal office facilities containing approximately 700,000 square feet of which 500,000 square feet is owned and the remainder is leased. The company owns one mail service facility with a ground lease and leases two other facilities. The combined square footage of the facilities is approximately 187,000 square feet. The mail order and office facilities are adequate for current needs.

4

Item 3. Legal Proceedings

The information in response to this item is incorporated herein by reference to the caption "Contingencies" on page 27 of the Annual Report.

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

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

5

EXECUTIVE OFFICERS OF THE REGISTRANT

The following information is furnished with respect to each executive officer of the company as of August 31, 2001:

NAME AND BUSINESS EXPERIENCE AG OFFICE HELD
E

L. Daniel Jorndt	6	Chairman and Chief Executive Officer
Chairman of the Board since January 1999	0	
Chief Executive Officer since January 1998		
President and Chief Operating Officer February 1990 to January 1999		
Director since January 1990		
David W. Bernauer	5	President and Chief Operating Officer
President and Chief Operating Officer Since January 1999	7	Officer
Senior Vice President July 1996 to January 1999		
Chief Information Officer February 1995 to January 1999		
Director since January 1999		
Jerome B. Karlin	5	Executive Vice President
Executive Vice President since February 1999	9	
Vice President September 1987 to February 1999		
Jeffrey A. Rein	4	Executive Vice President
Executive Vice President since February 2001	9	
Vice President July 1999 to February 2001		
Treasurer March 1996 to January 2000		
R. Bruce Bryant	5	Senior Vice President
Senior Vice President since September 2000	1	
Vice President, Drug Store Division, September 1997 to September 2000		
District Manager, April 1981 to September 1997		
W. Lynn Earnest	5	Senior Vice President
Senior Vice President since February 1999	8	
Vice President July 1992 to February 1999		
George C. Eilers	6	Senior Vice President
Senior Vice President since February 1999	1	
Regional Vice President,		

EXECUTIVE OFFICERS OF THE REGISTRANT - continued:

NAME AND BUSINESS EXPERIENCE	AGE	OFFICE HELD
J. Randolph Lewis Senior Vice President since January 2000 Vice President March 1996 to January 2000	51	Senior Vice President
Julian A. Oettinger Senior Vice President, Secretary and General Counsel since January 2000 Vice President, Secretary and General Counsel January 1989 to January 2000	62	Senior Vice President, Secretary and General Counsel
Roger L. Polark Senior Vice President and Chief Financial Officer since February 1995	53	Senior Vice President and Chief Financial Officer
William A. Shiel Senior Vice President since July 1993	50	Senior Vice President
John W. Gleeson Vice President since February 2000 Divisional Vice President, Marketing Systems and Services July 1992 to January 2000	54	Vice President
Dana I. Green Vice President since May 2000 Divisional Vice President July 1998 to January 2000 Director, Employee Relations May 1989 to July 1998	51	Vice President
Robert H. Halaska Vice President since April 1995 President, WHP Health Initiatives, Inc. since October 1995 President, Walgreens Healthcare Plus, Inc. since September 1991	60	Vice President
Dennis R. O'Dell Vice President since January 2000 Divisional Vice President January 1997 to January 2000 Divisional Merchandise Manager May 1993 to January 1997	54	Vice President

7

EXECUTIVE OFFICERS OF THE REGISTRANT - continued:

NAME AND BUSINESS EXPERIENCE	AGE	OFFICE HELD
Robert E. Sgarlata * Vice President Retail Marketing Since November 2000 Vice President Purchasing and Merchandising January 2000 to November 2000 Divisional Vice President Purchasing November 1998 to January 2000	51	Vice President
Trent E. Taylor Vice President since January 2000 Chief Information Officer Since January 1999	44	Vice President

Director, Infrastructure		
August 1995 to January		
1999		
Mark A. Wagner	40	Treasurer
Treasurer since January 2000		
Vice President, Drug Store Division		
February 1999 to January		
2000		
District Manager		
September 1993 to February		
1999		
William M. Rudolphsen	46	Controller
Controller since January 1998		
Director of Accounting		
September 1995 to December		
1997		

*Mr. Sgarlata has resigned from the company, effective November 21, 2001

There is no family relationship between any of the aforementioned officers of the company.

PART
II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The company's common stock is traded on the New York and Chicago Stock Exchanges under the symbol WAG. As of October 31, 2001 there were 94,407 recordholders of company common stock according to the records maintained by the company's transfer agent.

The range of the sales prices of the company's common stock by quarters during the two years ended August 31 2001 are incorporated herein by reference to the note "Common Stock Prices" on page 29 of the Annual Report.

The range of the company's cash dividends per common share during the two years ended August 31 2001 are as follows:

<u>Quarter</u>	<u>2001</u>	<u>2000</u>
<u>Ended</u>		
November	\$.03	\$.0337
	5	5
February	.035	.03375
May	.035	.03375
<u>August</u>	<u>.035</u>	<u>.03375</u>

Fiscal Year \$.14 \$.135

Item 6. Selected Financial Data

The information in response to this item is incorporated herein by reference to the caption "Eleven Year Summary of Selected Consolidated Financial Data" on pages 18 and 19 of the 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 20 and 21 of the Annual Report.

Item 7a. Qualitative and Quantitative Disclosure about Market Risk

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

Item 8. Financial Statements and Supplementary Data

See Item 14.

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

None

The information required for Items 10,11,12 and 13,with the exception of the information relating to the executive officers of the Registrant, which is presented in Part I under the heading "Executive Officers of the Registrant" is incorporated herein by reference to the following sections of the Registrant's Proxy Statement:

Captions in
Proxy

Names and ages of Director nominees,
their principal occupations and
other information

Securities Ownership of Directors and Executive
Officers

Executive
Compensation

10

PART
IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Documents filed as part of this report

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

Annual
Report
Page Number

Consolidated Statements of Earnings and Shareholders' Equity for the years ended August 31, 2001, 2000 and 1999	22
Consolidated Balance Sheets at August 31, 2001 and 2000	23
Consolidated Statements of Cash Flows for the years ended August 31, 2001, 2000 and 1999	24
Statement of Major Accounting Policies	25 - 26
Notes to Consolidated Financial Statements	26 - 29
Report of Independent Public Accountants	30
On 3,520 corners (Table of number of stores by state)	32
(The following financial statement schedule and related report of independent public accountants are included herein.)	

Schedule II Valuation and Qualifying Accounts 16
Supplemental Report of Independent Public Accountants 17

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.

(Exhibits 10(a) through 10(o) constitute management contracts or compensatory plans or arrangements required to be filed as exhibits pursuant to Item 14(c) of this Form 10-K.)

(b) Reports on Form 8-K

No reports were filed on Form 8-K during the quarter that ended August 31, 2001.

(c) Exhibits

- 3 (a) Articles of Incorporation of the company, as amended, filed with the Securities and Exchange Commission as Exhibit 3(a) to the company's Quarterly Report on Form 10-Q for the quarter ended February 28, 1999, and incorporated by reference herein.
- (b) By-Laws of the company, as amended and restated effective as of January 13, 1999, filed with the Securities and Exchange Commission as Exhibit 3(b) to the company's Quarterly Report on Form 10-Q for the quarter ended February 28, 1999, and incorporated by reference herein.
- 4 (a) (i) Walgreen Co. Debt Securities Indenture dated as of May 1, 1986, between the company and Harris Trust and Savings Bank, Trustee, filed with the Securities and Exchange Commission as Exhibit 4(c) to the company's Form S-3 Registration Statement on May 22, 1986 (Registration No. 33-5903), and incorporated by reference herein.
- (ii) Walgreen Co. Resolutions of Pricing Committee Relating to Debt Securities, filed with the Securities and Exchange Commission as Exhibit 4(a) to the company's Current Report on Form 8-K dated June 17, 1986 (File No. 1-604), and incorporated by reference herein.
- (b) Rights Agreement dated as of July 10, 1996, between the company and Harris Trust and Savings Bank, filed with the Securities and Exchange Commission as Exhibit 1. to Registration Statement on Form 8-A on July 11, 1996 (File No. 1-604), and incorporated by reference herein.
- 1 (a) Top Management Long-Term Disability Plan. (Note 3)
- 0
- (b) Executive short-term Disability Plan Description. (Note 3)
- (c) (i) Walgreen Management Incentive Plan (as restated effective October 12, 1994), filed with the Securities and Exchange Commission as Exhibit 10(a) to the company's Quarterly Report on Form 10-Q for the quarter ended November 30, 1994 (File No. 1-604), and incorporated by reference herein.
- (ii) Walgreen Co. Management Incentive Plan Amendment No. 1 (effective April 9, 1997), filed with the Securities and Exchange Commission as Exhibit 10 to the company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1997, and incorporated by reference herein.
- (d) (i) Walgreen Co. Restricted Performance Share Plan, as amended, filed with the Securities and Exchange Commission as Exhibit 10(a) to the company's Quarterly Report on Form 10-Q for the quarter ended February 28, 1997, and incorporated by reference herein.

See Notes on page 15.

12

- (ii) Walgreen Co. Restricted Performance Share Plan Amendment (effective October 9, 1996) filed with the Securities and Exchange Commission as Exhibit 10 (d) (ii) to the company's Annual Report on Form 10-K for the fiscal year ended August 31, 2001.
- (e) Walgreen Co. Executive Stock Option Plan, as amended, filed with the Securities and Exchange Commission as Exhibit 10(b) to the company's Quarterly Report on Form 10-Q for the quarter ended February 28, 1997, and incorporated by reference herein.
- (f) (i) Walgreen Co. 1986 Director's Deferred Fee/Capital Accumulation Plan. (Note 1)
- (ii) Walgreen Co. 1987 Director's Deferred Fee/Capital Accumulation Plan. (Note 2)

- (iii) Walgreen Co. 1988 Director's Deferred Fee/Capital Accumulation Plan. (Note 4)
- (iv) Walgreen Co. 1992 Director's Deferred Retainer Fee/Capital Accumulation Plan. (Note 8)
- (g) (i) Walgreen Co. 1986 Executive Deferred Compensation/Capital Accumulation Plan. (Note 1)
- (ii) Walgreen Co. 1988 Executive Deferred Compensation/Capital Accumulation Plan. (Note 4)
- (iii) Amendments to Walgreen Co. 1986 and 1988 Executive Deferred Compensation/Capital Accumulation Plans. (Note 6)
- (iv) Walgreen Co. 1992 Executive Deferred Compensation/Capital Accumulation Plan Series 1. (Note 8)
- (v) Walgreen Co. 1992 Executive Deferred Compensation/Capital Accumulation Plan Series 2. (Note 8)
- (vi) Walgreen Co. 1997 Executive Deferred Compensation/Capital Accumulation Plan Series I, filed with the Securities and Exchange Commission as Exhibit 10(c) to the company's Quarterly Report on Form 10-Q for the quarter ended February 28, 1997, and incorporated by reference herein.
- (vii) Walgreen Co. 1997 Executive Deferred Compensation/Capital Accumulation Plan Series 2, filed with the Securities and Exchange Commission as Exhibit 10(d) to the company's Quarterly Report on Form 10-Q for the quarter ended February 28, 1997, and incorporated by reference herein.
- (viii) Walgreen Co. 2001 Executive Deferred Compensation/Capital Accumulation Plan filed with the Securities and Exchange Commission as Exhibit 10(g) to the company's Annual Report on Form 10-K for the fiscal year ended August 31, 2001.

See Notes on page 15.

13

- (h) Walgreen Co. Executive Deferred Profit-Sharing Plan (as restated effective April 13, 1994), filed with the Securities and Exchange Commission as Exhibit 10(b) to the company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1994 (File No. 1-604), and incorporated by reference herein.
- (i) (i) Form of Change of Control Employment Agreements. (Note 5)
- (ii) Amendment to Employment Agreements adopted July 12, 1989. (Note 7)
- (j) Walgreen Select Senior Executive Retiree Medical Expense Plan, filed with the Securities and Exchange Commission as Exhibit 10(j) to the company's Annual Report on Form 10-K for the fiscal year ended August 31, 1996 (File No. 1-604), and incorporated by reference herein.
- (k) (i) Walgreen Co. Profit-Sharing Restoration Plan (restated effective January 1, 1993), filed with the Securities and Exchange Commission as Exhibit 10(k) to the company's Annual Report on Form 10-K for the fiscal year ended August 31, 1993 (File No. 1-604), and incorporated by reference herein.
- (ii) Walgreen Profit Sharing Restoration Plan Amendment No. 1 (effective October 12, 1994), filed as Exhibit 10(c) to the company's Quarterly Report on Form 10-Q for the quarter ended November 30, 1994 (File No. 1-604), and incorporated by reference herein.

- (l) Walgreen Co. Retirement Plan for Outside Directors. (Note 7)
- (m) Walgreen Section 162(m) Deferred Compensation Plan (effective October 12, 1994), filed with the Securities and Exchange Commission as Exhibit 10(d) to the company's Quarterly Report on Form 10-Q for the quarter ended November 30, 1994 (File No. 1-604), and incorporated by reference herein.
- (n) Walgreen Co. Nonemployee Director Stock Plan Amendment No. 2 (effective September 1, 1998), filed with the Securities and Exchange Commission as Exhibit 10(o)(iii) to the company's Annual Report on Form 10-K for the fiscal year ended August 31, 1998, and incorporated by reference herein.
- (o) Agreement dated February 3, 1998, by and between Walgreen Co. And Charles R. Walgreen III (for consulting services), filed With the Securities and Exchange Commission as Exhibit 10(a) to the company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1998, and incorporated by reference herein.

See Notes on page 15.

14

1 The required information for this Exhibit is contained in the Consolidated Statements of
 1 Earnings and Shareholders Equity for the years ended August 31, 2001, 2000 and 1999 and
 . also in the Statement of Major Accounting Policies, each appearing in the Annual Report
 and previously referenced in Part IV, Item 14, Section (a)(1).

1 Annual Report to shareholders for the fiscal year ended August 31, 2001. This report,
 3 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.

2 Subsidiaries of the Registrant.

1

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2 Consent of Independent Public Accountants.

3

Note

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- (Note 1) Filed with the Securities and Exchange Commission as Exhibit 10 to the company's Annual Report on Form 10-K for the fiscal year ended August 31, 1986 (File No. 1-604), and incorporated by reference herein.
- (Note 2) Filed with the Securities and Exchange Commission as Exhibit 10 to the company's Quarterly Report on Form 10-Q for the quarter ended November 30, 1986 (File No. 1-604), and incorporated by reference herein.
- (Note 3) Filed with the Securities and Exchange Commission as Exhibit 10 to the company's Annual Report on Form 10-K for the fiscal year ended August 31, 1990 (File No. 1-604), and incorporated by reference herein.
- (Note 4) Filed with the Securities and Exchange Commission as Exhibit 10 to the company's Quarterly Report on Form 10-Q for the quarter ended November 30, 1987 (File No. 1-604), and incorporated by reference herein.
- (Note 5) Filed with the Securities and Exchange Commission as Exhibit 10 to the company's Current Report on Form 8-K dated October 18, 1988 (File No. 1-604), and incorporated by reference herein.
- (Note 6) Filed with the Securities and Exchange Commission as Exhibit 10 to the company's Quarterly Report on Form 10-Q for the quarter ended November 30, 1988 (File No. 1-604), and incorporated by reference herein.
- (Note 7) Filed with the Securities and Exchange Commission as Exhibit 10 to the company's Annual Report on Form 10-K for the fiscal year ended August 31, 1989 (File No. 1-604), and incorporated by reference herein.
- (Note 8) Filed with the Securities and Exchange Commission as Exhibit 10 to the company's Annual Report on Form 10-K for the fiscal year ended August 31, 1992 (File No. 1-604), and incorporated by reference herein.

15

WALGREEN CO. AND SUBSIDIARIES
SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED AUGUST 31, 2001, 2000 AND 1999
(Dollars in Millions)

	Additions	
Balance	Charged	Balance
at	to	at

Classification	Beginning Costs and Of Period Expenses Deductions Of Period			End Of Period
Allowances deducted from receivables				
For doubtful accounts -				
Year Ended August 31, 2001	\$16.9	\$28.6	\$(24.6)	\$20.9
Year Ended August 31, 2000	\$ 9.0	\$24.3	\$(16.4)	\$16.9
Year Ended August 31, 1999	\$11.2	\$27.0	\$(29.2)	\$ 9.0

16

ARTHUR ANDERSEN LLP

SUPPLEMENTAL REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements included in Walgreen Co. and Subsidiaries' annual report to shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated September 28, 2001. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. Schedule II included in this Form 10-K is the responsibility of the company's management, is presented for purposes of complying with the Securities and Exchange Commission's rules, and is not part of the basic financial statements. Schedule II has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Chicago, Illinois

September 28, 2001

17

SIGNATURES

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

WALGREEN CO.
(Registrant)

By Roger L. Polark Date: November 26,
/s/ 2001
Roger L. Polark
Senior Vice President
Chief Financial Officer

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
/s/ <u>L. Daniel Jorndt</u>	Chairman of the Board,	November 26, 2001
<u>L. Daniel Jorndt</u>	Chief Executive Officer and Director	
/s/ <u>David W. Bernauer</u>	President, Chief Operating Officer and Director	November 26, 2001
<u>David W. Bernauer</u>		
/s/ <u>William M. Rudolphsen</u>	Controller	November 26, 2001
<u>William M. Rudolphsen</u>		

<u>/s</u> <u>William C. Foote</u>	Director	November 26,
<u>/</u>		2001
William C. Foote		
<u>/s</u> <u>James J. Howard</u>	Director	November 26,
<u>/</u>		2001
James J. Howard		
<u>/s</u> <u>Alan G. McNally</u>	Director	November 26,
<u>/</u>		2001
Alan G. McNally		
<u>/s</u> <u>Cordell Reed</u>	Director	November 26,
<u>/</u>		2001
Cordell Reed		
<u>/s</u> <u>David Y. Schwartz</u>	Director	November 26,
<u>/</u>		2001
David Y. Schwartz		
<u>/s</u> <u>John B. Schwemm</u>	Director	November 26,
<u>/</u>		2001
John B. Schwemm		
<u>/s</u> <u>Marilou M. von</u>	Director	November 26,
<u>/</u> <u>Ferstel</u>		2001
Marilou M. von		
Ferstel		
<u>/s</u> <u>C.R. Walgreen III</u>	Director	November 26,
<u>/</u>		2001
C.R. Walgreen III		

Eleven-Year Summary of Selected Consolidated Financial Data

Walgreen Co. and Subsidiaries

	(Dollars in Millions, except per share data)			
Fiscal Year	2001	2000	1999	1998
Net Sales	\$24,623.0	\$21,206.9	\$17,838.8	\$15,306.6
Costs and Deductions				
Cost of sales	18,048.9	15,465.9	12,978.6	11,139.4
Selling, occupancy and administration	5,175.8	4,516.9	3,844.8	3,332.0
Other (income) expense (1)	(24.4)	(39.2)	(11.9)	(41.9)
Total Costs and Deduction	23,200.3	19,943.6	16,811.5	14,429.5
Earnings				
Earnings before income tax provision and cumulative effect of accounting changes	1,422.7	1,263.3	1,027.3	877.1
Income tax provision	537.1	486.4	403.2	339.9
Earnings before cumulative effect of accounting changes	885.6	776.9	624.1	537.2
Cumulative effect of accounting changes (2)	-	-	-	(26.4)
Net Earnings	\$ 885.6	\$ 776.9	\$ 624.1	\$ 510.8
Per Common Share (3)				
Net earnings (2)				
Basic	\$.87	\$.77	\$.62	\$.51
Diluted	.86	.76	.62	.51
Dividends declared	.14	.14	.13	.13
Book value	5.11	4.19	3.47	2.86
Non-Current Liabilities				
Long-term debt	\$ 20.8	\$ 18.2	\$ 18.0	\$ 13.6
Deferred income taxes	137.0	101.6	74.8	89.1
Other non-current liabilities	457.2	446.2	405.8	369.9
Assets and Equity				
Total assets	\$ 8,833.8	\$ 7,103.7	\$ 5,906.7	\$ 4,901.6
Shareholders' equity	5,207.2	4,234.0	3,484.3	2,848.9
Return on average shareholders'	18.8%	20.1%	19.7%	19.6%
Equity				
Drugstore Units				
Year-end: Units (4)	3,520	3,165	2,821	2,549

	1997	1996	1995	1994	1993	1992	1991
\$13,363.0	\$11,778.4	\$10,395.1	\$9,235.0	\$8,294.8	\$7,475.0	\$6,733.0	
9,681.8	8,514.9	7,482.3	6,614.4	5,959.0	5,377.7	4,829.2	
2,972.5	2,659.5	2,392.7	2,164.9	1,929.6	1,738.8	1,582.7	
(3.9)	(2.9)	(3.6)	(2.7)	6.5	5.5	9.1	
12,650.4	11,171.5	9,871.4	8,776.6	7,895.1	7,122.0	6,421.0	
712.6	606.9	523.7	458.4	399.7	353.0	312.0	
276.1	235.2	202.9	176.5	154.4	132.4	117.0	
436.5	371.7	320.8	281.9	245.3	220.6	195.0	
-	-	-	-	(23.6)	-	-	
\$ 436.5	\$ 371.7	\$ 320.8	\$ 281.9	\$ 221.7	\$ 220.6	\$ 195.0	
\$.44	\$.38	\$.33	\$.29	\$.23	\$.22	\$.20	
.44	.37	.32	.29	.23	.22	.20	
.12	.11	.11	.09	.08	.07	.06	

2.40	2.08	1.82	1.60	1.40	1.25	1.10
\$ 3.3	\$ 3.4	\$ 2.4	\$ 1.8	\$ 6.2	\$ 18.7	\$ 123.0
112.8	145.2	142.3	137.7	144.2	171.8	155.3

279.2	259.9	237.6	213.8	176.2	103.8	85.1
\$ 4,207.1	\$ 3,633.6	\$ 3,252.6	\$ 2,872.8	\$ 2,506.0	\$ 2,346.9	\$ 2,074.4
2,373.3	2,043.1	1,792.6	1,573.6	1,378.8	1,233.3	1,081.2
19.8%	19.4%	19.1%	19.1%	18.8%	19.1%	19.2%
2,358	2,193	2,085	1,968	1,836	1,736	1,646

(1) Fiscal 2001 and 2000 include pre-tax income of \$22.1 million (\$13.6 million after-tax or \$.01 per share) and \$33.5 million (\$20.5 million after-tax or \$.02 per share), respectively, from the partial payments of the brand name prescription drugs litigation settlement. Fiscal 1998 includes a pre-tax gain of \$37.4 million (\$22.9 million after-tax or \$.02 per share) from the sale of the company's long-term care pharmacy business.

(2) Fiscal 1998 includes the \$26.4 million (\$.03 per share) charge from the cumulative effect of accounting change for system development costs. Fiscal 1993 includes the \$23.6 million (\$.02 per share) costs from the cumulative effect of accounting changes for postretirement benefits and income taxes.

(3) Per share data have been adjusted for two-for-one stock splits in 1999, 1997, 1995 and 1991.

(4) Units include mail service facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

Fiscal 2001 was 27th consecutive year of record sales and earnings. Net earnings were \$885.6 million or \$.86 per share (diluted), an increase of 14.0% from last year's earnings of \$776.9 million or \$.76 per share. Included in this year's results was a \$22.1 million pre-tax gain (\$.01 per share) for a partial payment of the company's share of the brand name prescription drugs antitrust litigation settlement. Last year's results included a \$33.5 million (\$.02 per share) comparable payment. Excluding these gains, fiscal year earnings rose 15.3%.

[BAR GRAPH] S,G&A Expense

(as a percent to sales)

1999 2000 2001

21.6% 21.3% 21.0%

Total net sales increased by 16.1% to \$24.6 billion in fiscal 2001 compared to increases of 18.9% in 2000 and 16.5% in 1999. Drugstore sales increases resulted from sales gains in existing stores and added sales from new stores, each of which include an indeterminate amount of market-driven price changes. Comparable drugstore (those open at least one year) sales were up 10.5% in 2001, 11.7% in 2000 and 11.2% in 1999. New store openings accounted for 11.3% of the sales gains in 2001, 10.6% in 2000 and 10.0% in 1999. The company operated 3,520 drugstores as of August 31, 2001, compared to 3,165 a year earlier.

Prescription sales increased 20.9% in 2001, 25.3% in 2000 and 23.3% in 1999. Comparable drugstore prescription sales were up 17.6% in 2001, 19.0% in 2000 and 19.4% in 1999. Prescription sales were 57.5% of total sales for fiscal 2001 compared to 55.2% in 2000 and 52.4% in 1999. Third party sales, where reimbursement is received from managed care organizations and government and private insurance, were 88.4% of pharmacy sales in 2001, 86.1% in 2000 and 83.5% in 1999. Pharmacy sales trends are expected to continue primarily because of increased penetration in existing markets, availability of new drugs and demographic changes such as the aging population.

Gross margins as a percent of sales were 26.7% in 2001, 27.1% in 2000 and 27.2% in 1999. Contributing to the decline in gross margin was the continuing shift in sales mix toward pharmacy, which carries lower margins than the rest of the store. Within pharmacy, third party prescription sales, which typically have lower profit margins than cash prescriptions, continue to trend upward. Non-pharmacy margins also declined as a result of aggressive sale pricing and reduced prices in the cosmetic area, which were designed to increase customer count.

The company uses the last-in, first-out (LIFO) method of inventory valuation. The effective LIFO inflation rates were 1.93% in 2001, 1.36% in 2000 and 1.84% in 1999, which resulted in charges to cost of sales of \$62.8 million in 2001, \$38.8 million in 2000 and \$45.2 million in 1999. Inflation on prescription inventory was 4.9% in 2001, 3.5% in 2000 and 5.2% in 1999.

Selling, occupancy and administration expenses were 21.0% of sales in fiscal 2001, 21.3% of sales in fiscal 2000 and 21.6% of sales in fiscal 1999. The decrease in fiscal 2001, as a percent to sales, was caused by lower advertising and headquarters expenses as well as other fixed costs which are being spread over a larger base of stores.

Interest income decreased in 2001 principally due to lower investment levels. Average net investment levels were approximately \$31 million in 2001, \$64 million in 2000 and \$220 million in 1999.

The effective tax rate decreased to 37.75% this fiscal year compared to 38.50% in fiscal 2000 and 39.25% in fiscal 1999. These decreases were principally the result of lower state income taxes and the settlement of various IRS matters.

Financial Condition

Cash and cash equivalents were \$16.9 million at August 31, 2001, compared to \$12.8 million at August 31, 2000. Short-term investment objectives are to maximize yields while minimizing risk and maintaining liquidity. To attain these objectives, investment limits are placed on the amount, type and issuer of securities.

Net cash provided by operating activities for fiscal 2001 was \$719.2 million compared to \$971.7 million a year ago. The change between periods was principally due to increased inventory levels which increased, in part, due to the opening of 355 net new stores from a year ago. The company's profitability is the principal source for providing funds for expansion and remodeling programs, dividends to shareholders and funding for various technological improvements.

Net cash used for investing activities was \$1.1 billion in fiscal 2001 and \$1.0 billion in 2000. Additions to property and equipment were \$1.2 billion compared to \$1.1 billion last year. During the year, 474 new or relocated drugstores were opened. This compares to 462 new or relocated drugstores opened in the same period last year. New stores are owned or leased. There were 245 owned locations opened during the year or under construction at August 31, 2001, versus 253 for the same period last year.

Capital expenditures for fiscal 2002 are expected to be approximately \$1.3 billion. The company expects to open 475 new stores in fiscal 2002 and have a total of 6,000 drugstores by the year 2010. The company is continuing to relocate stores to more convenient and profitable freestanding locations. In addition to new stores, a significant portion of the expenditures will be made for technology and distribution centers. Three new distribution centers are under construction in West Palm Beach, Florida, Ohio and the Dallas metropolitan area. Another is planned in Southern California. An existing center in Woodland, California, is being expanded.

[PIE CHART] CAPITAL EXPENDITURES-FISCAL YEAR 2002

We plan to spend \$1.3 billion.

Stores - 57%
Distribution - 23%
Store Technology - 11%
Other - 9%

Net cash provided by financing activities was \$419.4 million compared to \$63.3 million used a year ago. The change was principally due to increases in short-term commercial paper borrowings. These were needed to support the company's store and distribution center growth, which include purchases of new store property, equipment and inventory. Based on the company's credit rating, additional short-term borrowings are readily available to support this growth. At August 31, 2001, the company had approximately \$152 million in unused bank lines of credit and \$100 million of unissued authorized debt securities, previously filed with the Securities and Exchange Commission.

In June 2001, Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets," was issued. Under this pronouncement, which the company intends to adopt in fiscal 2002, goodwill will no longer be amortized but periodically tested for impairment. The adoption of this pronouncement is not expected to have a material impact on the company's consolidated financial position or results of operations.

Also issued during the year were SFAS No. 141, "Business Combinations" and SFAS No. 143, "Accounting for Asset Retirement Obligations," neither of which are expected to impact the company's consolidated financial position or results of operations. SFAS No. 141 requires business combinations to be accounted for by the purchase method of accounting as opposed to pooling of interest. SFAS No. 143 defines the timing and valuation of legal obligations associated with the retirement of long-term assets.

Cautionary Note Regarding Forward-Looking Statements

Certain statements and projections of future results made in this report constitute forward-looking information that is based on current market, competitive and regulatory expectations that involve risks and uncertainties. Those risks and uncertainties include changes in economic conditions generally or in the markets served by the company; consumer preferences and spending patterns; changes in state or federal legislation or regulations; the availability and cost of real estate and construction; competition; and risks of new business areas. Please see Walgreen Co.'s Form 10-K for the period ended August 31, 2001, for a discussion of certain other important factors as they relate to forward-looking statements. Actual results could differ materially.

Consolidated Statements of Earnings and Shareholders' Equity

Walgreen Co. and Subsidiaries

For the Years Ended August 31, 2001, 2000 and 1999

(Dollars in Millions, except per share data)

Earnings	2001	2000	1999
Net Sales	\$24,623.0	\$21,206.9	\$17,838.8
Costs and Deductions			
Cost of sales	18,048.9	15,465.9	12,978.6
Selling, occupancy and administration	5,175.8	4,516.9	3,844.8
	23,224.7	19,982.8	16,823.4
Other (Income) Expense			
Interest income	(5.4)	(6.1)	(12.3)
Interest expense	3.1	.4	.4
Other income	(22.1)	(33.5)	-
	(24.4)	(39.2)	(11.9)
Earnings			
Earnings before income tax provision	1,422.7	1,263.3	1,027.3
Income tax provision	537.1	486.4	403.2
Net Earnings	\$ 885.6	\$ 776.9	\$ 624.1
Net Earnings per Common Share			
Basic	\$.87	\$.77	\$.62
Diluted	\$.86	\$.76	\$.62
Average shares outstanding	1,016,197,785	1,007,393,572	1,000,363,234
Dilutive effect of stock options	12,748,828	12,495,236	13,918,481
Average shares outstanding assuming dilution	1,028,946,613	1,019,888,808	1,014,281,715

Shareholders' Equity	Common Stock		Paid-in Retained	
	Shares	Amount	Capital	Earnings
Balance, August 31, 1998	996,487,044	\$77.8	\$118.1	\$2,653.0
Net earnings	-	-	-	624.1
Cash dividends declared (\$.13 per share)	-	-	-	(130.1)
Employee stock purchase and option plans	7,535,214	.6	140.8	-
Balance, August 31, 1999	1,004,022,258	78.4	258.9	3,147.0
Net earnings	-	-	-	776.9
Cash dividends declared (\$.135 per share)	-	-	-	(136.1)

Employee stock purchase and option plans	6,796,632	.6	108.3	-
Balance, August 31, 2000	1,010,818,890	79.0	367.2	3,787.8
Net earnings	-	-	-	885.6
Cash dividends declared (\$.14 per share)	-	-	-	(142.5)
Employee stock purchase and option plans	8,606,162	.6	229.5	-
Balance, August 31, 2001	1,019,425,052	\$79.6	\$596.7	\$4,530.9

The accompanying Statement of Major Accounting Policies and the Notes to

Consolidated Financial Statements are integral parts of these statements.

Consolidated Balance Sheets

Walgreen Co. and Subsidiaries

At August 31, 2001 and 2000

(Dollars in Millions)

	2001	2000
Assets		
Current Assets		
Cash and cash equivalents	\$ 16.9	\$ 12.8
Accounts receivable, net	798.3	614.5
Inventories	3,482.4	2,830.8
Other current assets	96.3	92.0
Total Current Assets	4,393.9	3,550.1
Non-Current Assets		
Property and equipment, at cost, less accumulated depreciation and amortization	4,345.3	3,428.2
Other non-current assets	94.6	125.4
Total Assets	\$8,833.8	\$7,103.7
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings	\$ 440.7	\$ -
Trade accounts payable	1,546.8	1,364.0
Accrued expenses and other liabilities	937.5	847.7
Income taxes	86.6	92.0
Total Current Liabilities	3,011.6	2,303.7
Non-Current Liabilities		
Deferred income taxes	137.0	101.6
Other non-current liabilities	478.0	464.4
Total Non-Current Liabilities	615.0	566.0
Shareholders' Equity		
Preferred stock, \$.0625 par value; authorized 32 million shares; none issued	-	-
Common stock, \$.078125 par value; authorized 3.2 billion shares; issued and outstanding 1,019,425,052 in 2001	79.6	79.0
and 1,010,818,890 in 2000		
Paid-in capital	596.7	367.2
Retained earnings	4,530.9	3,787.8
Total Shareholders' Equity	5,207.2	4,234.0
Total Liabilities and Shareholders' Equity	\$8,833.8	\$7,103.7

The accompanying Statement of Major Accounting Policies and the 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, 2001, 2000 and 1999

(In Millions)

Fiscal Year	2001	2000	1999
Cash Flows from Operating Activities			
Net earnings	\$ 885.6	\$776.9	\$624.1
Adjustments to reconcile net earnings to net cash provided by operating activities -			
Depreciation and amortization	269.2	230.1	210.1
Deferred income taxes	46.9	21.0	(9.4)
Income tax savings from employee stock plans	67.3	38.5	26.8
Other	2.1	13.6	12.2
Changes in operating assets and Liabilities -			
Inventories	(651.6)	(368.2)	(435.7)
Trade accounts payable	182.8	233.7	223.4
Accounts receivable, net	(177.3)	(135.4)	(106.0)
Accrued expenses and other liabilities	82.2	101.2	103.7
Income taxes	(5.4)	28.6	8.6
Other	17.4	31.7	(5.8)
Net cash provided by operating activities	719.2	971.7	652.0
Cash Flows from Investing Activities			
Additions to property and equipment	(1,237.0)	(1,119.1)	(696.3)
Disposition of property and equipment	43.5	22.9	41.7
Net proceeds from corporate-owned life insurance	59.0	58.8	9.1
Net cash used for investing activities	(1,134.5)	(1,037.4)	(645.5)
Cash Flows from Financing Activities			
Proceeds from short-term borrowings	440.7	-	-
Cash dividends paid	(140.9)	(134.6)	(128.6)
Proceeds from employee stock plans	126.1	79.2	105.0
Other	(6.5)	(7.9)	14.5
Net cash provided by (used for) financing activities	419.4	(63.3)	(9.1)
Changes in Cash and Cash Equivalents			
Net increase (decrease) in cash and cash equivalents	4.1	(129.0)	(2.6)
Cash and cash equivalents at beginning of year	12.8	141.8	144.4
Cash and cash equivalents at end of year	\$ 16.9	\$ 12.8	\$141.8

The accompanying Statement of Major Accounting Policies and the Notes to

Consolidated Financial Statements are integral parts of these statements.

Statement of Major Accounting Policies

Description of Business

The company is principally in the retail drugstore business and its operations are within one reportable segment. Stores are located in 43 states and Puerto Rico. At August 31, 2001, there were 3,517 retail drugstores and three mail service facilities. Prescription sales were 57.5% of total sales for fiscal 2001 compared to 55.2% in 2000 and 52.4% in 1999.

Basis of Presentation

The consolidated statements include the accounts of the company and its subsidiaries. All significant intercompany transactions have been eliminated. The financial statements are prepared in accordance with generally accepted accounting principles 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. The company's cash management policy provides for the bank disbursement accounts to be reimbursed on a daily basis. Checks issued but not presented to the banks for payment of

\$233 million and \$211 million at August 31, 2001 and 2000, respectively, are included in cash and cash equivalents as reductions of other cash balances.

Financial Instruments

The company had approximately \$53 million and \$89 million of outstanding letters of credit at August 31, 2001 and 2000, respectively, which guaranteed foreign trade purchases. Additional outstanding letters of credit of \$71 million and \$62 million at August 31, 2001 and 2000, respectively, guaranteed payments of casualty claims. The casualty claim letters of credit are annually renewable and will remain in place until the casualty claims are paid in full. The company pays a nominal facility fee to the financing bank to keep this line of credit facility active. The company also had purchase commitments of approximately \$162 million and \$525 million at August 31, 2001 and 2000, respectively, related to the purchase of store locations. There were no investments in derivative financial instruments during fiscal 2001 and 2000.

Inventories

Inventories are valued on a lower of last-in, first-out (LIFO) cost or market basis. At August 31, 2001 and 2000, inventories would have been greater by \$637.6 million and \$574.8 million, respectively, if they had been valued on a lower of first-in, first-out (FIFO) cost or market basis. Cost of sales is primarily derived from an estimate based upon point-of-sale scanning information and adjusted based on periodic inventories.

Property and Equipment

Depreciation is provided on a straight-line basis over the estimated useful lives of owned assets. Leasehold improvements and leased properties under capital leases are amortized over the estimated physical life of the property or over the term of the lease, whichever is shorter. Estimated useful lives range from 12 to 39 years for land improvements, buildings and building improvements and 5 to 12 years for equipment. Major repairs, which extend the useful life of an asset, are capitalized in the property and equipment accounts. Routine maintenance and repairs are charged against earnings. The composite method of depreciation is used 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 resulting in the carrying amount not being recoverable. Impaired assets write-offs are measured by comparing the present value of the estimated future cash flows to the carrying value of the assets. The present value of future lease costs is charged against earnings when a commitment makes it probable that the location will close before the end of the lease term. Fully depreciated property and equipment are removed from the cost and related accumulated depreciation and amortization accounts.

Property and equipment consists of (In Millions):

	2001	2000
Land and land improvements		
Owned stores	\$ 1,109.2	\$ 821.8
Distribution centers	38.7	33.3
Other locations	18.6	14.9
Buildings and building improvements		
Owned stores	1,156.6	870.4
Leased stores (leasehold improvements only)	411.1	354.4
Distribution centers	309.1	203.4
Other locations	70.6	61.4
Equipment		
Stores	1,440.3	1,266.8
Distribution centers	350.2	219.6
Other locations	462.7	452.8
Capitalized system development costs	117.4	99.8
Capital lease properties	18.8	21.1
	5,503.3	4,419.7
Less: accumulated depreciation and amortization	1,158.0	991.5

The company capitalizes costs that primarily relate to the application development stage of significant internally developed software. These costs principally relate to Intercom Plus, a pharmacy computer and workflow system. These costs are amortized over a five-year period. Amortization of these costs was \$20.8 million in 2001, \$13.1 million in 2000 and \$15.6 million in 1999. Unamortized costs as of August 31, 2001 and 2000, were \$66.1 million and \$65.2 million, respectively.

Income Taxes

The company provides for federal and state income taxes on items included in the Consolidated Statements of Earnings regardless of the period when such taxes are payable. Deferred taxes are recognized for temporary differences between financial and income tax reporting based on enacted tax laws and rates.

Insurance

The company obtains insurance coverage for catastrophic exposures as well as those risks required to be insured by law. It is the company's policy to retain a significant portion of certain losses related to worker's compensation, property losses, business interruptions relating from such losses and comprehensive general, pharmacist and vehicle liability. Provisions for these losses are recorded based upon the company's estimates for claims incurred. Such estimates use certain assumptions followed in the insurance industry.

Pre-Opening Expenses

Non-capital expenditures incurred prior to the opening of a new or remodeled store are charged against earnings when they are incurred.

Advertising Costs

Advertising costs are expensed as incurred, and were \$54.1 million in 2001, \$76.7 million in 2000 and \$58.7 million in 1999.

Notes to Consolidated Financial Statements

Interest Expense

The company capitalized \$15.6 million, \$4.0 million and \$2.6 million of interest expense as part of significant construction projects during fiscal 2001, 2000 and 1999. Interest paid, net of amounts capitalized, was \$3.4 million in 2001, \$.2 million in 2000 and \$.4 million in 1999.

Other Income

In February 2001 and July 2000, the company received partial payments of the brand name prescription drugs antitrust litigation settlement for pre-tax income of \$22.1 million (\$13.6 million after-tax or \$.01 per share) and \$33.5 million (\$20.5 million after-tax or \$.02 per share), respectively. The company was involved in the pharmacy class action against drug manufacturers, which resulted in a \$700 million settlement for all recipients. The final payment was received in the first quarter of fiscal 2002 for pre-tax income of \$5.5 million (\$3.4 after-tax).

Leases

Although some locations are owned, the company generally operates in leased premises. Original non-cancelable lease terms typically are 20 years and may contain escalation clauses, along with options that permit renewals for additional periods. The total amount of the minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum fixed rentals, most leases provide for contingent rentals based upon sales.

Minimum rental commitments at August 31, 2001, under all leases having an initial or remaining non-cancelable term of more than one year are shown below

(In Millions):	
2002	\$ 782.7
2003	826.3
2004	817.0
2005	804.7
2006	785.4
Later	9,010.2
Total minimum lease payments	\$13,026.3

The above minimum lease payments include minimum rental commitments related to capital leases amounting to \$13.3 million at August 31, 2001. The present value of net minimum capital lease payments, due after 2002, is reflected in the accompanying Consolidated Balance Sheets as part of other non-current liabilities. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately \$42.6 million on leases due in the future under non-cancelable subleases.

Rental expense was as follows (In Millions):

	2001	2000	1999
Minimum rentals	\$730.1	\$605.7	\$482.0
Contingent rentals	26.2	31.4	34.8
Less: Sublease rental income	(10.4)	(7.6)	(5.4)
	\$745.9	\$629.5	\$511.4

Income Taxes

The provision for income taxes consists of the following (In Millions):

	2001	2000	1999
Current provision -			
Federal	\$417.1	\$400.9	\$350.5
State	73.1	64.5	62.1
	490.2	465.4	412.6
Deferred provision -			
Federal	47.1	17.7	(8.0)
State	(.2)	3.3	(1.4)
	46.9	21.0	(9.4)
	\$537.1	\$486.4	\$403.2

The components of the deferred provision were (In Millions):

	2001	2000	1999
Accelerated depreciation	\$ 49.7	\$ 51.5	\$ 9.7
Inventory	18.6	(2.3)	11.1
Insurance	(15.7)	(11.0)	(2.7)
Employee benefit plans	(11.1)	(17.7)	(12.2)
Accrued rent	2.2	(5.2)	(8.7)
Other	3.2	5.7	(6.6)
	\$ 46.9	\$ 21.0	\$ (9.4)

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

	2001	2000
Deferred tax assets -		
Employee benefit plans	\$146.3	\$135.4
Accrued rent	52.7	54.9
Insurance	68.3	52.6
Inventory	28.1	23.6
Other	39.0	38.9
	334.4	305.4
Deferred tax liabilities -		
Accelerated depreciation	341.7	292.0
Inventory	92.9	69.8
Other	16.1	13.0
	450.7	374.8
Net deferred tax liabilities	\$116.3	\$ 69.4

Income taxes paid were \$432.1 million, \$398.4 million and \$377.3 million during the fiscal years ended August 31, 2001, 2000 and 1999, respectively. The difference between the statutory income tax rate and the effective tax rate is principally due to state income tax provisions.

Short-Term Borrowings

The company obtained funds through the placement of commercial paper, as follows (Dollars in Millions):

	2001	2000	1999
Average outstanding during the year	\$ 304.9	\$ 14.0	\$ 9.6
Largest month-end balance	461.2	98.0	100.0
	(Nov)	(Nov)	(Nov)
Weighted-average interest rate	5.2%	5.9%	5.1%

At August 31, 2001, the company had approximately \$152 million of available bank lines of credit. The credit lines are renewable annually at various dates and provide for loans of varying maturities at the prime rate. There are no compensating balance arrangements.

Contingencies

The company is involved in various legal proceedings incidental to the normal course of business. Company management is of the opinion, based upon the advice of General Counsel, that although the outcome of such litigation cannot be forecast with certainty, the final disposition should not have a material adverse effect on the company's consolidated financial position or results of operations.

Capital Stock

The company's common stock is subject to a Rights Agreement under which each share has attached to it a Right to purchase one one-hundredth of a share of a new series of Preferred Stock, at a price of \$37.50 per Right. In the event an entity acquires or attempts to acquire 15% of the then outstanding shares, each Right, except those of an acquiring entity, would entitle the holder to purchase a number of shares of common stock pursuant to a formula contained in the Agreement. These non-voting Rights will expire on August 21, 2006, but may be redeemed at a price of \$.0025 per Right at any time prior to a public announcement that the above event has occurred.

As of August 31, 2001, 92,321,616 shares of common stock were reserved for future stock issuances under the company's various employee benefit plans. Preferred stock of 10,194,251 shares have been reserved for issuance upon the exercise of Preferred Share Purchase Rights.

Stock Compensation Plans

The Walgreen Co. Executive Stock Option Plan provides for the granting to key employees of options to purchase company 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 October 9, 2006, for an aggregate of 38,400,000 shares of common stock of the company. Compensation expense related to the plan was \$1.4 million in fiscal 2001 and less than \$1 million in fiscal 2000 and 1999. The options granted during fiscal 2001, 2000 and 1999 have a minimum three-year holding period.

The Walgreen Co. Stock Purchase/Option Plan (Share Walgreens) provides for the granting of options to purchase company common stock over a period of 10 years to eligible employees upon the purchase of company shares subject to certain restrictions. Under the terms of the Plan, the option price cannot be less than 85% of the fair market value at the date of grant. Compensation expense related to the Plan was \$9.6 million in fiscal 2001 and less than \$1 million in fiscal 2000 and 1999. Options may be granted under this Plan until September 30, 2002, for an aggregate of 40,000,000 shares of common stock of the company. This Plan was amended on July 11, 2001. Effective October 1, 2002, options may be granted under this Plan until September 30, 2012, for an aggregate of 42,000,000 shares of common stock of the company. The options granted during fiscal 2001, 2000 and 1999 have a two-year holding period.

On May 11, 2000, substantially all employees, in conjunction with opening the company's 3,000th store, were granted a stock option award to purchase from 75 to 500 shares, based on years of service. The stock option award, issued at fair market value on the date of the grant, represents a total of 14,859,275 shares of Walgreen Co. common stock. The options vest after three years and are exercisable up to 10 years after the grant date.

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

Options Outstanding			Options Exercisable		
Shares	Weighted-Average Price	Exercise	Shares	Weighted-Average Price	Exercise

August 31, 1998	29,605,956	\$ 6.59		
Granted	2,606,350	19.70		
Exercised	(3,644,250)	5.71		
Canceled/Forfeited	(88,818)	9.81		
August 31, 1999	28,479,238	\$ 7.89	21,821,426	\$5.91
Granted	17,040,383	28.43		
Exercised	(5,055,842)	5.59		
Canceled/Forfeited	(1,086,118)	27.39		
August 31, 2000	39,377,661	\$16.55	19,267,211	\$6.45
Granted	5,354,388	36.68		
Exercised	(5,532,895)	5.75		
Canceled/Forfeited	(2,943,030)	28.02		
August 31, 2001	36,256,124	\$20.24	14,824,227	\$7.40

The following table summarizes information concerning currently outstanding and exercisable options:

Range of Exercise Prices	Number Outstanding 08/31/01	Options Outstanding		Weighted-Average Exercise Price	Number Exercisable 8/31/01	Options Exercisable	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price			Weighted-Average Exercise Price	Weighted-Average Exercise Price
\$ 4 to 14	14,685,847	3.76 yrs.		\$ 7.26	14,672,859		\$ 7.25
15 to 30	16,618,488	8.31		26.66	143,750		20.88
31 to 46	5,251,789	9.15		36.62	7,618		38.78
\$ 4 to 46	36,256,124	6.58 yrs.		\$20.24	14,824,227		\$ 7.40

Under the Walgreen Co. 1982 Employees Stock Purchase Plan, eligible employees may purchase company stock at 90% of the fair market value at the date of purchase. Employees may purchase shares through cash purchases, loans or payroll deductions up to certain limits. The aggregate number of shares for which all participants have the right to purchase under this Plan is 64,000,000.

The Walgreen Co. Restricted Performance Share Plan provides for the granting of up to 32,000,000 shares of common stock to certain key employees, subject to restrictions as to continuous employment except in the case of death, normal retirement and total and permanent disability. Restrictions generally lapse over a four-year period from the date of grant. Compensation expense is recognized in the year of grant. Compensation expense related to the Plan was \$3.6 million in fiscal 2001, \$5.1 million in fiscal 2000 and \$3.7 million in fiscal 1999. The number of shares granted was 61,136 in 2001, 84,746 in 2000 and 95,038 in 1999.

The company applies Accounting Principles Board (APB) Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation expense has been recognized based on the fair value of its grants under these plans. Had compensation costs been determined consistent with the method of FASB Statement No. 123 for options granted in fiscal 2001, 2000 and 1999, pro forma net earnings and net earnings per common share would have been as follows (In Millions, except per share data):

	2001	2000	1999
Net earnings			
As reported	\$885.6	\$776.9	\$624.1
Pro forma	833.3	754.3	605.3
Net earnings per common share - Basic			
As reported	.87	.77	.62
Pro forma	.82	.75	.61
Net earnings per common share - Diluted			
As reported	.86	.76	.62
Pro forma	.81	.74	.60

The weighted-average fair value and exercise price of options granted for fiscal 2001, 2000 and 1999 were as follows:

	2001	2000	1999
Granted at market price -			
Weighted-average fair value	\$14.28	\$12.17	\$ 6.99

Weighted-average exercise price	32.88	28.44	19.61
Granted below market price -			
Weighted-average fair value	20.78	10.56	9.45
Weighted-average exercise price	38.78	24.12	20.89

The fair value of each option grant used in the pro forma net earnings and net earnings per share was determined using the Black-Scholes option pricing model with weighted-average assumptions used for grants in fiscal 2001, 2000 and 1999:

	2001	2000	1999
Risk-free interest rate	6.16%	6.64%	5.11%
Average life of option (years)	7	7	7
Volatility	25.95%	25.86%	21.78%
		%	
Dividend yield	.16%	.27%	.32%

Retirement Benefits

The principal retirement plan for employees is the Walgreen Profit-Sharing Retirement Trust to which both the company and the employees contribute. The company's contribution, which is determined annually at the discretion of the Board of Directors, has historically related to pre-tax income. The profit-sharing provision was \$126.6 million in 2001, \$112.4 million in 2000 and \$91.4 million in 1999.

The company provides certain health and life insurance benefits for retired employees who meet eligibility requirements, including age and years of service.

The costs of these benefits are accrued over the period earned. In fiscal 2001 several changes were made prospectively to retiree medical and prescription drug coverage. Employees hired after December 31, 2001, will not be eligible for the Walgreen Medical Plan for Retirees. In addition, for retirements occurring on or after January 1, 2017, retirees will contribute more toward the cost of their prescription coverage. At August 31, 2001, the unrecognized actuarial loss was \$27.9 million compared to a \$5.1 million loss at August 31, 2000. The actuarial loss is amortized over the future service period of employees, which approximates 20 years. The company's postretirement health and life benefit plans currently are not funded.

Components of net periodic benefit costs (In Millions):

	2001	2000	1999
Service cost	\$ 4.8	\$ 4.7	\$ 5.2
Interest cost	8.7	7.7	7.3
Amortization of actuarial loss	.3	-	.4
Total postretirement healthcare benefits costs	\$13.8	\$12.4	\$12.9

Change in benefit obligation (In Millions):

	2001	2000
Benefit obligation at September 1	\$118.6	\$104.6
Service cost	4.8	4.7
Interest cost	8.7	7.7
Amendments	(7.1)	-
Actuarial loss(gain)	23.1	5.7
Benefit payments	(6.3)	(4.9)
Participants contributions	.9	.8
Benefit obligation at August 31	\$142.7	\$118.6

The discount rate assumptions used to compute the postretirement benefit obligation at year-end were 7.5% for 2001 and 2000.

Future benefit costs were estimated assuming medical costs would increase at a 6.5% annual rate decreasing to 5% over the next 4 years and then remaining at a 5% 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	\$ 4.0	\$ (3.0)
Effect on postretirement obligation	28.2	(21.6)

Supplementary Financial Information

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

	2001	2000
Accounts receivable -		
Accounts receivable	\$819.	\$631.
	2	4
Allowances for doubtful accounts	(20.9	(16.9
))
	\$798.	\$614.
	3	5
Accrued expenses and other liabilities -		
Accrued salaries	\$272.	\$266.
	7	4
Taxes other than income taxes	155.5	125.4
Profit sharing	122.1	110.7
Other	387.2	345.2
	\$937.	\$847.
	5	7

Summary of Quarterly Results (Unaudited)

(Dollars in Millions, except per share data)

	Quarter Ended				Fiscal Year
	November	February	May	August	
Fiscal 2001					
Net sales	\$5,614. 2	\$6,429.0	\$6,296.2	\$6,283. 6	\$24,623.0
Gross profit	1,488.1	1,770.8	1,651.6	1,663.6	6,574.1
Net earnings	158.4	296.9	213.4	216.9	885.6
Per Common Share -					
Basic	\$.16	\$.29	\$.21	\$.21	\$.87
Diluted	.15	.29	.21	.21	.86
Fiscal 2000					
Net sales	\$4,823. 2	\$5,608.8	\$5,394.1	\$5,380. 8	\$21,206.9
Gross profit	1,272.2	1,543.5	1,451.0	1,474.3	5,741.0
Net earnings	127.8	238.9	193.6	216.6	776.9
Per Common Share -					
Basic	\$.13	\$.23	\$.20	\$.21	\$.77
Diluted	.13	.23	.19	.21	.76

Comments on Quarterly Results:

In further explanation of and supplemental to the quarterly results, the 2001 fourth quarter LIFO adjustment was a charge of \$2.8 million compared to a 2000 credit of \$8.7 million. If the 2001 interim results were adjusted to reflect the actual inventory inflation rates and inventory

levels as computed at August 31, 2001, earnings per share would have been higher in the second quarter by \$.01 and lower in the fourth quarter by \$.01. Similar adjustments in 2000 would have increased earnings per share in the first quarter by \$.01 and decreased the fourth quarter by \$.01.

The quarter ended February 28, 2001, includes the pre-tax income of \$22.1 million (\$13.6 million after-tax or \$.01 per share) from the partial payment of the brand name prescription drugs litigation settlement. The quarter ended August 31, 2000, includes the pre-tax income of \$33.5 million (\$20.5 million after-tax or \$.02 per share) from the initial payment.

Common Stock Prices

Below are the New York Stock Exchange high and low for each quarter of fiscal 2001 and 2000.

		Quarter Ended				Fiscal Year
		November	February	May	August	
Fiscal 2001	High	\$45.63	\$44.32	\$45.27	\$41.85	\$45.63
	Low	33.44	36.88	39.12	31.43	31.43
Fiscal 2000	High	\$29.94	\$32.75	29.19	\$35.25	\$35.25
	Low	23.56	25.81	22.75	27.56	22.75

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Walgreen Co. (an Illinois corporation) and Subsidiaries as of August 31, 2001 and 2000, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended August 31, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Walgreen Co. and Subsidiaries as of August 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2001 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Chicago, Illinois,

September 28, 2001

Management's Report

The primary responsibility for the integrity and objectivity of the consolidated financial statements and related financial data rests with the management of Walgreen Co. The financial statements were prepared in conformity with generally accepted accounting principles appropriate in the circumstances and included amounts that were based on management's most prudent judgments and estimates relating to matters not concluded by fiscal year-end. Management believes that all material uncertainties have been either appropriately accounted for or disclosed. All other financial information included in this annual report is consistent with the financial statements.

The firm of Arthur Andersen LLP, independent public accountants, was engaged to render a professional opinion on Walgreen Co.'s consolidated financial statements. Their report contains an opinion based on their audit, which was made in accordance with generally accepted auditing standards and procedures, which they believed were sufficient to provide reasonable assurance that the consolidated financial statements, considered in their entirety, are not misleading and do not contain material errors.

Four outside members of the Board of Directors constitute the company's Audit Committee, which meets at least quarterly and is responsible for reviewing and monitoring the company's financial and accounting practices. Arthur Andersen LLP and the company's General Auditor meet alone with the Audit Committee, which also meets with the company's management to discuss financial matters, auditing and internal accounting controls.

The company's systems are designed to provide an effective system of internal accounting controls to obtain reasonable assurance at reasonable cost that assets are safeguarded from material loss or unauthorized use and transactions are executed in accordance with management's authorization and properly recorded. To this end, management maintains an internal control environment which is shaped by established operating policies and procedures, an appropriate division of responsibility at all organizational levels, and a corporate ethics policy which is monitored annually. The company also has an Internal Control Evaluation Committee, composed primarily of senior management from the Accounting and Auditing Departments, which oversees the evaluation of internal controls on a company-wide basis. Management believes it has appropriately responded to the internal auditors' and independent public accountants' recommendations concerning the company's internal control system.

/s/ L. Daniel Jorndt /s/ William M. Rudolphsen

Chairman of the Board Controller

and Chief Executive Officer and Chief Accounting Officer

/s/ Roger L. Polark

Senior Vice President

and Chief Financial Officer

On 3.520 corners

<u>State</u>	<u>2000</u>	<u>2001</u>
Alabama	8	16
Arizona	154	178
Arkansas	14	17
California	234	274
Colorado	59	65
Connecticut	31	35
Florida	494	538
Georgia	9	30
Idaho	6	8
Illinois	398	418
Indiana	116	124
Iowa	40	46
Kansas	27	32
Kentucky	45	46
Louisiana	69	71
Maryland	3	8
Massachusetts	80	84
Michigan	88	106
Minnesota	72	77
Mississippi	14	16
Missouri	112	117
Nebraska	35	37
Nevada	32	41
New Hampshire	10	10
New Jersey	46	54
New Mexico	42	43
New York	48	55
North Carolina	8	10
North Dakota	1	1
Ohio	93	106

Oklahoma	36	44
Oregon	15	21
Pennsylvania	15	17
Rhode Island	15	15
South Carolina	3	6
South Dakota	4	4
Tennessee	111	125
Texas	333	358
Utah	1	4
Virginia	24	27
Washington	33	42
Wisconsin	136	139
Wyoming	1	1
Puerto Rico	<u>50</u>	<u>54</u>
Total	3,165	3,520

All information on this page is provided as of fiscal year-end.

WALGREEN CO.

2001 EXECUTIVE DEFERRED COMPENSATION/ CAPITAL ACCUMULATION PLAN

Walgreen Co. (the "Employer") hereby establishes a nonqualified deferred compensation program for certain of its employees as described herein. The following shall constitute the terms and conditions of Walgreen Co. 2001 Executive Deferred Compensation/Capital Accumulation Plan (the "Plan"), effective January 1, 2001:

1. Administration. Full power and authority to construe, interpret, and administer the Plan shall be vested in the Compensation Committee of the Board of Directors (the "Committee"). The Committee shall have the authority to make determinations provided for or permitted to be made under the Plan, to interpret the Plan, and to promulgate such rules and regulations, if any, as the Committee considers necessary and appropriate for the implementation of the Plan.

2. Eligibility and Participation. Only those persons who are employed in Salary Grades 14 through 31, and their equivalent as of January 1, 2001 shall be eligible to become a participant in the Plan. An eligible employee shall become a participant upon the execution of an irrevocable election under the Plan and the acceptance of the election by the Committee.

3. Deferred Compensation Account.

A. The participant shall make an irrevocable election in writing of the amount of compensation to be deferred under the Plan (the "deferral amount"). Such amount shall not be in excess of ten percent (10%) of the participant's base salary as of January 1, 2001, and shall be in increments of no less than one thousand dollars (\$1,000.00). The election shall be made prior to January 1, 2001 and shall be for the period January 1, 2001 through December 31, 2001. The deferral shall be reduced in substantially equal amounts from the base salary otherwise periodically payable to the participant during the period January 1, 2001 through December 31, 2001, and attributable to service by the participant for the Employer after the date of participant's election.

B. The Employer shall establish and maintain a bookkeeping account in the name of each participant, which shall be known as his or her "Deferred Account," and which shall be credited with the amount of compensation deferred, and which shall reflect the accumulated value of the deferral amount. The accumulated value of the deferral amount shall equal the amount arrived at by increasing the deferral account balance by assumed simple interest compounded annually but credited as of the last day of each calendar month, calculated from January 1, 2001. Amounts paid to or on behalf of the participant or his beneficiary pursuant to this Plan, shall be deducted from the account balance as of the first day of the month in which such payment is made. The rate to be used in determining the accumulated value of the deferral amount shall be that rate specified in the Plan paragraph under which payment is to be made.

C. The participant's Deferred Account shall at all times be reflected on the Employer's books in accordance with generally accepted accounting practices as a general unsecured and unfunded obligation of the Employer and the Plan shall not give any person any right or security interest in any asset of the Employer nor shall it imply any trust or segregation of assets by the Employer. The participant's Deferred Account shall be distributed from the general assets of the Employer.

4. Time and Manner of Payment. The participant's Deferred Account shall be distributed as follows:

1. Installment Payments

1. A participant who has not attained age fifty-five (55) as of January 1, 2001 shall be entitled to fifteen (15) equal annual installment payments commencing at the January 1 of the year following his or her attainment of age sixty-five (65) or as soon as practicable thereafter, if one of the following conditions is met:

a. The participant remains in the continuous employ of the Employer during the period from January 1, 2001 until the participant reaches age sixty-five (65); or

b. The participant retires after a period of continuous employment beginning on or before January 1, 2001.

2. A participant who attained age fifty-five (55) as of January 1, 2001, shall elect, at the time of making the deferral election pursuant to Paragraph 3A, to receive its in one of the following manners:

a. Fifteen (15) equal annual installments as described in paragraph (1) above; or

EXHIBIT 21

Subsidiaries of the Registrant

There are no parents of the Registrant, Walgreen Co. (an Illinois corporation). The following 15 subsidiaries are wholly owned by the Registrant, 11 of which are engaged in the operation of retail drug stores, one, Walgreens Healthcare Plus, Inc., in mail order drug operations, one, WHP Health Initiatives, Inc., in pharmacy benefit management and one, Walgreen Advance Care, Inc., in retailing of health care maintenance services, and one, Walgreens.com, Inc., operates a retail electronic commerce site.

NAME	STATE, COMMONWEALTH OR COUNTRY OF INCORPORATION
Walgreen Arizona Drug Co.	Arizona
Bond Drug Company of Illinois	Illinois
Walgreens Advance Care, Inc.	Illinois
Walgreens Healthcare Plus, Inc.	Illinois
Walgreens.com, Inc.	Illinois
WHP Health Initiatives, Inc.	Illinois
Walgreen Louisiana Co., Inc.	Louisiana
Walgreen Columbus Co.	Nebraska
Walgreen Fremont Co.	Nebraska
Walgreen Hastings Co.	Nebraska
Walgreen Kearney Co.	Nebraska
Walgreen Lincoln Co.	Nebraska
Walgreen Eastern Co., Inc.	New York
Walgreen of Puerto Rico, Inc.	Puerto Rico
Walgreen of San Patricio, Inc.	Puerto Rico

In addition to the above named subsidiaries, the Registrant wholly owns 6 subsidiaries engaged in service or real estate operations, and 21 inactive subsidiaries. These 28 subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

The following two legal entities are ignored for Federal Income Tax and all other purposes except Texas Franchise Tax. Walgreen Texas LP is a partnership that holds beneficial interest in all Walgreen Co. operations in Texas. Walgreen Texas LLC is a limited Liability Corporation and subsidiary of Walgreen Co. that holds a 99% limited liability interest in Walgreen Texas LP.

All wholly owned subsidiaries are included in the consolidated financial statements.

EXHIBIT 23

ARTHUR ANDERSEN

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated September 28, 2001 included or incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statements File No. 2-79977, File No. 2-79978, File No. 33-5903 and File No. 33-49676. It should be noted that we have not audited any financial statements of the Company subsequent to August 31, 2001 or performed any audit procedures subsequent to the date of our report.

/s/Arthur Andersen LLP

Chicago, Illinois

November 26, 2001

End of Filing