

CtW Investment Group

October 21, 2014

James Skinner
Chairman of the Walgreen Co. Board of Directors
Walgreen Co.
108 Wilmot Road
Deerfield, IL 60015

Dear Mr. Skinner:

In the wake of the serious allegations raised in the defamation lawsuit filed by former CFO Wade Miquelon, we call for the immediate postponement of the solicitation and approval process of the Alliance Boots transaction to allow for the formation of a special independent board committee to investigate:

- The concerns the suit raises over the timeliness of the 2016 earnings guidance disclosure, which ultimately led to a \$2 billion downward revision to the combined operating earnings estimates originally disclosed in conjunction with the June 2012 transaction announcement;
- The process that led to the accelerated second step of the merger with Alliance Boots, and the access to information gained and the influence played by hedge fund investors in the ultimate direction of the company's strategy; and
- In light of allegations of pressure from the CEO to boost earnings estimates, whether the new information impacts the fairness of the second step of the Alliance Boots transaction to shareholders. A new independent financial advisor should be retained for this purpose by the Board.

Owing to the potential for adverse findings against members of the Audit Committee, the Special Committee should exclude directors currently responsible for overseeing the audit process. Similarly, given the substance of the allegations against certain activist hedge funds, recent JANA Partners' appointee Barry Rosenstein should be disqualified from overseeing the investigation.

With the Special Committee's ultimate findings on these issues of potential material import to the upcoming approval of the Alliance Boots transaction, shareholders cannot be expected to make an informed decision on the merits of the transaction until this investigation has been completed and publicly disclosed.

The CtW Investment Group works with union-sponsored pension funds to enhance long-term shareholder value through active ownership. These funds invest over \$250 billion in the global capital markets and are substantial investors in Walgreen.

The timeliness of changes to FY 2016 guidance

Mr. Miquelon alleges that, contrary to press reports, Mr. Wasson and Mr. Pessina were fully aware of the significant downside risk to the FY16 EBIT projection and that they and the Board knew, as early as April 2014, that Mr. Miquelon predicted a \$1 billion risk to the FY16 EBIT projection beyond the projected \$200-\$300 million potential risk that had previously been identified. Indeed, Mr. Miquelon notes that at the April 2014 Board meeting, company executives made presentations about third party reimbursement trends as well as inflation and pricing trends in the generic drug market as the primary drivers of the reduction in the EBIT estimate as well as Alliance Boots underperformance. These allegations raise serious questions about whether the Board was fully engaged in its oversight role and whether company officials have attempted to lay the blame for the earnings miss with a departed official, rather than accepting full responsibility. Additionally, the complaint contains concerning allegations, supported by an attached email, that Mr. Wasson, apparently with the support of Mr. Skinner, attempted to delay the withdrawal of the earnings guidance until it could be "bundled" with good news.

The process leading to the second-step decision and the role of hedge funds

Mr. Miquelon's complaint also alleges that the decision about whether to undertake a corporate tax inversion was subject to significant behind-the-scenes lobbying by activist shareholders. Indeed, his complaint alleges that activist investors attended the April 2014 Board meeting and demanded an inversion after confronting the investor relations personnel. According to Miquelon, Mr. Wasson was concerned that he would be forced out of his position as CEO if the company did not undertake an inversion.

Although the company ultimately made the wise decision not to undertake an inversion, we are concerned about the apparently immense influence wielded behind closed doors by activist investors such as hedge funds, even in the run up to this transformational second step of the transaction. We have written before about our concern that the Walgreen Board persistently denies long-term shareholders an effective voice even as it grants unprecedented access and board seats to short-term shareholders, such as JANA Partners. Mr. Miquelon's complaint contains allegations that only serve to heighten our concern. In addition to the pressure exerted around the question of the inversion, Mr. Miquelon alleges that he was subjected to pressure and threats from activist investors because of his decision to withdraw the EBIT projection, and that Mr. Wasson pressured Mr. Miquelon to raise his estimate of earnings per share. Troublingly, Mr. Miquelon also alleges that Mr. Wasson and Mr. Pessina met with shareholders the night before the company's announcement regarding the inversion and the new FY16 earnings guidance and met with one shareholder without an Investor Relations person present. This raises questions about the company's compliance with Regulation FD and other securities laws.

Answers, disclosures essential to an informed vote on Alliance Boots deal

Before finalizing the S-4 statement, the Board should postpone the deal's approval process, and undertake its own independent investigation into the issues raised above and whether governance procedures currently in place are adequate to ensure that the company is making proper disclosures to shareholders and is in compliance with Regulation FD.

Disclosures should include:

- Any meetings or discussions between senior executive or directors with activist investors in the lead-up to the finalization of the second-step and since, including the process leading to the appointment of Barry Rosenstein to the board;
- The internal memo, prepared by Investors Relations, describing the meetings held as a part of Mr. Pessina and Mr. Wasson's road show in early August 2014;
- The interim Long Range Plan (LRP) update that was shared with the Board in April 2014 and presentations made to the Board in April 2014, concerning third party reimbursement trends and inflation and pricing trends in the generic drug market; and
- Whether an internal investigation has commenced into alleged lax controls in Walgreen's finance department, as well as any other attempt to correct and address problems in financial reporting in the months since the earnings projection errors were discovered.

Given the seriousness of the issues at stake and their time-sensitivity, we look forward to a prompt response to this request.

Sincerely,



Dieter Waizenegger
Executive Director