

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

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FILER

DRUGSTORE COM INC

CIK: **1086467** | IRS No.: **043416255** | State of Incorporation: **DE** | Fiscal Year End: **1231**
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SIC: **5912** Drug stores and proprietary stores

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 8-K

CURRENT REPORT

**PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of Earliest Event Reported): April 8, 2011

DRUGSTORE.COM, INC.

(Exact Name of Registrant as Specified in Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

000-26137
(Commission
File No.)

04-3416255
(IRS Employer
Identification No.)

411 108th Ave. NE, Suite 1400, Bellevue, Washington 98004
(Address of Principal Executive Offices, Including Zip Code)

(425) 372-3200
(Registrant's Telephone Number, Including Area Code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers; Compensatory Arrangements of Certain Officers.

Salary

On April 8, 2011, the compensation committee (the “Committee”) of the board of directors of drugstore.com, inc. (the “Company”) approved the following salaries for 2011 (effective as of April 10, 2011) for our named executive officers:

<u>Executive Officer</u>	<u>2011 Salary</u>
Dawn Lepore, President and CEO	\$550,000
Robert Potter, Vice President, Chief Accounting Officer	\$215,000
Tracy Wright, Vice President, Chief Finance Officer	\$230,000
Yukio Morikubo, Vice President, Strategy and General Counsel	\$290,000

Amendment to Dawn Lepore Offer Letter

On April 8, 2011, the Committee approved an amendment (the “Amendment”) to the Company’s offer letter with Dawn Lepore, its President and CEO (the “Offer Letter”) to provide medical benefits upon a qualifying termination of Ms. Lepore’s employment with the Company. Pursuant to the terms of the Amendment, in the event the Company terminates Ms. Lepore’s employment without “cause” or if Ms. Lepore terminates her employment for “good reason,” in each case as defined in her Offer Letter, and conditioned on Ms. Lepore executing a release of claims against the Company, Ms. Lepore will receive Company-paid health continuation coverage premiums for a period of 18 months under COBRA, as well as an additional payment to cover any taxes to her on the cost of such coverage (the “Continuation Benefits”). Such Continuation Benefits are in addition to the benefits Ms. Lepore was entitled to receive upon a qualifying termination pursuant to the terms of her Offer Letter, as previously described and disclosed.

A copy of the Amendment is attached to this Form 8-K as Exhibit 10.1 and is incorporated by reference herein. The above summary is qualified in its entirety by the full text of the Amendment.

Retention Bonus Program

On April 8, 2011, the Committee approved a retention bonus program that includes up to \$325,000 to be awarded to Company employees in the form of retention bonuses in recognition of the recipient’s contributions to the preparation, negotiation and finalization of the Agreement and Plan of Merger entered into between the Company and Walgreen Co. (the “Merger Agreement”) and the closing of the transactions contemplated in the Merger Agreement (the “Merger”). Messrs. Potter and Morikubo and Ms. Wright have been selected as participants in the retention bonus program. Subject to the completion of the Merger and subject to their continued employment with the Company through the

completion of the Merger, Messrs. Potter and Morikubo and Ms. Wright will receive retention bonuses in an amount to be determined by the Company's chief executive officer in consultation with the chairperson of the Committee and subject to the Committee's final approval (but such amounts will not exceed the indicated per person maximum):

Executive Officer	Maximum Retention Bonus
Robert Potter, Vice President, Chief Accounting Officer	\$25,000
Tracy Wright, Vice President, Chief Finance Officer	\$30,000
Yukio Morikubo, Vice President, Strategy and General Counsel	\$125,000

Item 8.01 Other Events.

drugstore.com plans to provide an employee Q&A, a notice regarding employee equity holdings, a notice to holders of stock options and stock appreciation rights, a notice to holders of restricted stock and a notice to holders of restricted stock units, in each case, regarding the proposed merger. A copy of each document is furnished herewith as Exhibits 99.1, 99.2, 99.3, 99.4 and 99.5 respectively, and incorporated herein by reference in their entirety.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

- 10.1 Amendment to Dawn Lepore Offer Letter, dated as of April 8, 2011, by and between drugstore.com, inc. and Dawn Lepore.
- 99.1 Form of Employee Q&A
- 99.2 Form of Notice regarding Employee Equity Holdings
- 99.3 Form of Notice to Holders of Stock Options and Stock Appreciation Rights
- 99.4 Form of Notice to Holders of Restricted Stock
- 99.5 Form of Notice to Holders of Restricted Stock Units

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DRUGSTORE.COM, INC.

By: /s/ Yukio Morikubo
 Yukio Morikubo
 Vice President, Strategy and General Counsel

Date: April 13, 2011

EXHIBIT INDEX

Exhibit	
<u>No.</u>	Description
10.1	Amendment to Dawn Lepore Offer Letter, dated as of April 8, 2011, by and between drugstore.com, inc. and Dawn Lepore.
99.1	Form of Employee Q&A
99.2	Form of Notice regarding Employee Equity Holdings
99.3	Form of Notice to Holders of Stock Options and Stock Appreciation Rights
99.4	Form of Notice to Holders of Restricted Stock
99.5	Form of Notice to Holders of Restricted Stock Units

DRUGSTORE.COM, INC.

AMENDMENT TO DAWN LEPORE OFFER LETTER

This amendment (the "*Amendment*") is made by and between Dawn Lepore ("*Executive*") and drugstore.com inc., a Delaware corporation (the "*Company*") and together with the Executive hereinafter collectively referred to as the "*Parties*") on April 8, 2011.

WITNESSETH:

WHEREAS, the Parties previously entered into an offer letter, dated December 31, 2008, as amended and restated as of January 26, 2009 and as further amended on December 31, 2010 (the "*Offer Letter*"); and

WHEREAS, the Company and Executive wish to amend the Offer Letter in order to provide certain benefits upon a qualifying termination of employment.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, Executive and the Company agree that the Offer Letter is hereby amended as follows:

1. **COBRA Benefits**. The following language is added to the Offer Letter:

"If your employment is terminated by the Company without Cause or you resign your employment for Good Reason, the Company will pay the premiums necessary to continue your group health insurance benefits under Title X of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**") for you and your eligible dependents until the earlier of (A) eighteen (18) months from the date of your termination of employment, (B) the date upon which you and/or your eligible dependents become covered under similar plans or (C) the date upon which you cease to be eligible for coverage under COBRA (such payments, the "**COBRA Premiums**"). The payment of such COBRA Premiums will be treated as taxable income to you; provided, however, you will also receive additional monthly payments from the Company sufficient to pay any federal, state or local income, employment or other taxes arising from each monthly payment of the COBRA Premiums and any federal, state or local income, employment or other taxes arising pursuant to this sentence, calculated based on the highest applicable marginal federal and state income (if any) and other applicable tax rates in effect at the time of payment of the applicable COBRA Premiums (such additional payments, the "**Tax Payments**").

For the avoidance of doubt, the Tax Payments will constitute Deferred Compensation Separation Benefits and will be subject to the treatment (including any delay of payment) of Deferred Compensation Separation Benefits detailed in this offer letter. Further, in order to comply with the rules of Section 409A, in no event will any Tax Payments be made to you (i) later than the end of your taxable year next following your taxable year in which the taxes relating to the COBRA Premiums are remitted by or on your behalf, or (ii) if the taxes arise in connection with a tax audit or litigation, later than the end of your taxable year next following your taxable year in which the taxes that are the subject of the audit or litigation are remitted, in each case, in accordance with Section 1.409A-3(i)(1)(v) of the Treasury Regulations."

2. Defined Terms. All capitalized terms used herein which are not defined herein shall have the meanings given such terms in the Offer Letter.
3. Full Force and Effect. To the extent not expressly amended hereby, the Offer Letter shall remain in full force and effect.
4. Entire Agreement. This Amendment and the Offer Letter constitute the full and entire understanding and agreement between the Parties with regard to the subjects hereof and thereof. This Amendment may be amended at any time only by mutual written agreement of the Parties.
5. Counterparts. This Amendment may be executed in counterparts, all of which together shall constitute one instrument, and each of which may be executed by less than all of the parties to this Amendment.
6. Governing Law. This Amendment will be governed by the laws of the State of Washington (with the exception of its conflict of laws provisions).

IN WITNESS WHEREOF, each of the Parties has executed this Amendment, in the case of the Company by its duly authorized officer, as of the date set forth above.

COMPANY

DRUGSTORE.COM, INC.

/s/ Yukio Morikubo

By: Yukio Morikubo

Title: General Counsel, V.P. Strategy

EXECUTIVE

DAWN LEPORE

/s/ Dawn G. Lepore

Top Employee Questions

1. **Why is Walgreens acquiring us?** They see and value the many assets we have - we are a leading online retailer of health, beauty, clinical skincare, and vision products in the U.S. Additionally, we have a strong position in the online beauty business, terrific brand relationships, a very broad, deep and unique assortment, strong technology, and talent they can count on to help grow the business. We are a strategic fit to help them build out their multi-channel network.
2. **Why are we selling to a company in this space?** Walgreens is the largest and most trusted drugstore in the U.S. We have always respected Walgreens as a very capable retailer and we believe we will only be stronger together.
3. **Will our name & sites still exist? What will happen to our websites?** The transaction is happening because Walgreens likes what we have built, and they have no intention of tampering with what is working. Walgreens and DSCM websites will maintain their separate branding. Over the long term, Walgreens intends to enhance its multi-channel product assortment and the overall customer experience by leveraging drugstore.com's websites.
4. **Will we continue to operate our drugstore.com offices?** Yes. The acquisition won't change that.
5. **Will we be closing any parts of our business?** Walgreens has no current intentions of closing parts of our business. Our businesses are growing and our prospects are even greater being aligned with Walgreens.
6. **When will our IT systems be consolidated?** Clifford Cancelosi will be involved in all integration planning, and we will look for the best way to provide the best service to both us and Walgreens.
7. **What will be Dawn's role in Walgreens?** After closing, we will no longer be a stand-alone public company so we won't need a public company CEO. Dawn will stay on as long as necessary to help with the transition.
8. **What about the rest of the executive team? Will our organizational structure change?** Talent was a large driver of this acquisition. Walgreens is very focused on retaining our management team.
9. **When will we officially become Walgreens? When do the signs change?** We expect the transaction to close in June of 2011. After the close, we will become part of the Walgreens family of companies. We are not planning to change the signage because nothing is currently expected to change with respect to our brands and website.
10. **Why is Walgreens buying a company that sells some of the same brands? It seems like duplication.** The companies have many complimentary capabilities and products. We want to be everywhere our customer wants to shop, as does Walgreens. This is just consistent with that strategy. This is a tremendous opportunity to leverage each other's relationships in the industry and for customers to see our wide range of offers in the marketplace, from mass to prestige to clinical skincare and spa.

11. **Will our mission/business goals change?** Walgreens positioning and strategies are remarkably similar to our own. DSCM's executive team has in place a 2011 plan that remains, and this acquisition will just supplement that plan.
12. **What is the Walgreens culture like?** Both companies are extremely customer-focused. We want to preserve what has made each of our organizations successful. Once we close the transaction, we will begin a process of better understanding our respective cultures and using our mutual strengths to create a leading e-commerce business to become an employer of choice in the e-commerce industry. Walgreens' e-commerce division is very fast-paced and focused on innovation. They value creativity and new opportunities. Walgreens brings the stability of a company that is a leader in its industry and the experience of having been in business for more than 100 years. But they've also reinvented themselves several times over during that period to remain relevant to today's consumer.
13. **Who is on the Walgreens e-commerce leadership team and how would you describe them?** They, too, have a very experienced leadership team, headed up by Sona Chawla, President, E-Commerce. The combined business will report to her. Walgreens e-commerce business is achieving significant growth and they are making substantial investments to create a leading multi-channel network, including industry leading mobile capabilities.
14. **Will my compensation change?** Walgreens overriding commitment is to maintain a substantially similar offering to that DSCM employees currently receive in compensation and benefits after close.
15. **What happens to my stock/equity awards/options?** You will receive a separate communication describing the treatment of your equity awards.
16. **Will my job requirements change?** We will continue to operate as independent businesses until closing. During the next couple of months, the integration team composed of both Walgreens and DSCM employees will determine how best to leverage our resources, but we don't currently expect a material change in our employee's job duties.
17. **Who will I report to?** You will continue to report to your current manager, unless you are informed otherwise as we integrate resources.
18. **Does Walgreens have a union and will we have to join?** A relatively small number of employees within the Walgreens family of companies are covered by union contracts. The overwhelming majority of Walgreens team members are not represented by a union. Unless the majority of a bargaining unit of DSCM employees voted to be represented by a union, there would not be a union at DSCM.
19. **Will I be able to transfer to another facility and/or Walgreen's store?** We're hoping to achieve a smooth transition and minimize disruptions in service levels to our customers, so there are no initial plans to move team members to other positions. Individuals may choose to apply on their own to other positions within the Walgreens family of companies. Open positions are posted on the company websites.

20. **Will our benefits change? Will my vacation and or sick time accruals change – specifically will they be less?** Walgreens overriding commitment is to maintain a substantially similar offering to that DSCM employees currently receive from our compensation and benefits.
21. **Should I schedule my vacation now in the event that my vacation could go away?** As stated, we expect our benefits, including vacation benefits, to be substantially the same.
22. **Will we be losing our jobs?** While there may be some restructuring, the operations of Walgreens and DSCM are complementary and they/we do not currently expect significant job reductions as a result of this transaction.
23. **Will Walgreens management take over the operation?** We will report to Sona Chawla, head of Walgreens e-commerce after the transaction closes. Nevertheless, talent was a large driver of this acquisition and, as mentioned, Walgreens is very focused on retaining our management team.
24. **Will Walgreens employees take over our jobs?** Walgreens recognizes that each of our companies has been successful due to its employees. Therefore, it is a high priority for Walgreens to grow talent from both organizations to achieve our integration objectives and longer-term goals. While there may be some restructuring, the operations of Walgreens and DSCM are complementary and they/we do not currently expect significant job reductions as a result of this transaction.
25. **Will we get a Walgreens discount in their stores?** Initially, we're not expecting any changes to DSCM benefits or pay, so there would be no way to administer employee discounts for DSCM team members. The integration planning team will be looking into the current compensation and benefits of all e-commerce team members to determine if any changes are warranted. In that case, employee discounts at Walgreens retail stores may be available in the future.
26. **Will Walgreens take over our prescription business?** BioScrip will continue to be our mail order pharmacy partner and fulfill prescriptions from their Columbus, Ohio facility. As always, customers have a choice for their pharmacy needs and may transfer prescriptions to any pharmacy including their local Walgreens.
27. **Will tuition reimbursement be available?** Tuition reimbursement is currently not available at either DSCM or Walgreens, so for the near future, it would not be available. The integration planning team will be looking into the current compensation and benefits of all e-commerce team members to determine if any changes are warranted for the future.
28. **Will our name & sites still exist?** After the close, we will become part of the Walgreens family of companies. We are not planning to change the signage because nothing is currently expected to change with respect to our brands and website. Walgreens and DSCM websites will maintain their separate branding, while over the long term Walgreens looks to enhance its overall customer experience by leveraging drugstore.com's websites.
29. **Will we get a new building and/or will we acquire additional space to do what we do today?** At this time, we do not expect our current facilities to change as a result of this merger.
30. **What will happen to our strategic partnerships?** Although no decisions will be made until after the transaction has closed, Walgreens expects to continue key partnership arrangements (Medco, Luxottica, GNC, and others).
31. **Will our hours change? Does our fiscal calendar change, and will our work schedules for the end of the quarter adjust as a result?** There are no changes planned for hours or work schedules in the near future. Walgreens is on a fiscal year beginning September 1st, so DSCM will most likely move to that fiscal year.

32. **What's in it for me the employee?** The transaction offers DSCM employees the potential of additional career opportunities with a larger organization and more resources.
33. **Will Walgreens management visit our facility?** An integration planning team, composed of both Walgreens and DSCM team members, will be working to achieve a smooth transition and minimize disruptions. It is likely that members of the integration team will be visiting all the locations.
34. **What happens to drugstore over the next 30 to 90 days?** While a purchase agreement has been signed, it is subject to various regulatory approvals and conditions before we can close the transaction. Until the close of the transaction, Walgreens and DSCM will operate business as usual as separate companies.
35. **How will we handle increases in inventory?** Walgreens currently intends to use our separate Walgreens and DSCM brands, but we will share certain resources to make both companies stronger.
36. **What will happen to purchasing? What happens to the order volume with more DC locations & the merger?** Walgreens expects to maintain current Walgreens and DSCM vendor relationships. Walgreens will honor existing DSCM contracts. Walgreens fully understands the rationale behind separating prestige and specialty brands from drugstore brands and is committed to maintaining the integrity and value of our vendors' brands.
37. **Will I be able to sell any shares or options privately held or within the employee stock purchase plan?** The trading window is closed, so no one should be selling or purchasing DSCM stock.

Additional Information about the Transaction

The information in this communication is not, and is not intended to be, a solicitation of proxies or an offer of securities. drugstore plans to file with the SEC and mail to its stockholders a Proxy Statement in connection with the transaction. **The Proxy Statement will contain important information about Walgreens, drugstore, the transaction and related matters. Investors and security holders are urged to read the Proxy Statement carefully when it is available.** Investors and security holders will be able to obtain free copies of the Proxy Statement and other documents filed with the SEC by drugstore through the web site maintained by the SEC at www.sec.gov and by contacting drugstore Investor Relations at (212) 331-8424. In addition, investors and security holders will be able to obtain free copies of the documents filed with the SEC on drugstore's website at www.drugstore.com.

Participants in the Acquisition of drugstore

drugstore.com and its directors and officers and certain other members of management and employees may be deemed to be participants in the solicitation of proxies from its stockholders in connection with the Transaction. Information regarding these persons who may, under the rules of the SEC, be considered participants in the solicitation of drugstore's stockholders in connection with the proposed transaction will be set forth in the Proxy Statement described above when it is filed with the SEC. Additional information regarding drugstore's executive officers and directors is included in drugstore's definitive proxy statement, which was filed with the SEC on April 30, 2010. You can obtain free copies of this document from drugstore using the contact information above.

Forward-Looking Statements

Information set forth in this communication contains forward-looking statements, which involve a number of risks and uncertainties. These statements include those regarding the closing of the transaction and the timing thereof, and the integration process and the potential benefits and effects of the acquisition. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that could cause

actual results to vary materially from those indicated, including: the ability to obtain regulatory approvals of the transaction on the proposed terms and schedule; the failure of drugstore' s stockholders to approve the transaction; the risk that the businesses will not be integrated successfully; the risk that the cost savings and any other synergies from the transaction may not be fully realized or may take longer to realize than expected; disruption from the transaction making it more difficult to maintain relationships with customers, employees or suppliers; competition and its effect on pricing, spending, third-party relationships and revenues; and other factors described in Walgreens Annual Report on Form 10-K for the year ended August 31, 2010, drugstore.com' s Annual Report on Form 10-K for the year ended January 2, 2011 and their respective subsequent SEC filings, which risks and uncertainties are incorporated herein by reference. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this communication. Except to the extent required by law, Walgreens and drugstore.com disclaim any obligation to update any forward-looking statements after the distribution of this communication, whether as a result of new information, future events, changes in assumptions, or otherwise.

Effect of the Merger on drugstore.com Employee Equity Holdings

drugstore.com, or DSCM, has historically granted to its employees four types of equity awards: (1) stock options; (2) stock appreciation rights, or SARs; (3) restricted stock awards, or RSAs; and (4) restricted stock units, or RSUs. The following describes what each of these is and how each will be treated if the merger with Walgreens, or WAG, closes as anticipated in the merger agreement signed by drugstore.com and Walgreens on March 23, 2011, under which Walgreens has agreed to pay merger consideration of \$3.80 per share. You may read more about the drugstore.com equity plans and the equity awards made under those plans in the *1998 Stock Plan Summary and Prospectus* and the *2008 Equity Incentive Plan Prospectus*, both of which are available on heartbeat. Your equity account is administered on a day-to-day basis by eTrade. Please see the heartbeat handout for account access and contact information.

1. Stock Options

A stock option is a right to buy a certain number of shares of company stock at a predetermined price, called the “exercise price.” drugstore.com stock options usually vest over time, generally over a four-year period. When the employee exercises the option, the company then sells the employee the stock at the exercise price. At that point, the employee may either sell the purchased stock (when done simultaneously with the exercise, in a “cashless” exercise), or hold on to it in the hope of further price appreciation (in which case the employee would pay the exercise price for the stock through a method other than a “cashless exercise”).

What will happen in connection with the acquisition?

Outstanding vested options with an exercise price less than \$3.80 (often called “in-the-money” options) will be cancelled and cashed out. This means that when the merger closes, Walgreens will pay the employee the difference between \$3.80 and the exercise price for each share subject to the option in cash.

Example: Employee has an outstanding vested option to purchase 100 shares; exercise price = \$2.00
 Cash value per share = $\$3.80 - \$2.00 = \$1.80$
 Employee receives $\$1.80 \times 100 = \180 cash, less any applicable tax withholdings

Outstanding vested options with an exercise price equal to or greater than \$3.80 (often called “under water” or “out-of-the-money” options) will be converted into Walgreens options with similar terms and a comparable value, as shown in the below example. In establishing the comparable value, the number of shares subject to the Walgreens options will be rounded down to the nearest full share unless tax rules require otherwise; for purposes of the example only, we show downward rounding. The exercise price of the Walgreens options will be rounded up to the nearest cent.

Example: Assume for purposes of the example that Walgreens has a 10-trading day average closing price of \$40.00 per share

Employee has an outstanding vested option to purchase 100 shares; exercise price = \$5.00

Employee receives new vested Walgreens stock option:

No. of WAG shares:

$$= \begin{array}{r} \text{No. of} \\ \text{DSCM Shares} \end{array} \times \left(\begin{array}{r} \$3.80 \\ \text{10-trading day average WAG closing price} \\ \text{(assume \$40.00)} \end{array} \right)$$

$$= \begin{array}{r} 100 \text{ shares} \\ \\ \\ \end{array} \times \begin{array}{r} \\ \\ \\ 0.095 \end{array}$$

WAG Exercise Price:

$$= \begin{array}{r} \text{DSCM Exercise} \\ \text{Price} \end{array} \div \left(\begin{array}{r} \$3.80 \\ \text{10-trading day average WAG closing price} \\ \text{(assume \$40.00)} \end{array} \right)$$

$$= \begin{array}{r} \$5.00 \\ \\ \\ \end{array} \div \begin{array}{r} \\ \\ \\ 0.095 \end{array}$$

Employee receives new vested WAG option to purchase 9 shares; exercise price \$52.64.

Outstanding unvested options will be converted into Walgreens options with similar terms (including the remaining vesting schedule) and a comparable value, determined as set forth above, using the same calculation assumptions except exercise price.

Example: Assume for purposes of the example that Walgreens has a 10-trading day average closing price of \$40.00 per share

Employee has 100 options exercise price = \$2.00

Employee receives new unvested WAG stock option:

No. of WAG shares:

$$= \begin{array}{r} 100 \text{ shares} \\ \\ \\ \end{array} \times \begin{array}{r} \\ \\ \\ 0.095 \end{array}$$

WAG Exercise Price:

$$= \begin{array}{r} \$2.00 \\ \\ \\ \end{array} \div \begin{array}{r} \\ \\ \\ 0.095 \end{array}$$

Employee receives new unvested WAG option to purchase 9 shares; exercise price \$21.06.

2. Stock Appreciation Rights (SARs):

A SAR is a right to any increase in the price (or “appreciation”) of company stock over a specific period. Similar to stock options, SARs are granted at a set exercise price and generally vest over time. Once a SAR vests, the employee can exercise it at any time prior to expiration. If exercised, the employee receives the amount of the increase in the stock price over the original exercise price. To date, all outstanding drugstore.com SARs are stock-settled, so prior to the merger, if an employee exercised his SAR, he would receive shares of company stock with a value (on the exercise date) equal to the amount of appreciation. Unlike a stock option, an employee does not pay an out of pocket exercise price and does not have a right to the underlying shares, only the shares representing the appreciation amount.

Example: Vested SAR for 100 shares; exercise price of \$2.80; current stock price is \$3.80. Employee would receive:

$$100 \times (\$3.80 - \$2.80) = \$100 \text{ of stock} = \frac{\$100}{\$3.80} = 26.32$$

Employee would receive 26 shares of drugstore.com stock, which could then be held or sold during an open trading window.

What will happen in connection with the acquisition?

Outstanding vested SARs with an exercise price less than \$3.80 will be cancelled and cashed out. This means that when the merger closes, Walgreens will pay the difference between \$3.80 and the exercise price in cash.

Example: Employee has SAR for 100 shares; exercise price = \$2.00
Cash value per share = \$3.80 - \$2.00 = \$1.80
Employee receives \$1.80 × 100 = \$180 cash, less any applicable tax withholdings

Outstanding vested SARs with an exercise price equal to or greater than \$3.80 (often called “under water” or “out-of-the-money” SARs) will be converted into vested Walgreens SARs with similar terms and a comparable value, determined as set forth above under Stock Options, including with respect to rounding of the number of shares and exercise price (as above, for purposes of the example, the number of shares is shown as rounded down, but the actual adjustment to your number of shares may be rounded up if required to comply with tax rules).

Example: Assume for purposes of the example that Walgreens has a 10-trading day average closing price of \$40.00 per share

Employee has an outstanding vested SAR for 100 shares; exercise price = \$5.00

Employee receives new vested WAG stock-settled SAR:

$$\begin{array}{rcl} \text{No. of WAG shares:} & & \\ & 100 \text{ shares} & \times \left(\frac{\$3.80}{\text{10-trading day average WAG closing price}} \right) \\ & & \text{(assume \$40.00)} \\ = & & 9 \text{ shares} \end{array}$$

$$\begin{array}{rcl} \text{WAG Exercise Price:} & & \\ & \$5.00 & \div \left(\frac{\$3.80}{\text{10-trading day average WAG closing price}} \right) \\ & & \text{(assume \$40.00)} \\ = & & \$52.64 \end{array}$$

Employee receives new vested WAG stock-settled SAR for 9 shares; exercise price \$52.64.

Outstanding unvested SARs will be converted into unvested Walgreens SARs with similar terms (including the remaining vesting schedule) and a comparable value, determined as set forth above under Stock Options.

Example: Assume for purposes of the example that Walgreens has a 10-trading day average closing price of \$40.00 per share

Employee has an unvested SAR for 100 shares; exercise price = \$2.00

Employee receives new unvested WAG stock-settled SAR:

$$\begin{array}{rcl} \text{No. of WAG shares:} & & \\ & 100 \text{ shares} & \times & 0.095 \\ = & & & 9 \text{ shares} \end{array}$$

$$\begin{array}{rcl} \text{WAG Exercise Price:} & & \\ & \$2.00 & \div & 0.095 \\ = & & & \$21.06 \end{array}$$

Employee receives new unvested WAG stock-settled SAR for 9 shares; exercise price \$21.06.

3. Restricted Stock Awards (RSAs):

A RSA is a grant of company stock in which the employee's rights in the stock are restricted until the shares vest and the company has a repurchase right to the unvested shares. The company issues the shares when it grants the RSA, and the employee immediately has the right to vote the shares. Once the vesting requirements are met, an employee owns the shares outright and may treat them as she would any other share of stock in her account.

What will happen in connection with the acquisition?

Vested RSAs will be cashed out; Unvested RSAs will be accelerated and cashed out for \$3.80 per share.

Example: Employee has 100 vested RSAs and 200 unvested RSAs
Employee receives $300 \times \$3.80 = \$1,140$ cash, less any applicable tax withholdings

4. Restricted Stock Units (RSUs):

A RSU is a grant valued in terms of company stock, but company stock is not issued at the time of the grant and the employee does not have voting rights until the shares are issued. When RSUs vest, the employee receives the shares of company stock without restriction.

What will happen in connection with the acquisition?

Vested RSUs will be cancelled and cashed out.

Example: Employee has 100 vested RSUs
Employee receives $100 \times \$3.80 = \380 , less any applicable tax withholdings

Unvested RSUs will be converted to unvested WAG RSUs with similar terms (including the remaining vesting schedule) and a comparable value, determined as follows (decreased to the nearest full share):

Example: Assume for purposes of the example that Walgreens has a 10-trading day average closing price of \$40.00 per share
Employee has 200 unvested RSUs
Employee receives unvested WAG RSUs:

No. of WAG shares:

No. of DSCM shares	×	$\left(\frac{\$3.80}{10\text{-trading day average WAG closing price}} \right)$
		(assume \$40.00)
200 shares	×	0.095
=		19 shares

Employee receives 19 unvested WAG RSUs.

* * * * *

The company will withhold applicable income and employment taxes required by law, but employees are encouraged to consult their own tax advisors about the tax implications of these transactions based on their individual circumstances. Appropriate tax planning and compliance is ultimately the responsibility of each employee.

We will update employees as the closing date for the anticipated merger approaches. In the meantime, if you have any additional questions, please send them to *[INSERT CONTACT INFO]*.

Additional Information about the Transaction

The information in this communication is not, and is not intended to be, a solicitation of proxies or an offer of securities. drugstore plans to file with the SEC and mail to its stockholders a Proxy Statement in connection with the transaction. **The Proxy Statement will contain important information about Walgreens, drugstore, the transaction and related matters. Investors and security holders are urged to read the Proxy Statement carefully when it is available.** Investors and security holders will be able to obtain free copies of the Proxy Statement and other documents filed with the SEC by drugstore through the web site maintained by the SEC at www.sec.gov and by contacting drugstore Investor Relations at (212) 331-8424. In addition, investors and security holders will be able to obtain free copies of the documents filed with the SEC on drugstore's website at www.drugstore.com.

Participants in the Acquisition of drugstore

drugstore.com and its directors and officers and certain other other members of management and employees may be deemed to be participants in the solicitation of proxies from its stockholders in connection with the Transaction. Information regarding these persons who may, under the rules of the SEC, be considered participants in the solicitation of drugstore's stockholders in connection with the proposed transaction will be set forth in the Proxy Statement described above when it is filed with the SEC. Additional information regarding drugstore's executive officers and directors is included in drugstore's definitive proxy statement, which was filed with the SEC on April 30, 2010. You can obtain free copies of this document from drugstore using the contact information above.

Forward-Looking Statements

Information set forth in this communication contains forward-looking statements, which involve a number of risks and uncertainties. These statements include those regarding the closing of the transaction and the effects thereof. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that could cause actual results to vary materially from those indicated, including: the ability to obtain regulatory approvals of the transaction on the proposed terms and schedule; the failure of drugstore's stockholders to approve the transaction; and other factors described in Walgreens Annual Report on Form 10-K for the year ended August 31, 2010, drugstore.com's Annual Report on Form 10-K for the year ended January 2, 2011 and their respective subsequent SEC filings, which risks and uncertainties are incorporated herein by reference. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this communication. Except to the extent required by law, Walgreens and drugstore.com disclaim any obligation to update any forward-looking statements after the distribution of this press release, whether as a result of new information, future events, changes in assumptions, or otherwise.

DRUGSTORE.COM, INC.

Notice to Holders of Stock Options and/or Stock Appreciation Rights (the “*Notice*”)

April [__], 2011

Dear Option Holder and/or Stock Appreciation Right Holder:

You are receiving this Notice because you hold outstanding stock options (“*Options*”) and/or stock appreciation rights (“*SARs*”) with respect to shares of drugstore.com, inc. (the “*Company*”) common stock (each, an “*Award*” and collectively, the “*Awards*”) that were granted under the Company’s 1998 Stock Plan, as amended, or the 2008 Equity Incentive Plan, as amended (each, a “*Plan*” and collectively, the “*Plans*”).

On March 23, 2011, the Company entered into an Agreement and Plan of Merger (the “*Merger Agreement*”) with Walgreen Co. (“*Parent*”) and certain other parties with the transactions contemplated by the Merger Agreement referred to herein as the “*Merger.*”

Please note that until the Effective Time (as that term is defined in the Merger Agreement), each of your Awards remain subject to the same terms and conditions, including vesting and exercisability, as set forth in the Plan under which the Award was issued and your individual Award agreement. Therefore, you may exercise your vested Awards to the extent you deem desirable prior to the Effective Time, if such an exercise satisfies all the normal terms and conditions of such vested Awards. You may also sell any acquired shares after satisfying all the normal terms and conditions required for selling shares on the open market, including the Company’s insider trading policies. The exercise of the Awards and any sale of the shares on the open market will trigger tax reporting and withholding obligations, as would be the case with respect to any such exercise or sale, so please be sure to review the applicable Plan’s prospectus for more information on the tax impacts, or consult your personal tax advisor, prior to any such exercise or sale.

This Notice shall serve as notice of the Merger and the treatment of your Awards in connection with the Merger. Please read this Notice carefully and note that the treatment of any Award will depend upon whether your Award:

is vested immediately prior to the Effective Time or vests as a result of the Merger (for instance, as a result of terms previously included in an Award agreement [for Non-Employee Directors only: or pursuant to the terms of the Merger Agreement which provides that all Options held by non-employee members of the Board of Directors will vest and become exercisable in full immediately prior to the Effective Time]) and has a per-share exercise price less than the Merger Consideration (which is \$3.80 per share) (a “*Cash-Out Eligible Award*”); or

is an Award that is not a Cash-Out Eligible Award (any such Award that remains outstanding immediately prior to the Effective Time, a “*Continuing Award*”).

As described in further detail below, each outstanding Cash-Out Eligible Award will be cancelled at the Effective Time and the Cash-Out Eligible Award will be converted into the right to receive a cash payment equal to: (i) the excess of (x) the Merger Consideration (\$3.80 per share), less (y) the per share exercise price of such Cash-Out Eligible Award, multiplied by (ii) the number of shares of Company common stock subject to the Cash-Out Eligible Award.

All Continuing Awards will be assumed by Parent with adjustments made to the number of shares of Parent common stock subject to the Awards, as well as the per share exercise price of such Awards, to reflect the difference between a share of Parent common stock and a share of Company common stock. This is described in greater detail below under the heading "Treatment of Continuing Awards."

Treatment of Cash-Out Eligible Awards

Pursuant to the Merger Agreement, Parent will not assume Cash-Out Eligible Awards. As a result, all of your Cash-Out Eligible Awards that remain outstanding immediately prior to the Effective Time will be cancelled at the Effective Time.

You have two alternatives with respect to your Cash-Out Eligible Awards. You may elect either to (1) do nothing, and your Cash-Out Eligible Awards will be converted automatically into the right to receive an amount in cash, as described in further detail below, or (2) prior to the Effective Time, exercise any portion of your Cash-Out Eligible Awards. **Please note that to the extent you do not exercise your Cash-Out Eligible Awards and such Cash-Out Eligible Awards otherwise have not been forfeited by your termination of service prior to the Effective Time, they will be cancelled automatically at the Effective Time and converted into the right to receive the cash payment described below.** Additionally, please note that if you terminate your service and your post-termination exercise period specified in your applicable Award agreement expires prior to the Effective Time, your Cash-Out Eligible Awards no longer will be outstanding and you will not be entitled to the cash payment described below or any other rights or benefits.

Alternative One - Cash Payment

Each of your Cash-Out Eligible Awards that remain outstanding and unexercised immediately prior to the Effective Time will be cancelled and converted automatically into the right to receive an amount in cash equal to: (i) the excess of (x) the Merger Consideration (\$3.80 per share), less (y) the per share exercise price of such Cash-Out Eligible Award, multiplied by (ii) the number of shares of Company common stock subject to the Cash-Out Eligible Award (the "**Cash Payment**"). The Cash Payment will be paid to you, less applicable income and employment tax withholdings required by law, after the Effective Time.

If the Merger is not completed, your Cash-Out Eligible Awards will not be cancelled and you will not be entitled to the Cash Payments for them. Instead, your Cash-Out Eligible Awards will continue under the existing terms as set forth in the applicable Plan and the applicable Award agreements

Please be aware that you do not need to exercise your Cash-Out Eligible Awards or otherwise pay the exercise price associated with such Cash-Out Eligible Awards to receive

the Cash Payment. If you do not exercise your Award, as described in Alternative Two, your outstanding Cash-Out Eligible Awards automatically will be cancelled at the Effective Time and you will receive the Cash Payment after the Effective Time for such Awards.

Alternative Two - Award Exercise

As an alternative, prior to the Effective Time, you may exercise any portion of your Awards which are then vested (including any Cash-Out Eligible Awards). If you wish to exercise your vested Awards (including any Cash-Out Eligible Awards), you may do so by following the Company's typical exercise procedures and paying the exercise price set forth in your Award agreement(s), as applicable, and any applicable tax withholdings, in which case you will become the owner of the purchased shares of Company common stock and you will receive the consideration payable in the Merger with respect to such common stock as provided to all other Company stockholders in the Merger Agreement.

If you intend to pay the exercise price and exercise your vested Awards prior to the Effective Time, we need to receive all of the relevant documentation and payment for the shares subject to your exercised Awards in a timely manner in order to complete all the required calculations and administrative tasks necessary to finalize the Merger. **[If you intend to exercise your vested Awards, we ask that you do so as soon as possible, but no later than [DATE], 2011.]**

Please note that if the exercise price of your Awards is greater than the Merger Consideration of \$3.80 per share, you likely will realize no benefit by exercising your Awards prior to the Effective Time.

U.S. Federal Tax Implications of Cash-Out Eligible Awards

You should consult your own tax advisor as to the specific tax implications to you of the Merger with respect to your Cash-Out Eligible Awards, including the applicability and effect of federal, state, local and foreign tax laws. Your federal, state, local and foreign tax consequences depend upon your unique circumstances.

Cash Payment. If you are a U.S. taxpayer and you do not exercise your Cash-Out Eligible Awards prior to the Effective Time, your Cash-Out Eligible Awards will be cancelled at the Effective Time and will be converted automatically into the right to receive the Cash Payment after the Effective Time. Regardless of whether your Cash-Out Eligible Awards are Options or SARs, you will recognize ordinary income in an amount equal to your Cash Payment at the time the payment is made. Such income will constitute wages and therefore will be subject to reporting and, if you were an employee on the date of your Award grant, to the collection of applicable U.S. federal and state income and employment tax withholdings.

Exercise of Awards. To the extent you exercise Awards (including any Cash-Out Eligible Awards), and regardless of whether your Awards are Options or SARs, you will recognize ordinary income equal to the excess of (i) the fair market value of the shares of Company common stock at the time of exercise over (ii) the aggregate exercise price paid for the shares. Such income will constitute wages subject to reporting and, if you were an employee on the date of your Award grant, to withholding of applicable federal and state income and

employment tax withholdings. Any additional gain or loss generally will be short-term capital gain or loss.

Treatment of Continuing Awards

Pursuant to the Merger Agreement, Parent will assume all Continuing Awards. Each Continuing Award assumed by Parent will continue to be subject to the same terms and conditions, including vesting, set forth in the Plan under which the Award was issued and your individual Award agreement, except that (i) references to the “Company” in the Plans and your individual Award agreements will be references to Parent, (ii) the Continuing Awards will become awards to purchase shares of Parent common stock rather than awards to purchase shares of Company common stock, (iii) Parent’s board of directors (or a committee of Parent’s board of directors) will administer the Continuing Awards as of the Effective Time, and (iv) the number of shares of Parent common stock subject to each Continuing Award and the exercise price of each Continuing Award will be adjusted as described below.

Number of Shares of Parent Common Stock Subject to Continuing Awards. Each Continuing Award will be exercisable, subject to the applicable vesting schedule, for the number of shares of Parent common stock determined by multiplying (A) the number of shares of Company common stock that would be issuable upon exercise of such Continuing Award immediately prior to the Effective Time by (B) the Equity Award Ratio (as described below) and rounding down to the nearest full share or as otherwise required to satisfy certain applicable legal requirements.

New Exercise Price of Continuing Awards. Each Continuing Award will have a new exercise price determined by dividing (A) the per share exercise price of the Continuing Award outstanding immediately prior to the Effective Time by (B) the Equity Award Ratio (as described below) and rounding up to the nearest whole cent.

For purposes of determining the number of shares of Parent common stock subject to, and the new exercise price of, the Continuing Awards, the “Equity Award Ratio” will equal the quotient determined by dividing (A) the Merger Consideration (\$3.80 per share), by (B) the average of the last reported sale price of a share of Parent’s common stock on the New York Stock Exchange during the 10 trading days immediately preceding the Effective Time. Because the Equity Award Ratio will depend upon the closing prices for a share of Parent common stock on the relevant dates, the exact number of shares of Parent common stock that will be subject to your Continuing Awards and the exact per share exercise price of your Continuing Awards cannot be determined at this time.

If the Merger is not completed, the Continuing Awards will not be assumed. Instead, they will continue under their existing terms as set forth in the applicable Plan and applicable Award agreement.

U.S. Federal Tax Implications of Continuing Awards

You should consult your own tax advisor as to the specific tax implications to you of the Merger with respect to your Continuing Awards, including the applicability and effect of

federal, state, local and foreign tax laws. Your federal, state, local and foreign tax consequences depend upon your unique circumstances.

In general, U.S. taxpayers with Continuing Awards (including both Options and SARs) will not recognize ordinary income at the time Parent assumes your Awards. You will recognize ordinary income when you exercise your Continuing Awards (including both Options and SARs) to the extent the value of the shares issued upon exercise of your Continuing Awards exceeds the exercise price you pay. If you pay the exercise price in shares of Parent common stock, or in a combination of shares of Parent common stock and cash, you will have ordinary income upon exercise to the extent that the value (on the date of exercise) of the shares you purchase is greater than the value of the shares you surrender, less the amount of any cash paid upon exercise. Any amount recognized as ordinary income will be subject to reporting and, if you were an employee on the date of your Award grant, to withholding for income and employment taxes.

Please submit any questions you have regarding this Notice by e-mail to me at [EMAIL].

Sincerely,

DRUGSTORE.COM, INC.

[NAME]

[TITLE]

Additional Information about the Transaction

The information in this communication is not, and is not intended to be, a solicitation of proxies or an offer of securities. drugstore plans to file with the SEC and mail to its stockholders a Proxy Statement in connection with the transaction. **The Proxy Statement will contain important information about Walgreens, drugstore, the transaction and related matters. Investors and security holders are urged to read the Proxy Statement carefully when it is available.** Investors and security holders will be able to obtain free copies of the Proxy Statement and other documents filed with the SEC by drugstore through the web site maintained by the SEC at www.sec.gov and by contacting drugstore Investor Relations at (212) 331-8424. In addition, investors and security holders will be able to obtain free copies of the documents filed with the SEC on drugstore' s website at www.drugstore.com.

Participants in the Acquisition of drugstore

drugstore.com and its directors and officers and certain other other members of management and employees may be deemed to be participants in the solicitation of proxies from its stockholders in connection with the Transaction. Information regarding these persons who may, under the rules of the SEC, be considered participants in the solicitation of drugstore' s stockholders in connection with the proposed transaction will be set forth in the Proxy Statement described above when it is filed with the SEC. Additional information regarding drugstore' s executive officers and directors is included in drugstore' s definitive proxy statement, which was

Forward-Looking Statements

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DRUGSTORE.COM, INC.

Notice to Holders of Restricted Stock (the "Notice")

April [__], 2011

Dear Restricted Stock Holder:

You are receiving this Notice because you hold restricted stock ("**Restricted Stock**") granted under the drugstore.com, inc. (the "**Company**") 2008 Equity Incentive Plan, as amended (the "**Plan**").

On March 23, 2011, the Company entered into an Agreement and Plan of Merger (the "**Merger Agreement**") with Walgreen Co. ("**Parent**") and certain other parties with the transactions contemplated by the Merger Agreement referred to herein as the "**Merger**".

Please note that until the Effective Time (as that term is defined in the Merger Agreement) your Restricted Stock remains subject to the same terms and conditions, including vesting, as set forth in the Plan and your individual Restricted Stock agreement. Therefore, you will continue to vest in your Restricted Stock, subject to all of the normal terms and conditions of such Restricted Stock. You may also sell any such vested shares of Restricted Stock after satisfying all the normal terms and conditions required for selling shares on the open market, including the Company's insider trading policies. The vesting of the Restricted Stock and the sale of the shares on the open market will trigger tax reporting and withholding obligations, as would be the case with respect to any such vesting event or sale, so please be sure to review the Plan's prospectus for more information on the tax impacts, or consult your personal tax advisor, prior to any vesting event or sale.

This Notice shall serve as notice of the Merger and the treatment of your Restricted Stock in connection with the Merger. Please read this Notice carefully.

In connection with the Merger, Parent will not assume Restricted Stock. Instead, at the Effective Time, each then-outstanding share of Restricted Stock, whether or not then vested, will automatically be cancelled and converted into the right to receive a cash payment (the "**Cash Payment**") equal to the product of:

- (i) \$3.80 and
- (ii) the number of shares of Restricted Stock.

The Cash Payment will be paid to you promptly after the Effective Time, less any applicable withholding taxes.

If the Merger is not completed, your Restricted Stock will not be cancelled and you will not be entitled to the Cash Payment. Instead, your Restricted Stock will continue under the existing

terms as set forth in the Plan and your Restricted Stock agreement.

U.S. Federal Tax Implications

You should consult your own tax advisor as to the specific tax implications to you of the Merger with respect to your Restricted Stock, including the applicability and effect of federal, state, local and foreign tax laws. Your federal, state, local and foreign tax consequences depend upon your unique circumstances.

If you are a U.S. taxpayer who receives a Cash Payment from cancelled Restricted Stock, you will recognize ordinary income in an amount equal to your Cash Payment at the time the payment is made, assuming you have not previously recognized ordinary income on such Shares of Restricted Stock. Such income generally will constitute wages and therefore will be subject to reporting and, if you were an employee on the date of your restricted stock grant, to the collection of applicable U.S. federal and state income and employment tax withholdings.

If you have previously recognized ordinary income on your Restricted Stock (that is, because an election had been timely filed under Section 83(b) of the U.S. Internal Revenue Code), then any gain or loss as a result of the cancellation of the stock and the Cash Payment will be treated as capital gain or loss.

Please submit any questions you have regarding this Notice by e-mail to me at [EMAIL].

Sincerely,

DRUGSTORE.COM, INC.

[NAME]

[TITLE]

Additional Information about the Transaction

The information in this communication is not, and is not intended to be, a solicitation of proxies or an offer of securities. drugstore plans to file with the SEC and mail to its stockholders a Proxy Statement in connection with the transaction. **The Proxy Statement will contain important information about Walgreens, drugstore, the transaction and related matters. Investors and security holders are urged to read the Proxy Statement carefully when it is available.** Investors and security holders will be able to obtain free copies of the Proxy Statement and other documents filed with the SEC by drugstore through the web site maintained by the SEC at www.sec.gov and by contacting drugstore Investor Relations at (212) 331-8424. In addition, investors and security holders will be able to obtain free copies of the documents filed with the SEC on drugstore' s website at www.drugstore.com.

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drugstore.com and its directors and officers and certain other other members of

management and employees may be deemed to be participants in the solicitation of proxies from its stockholders in connection with the Transaction. Information regarding these persons who may, under the rules of the SEC, be considered participants in the solicitation of drugstore' s stockholders in connection with the proposed transaction will be set forth in the Proxy Statement described above when it is filed with the SEC. Additional information regarding drugstore' s executive officers and directors is included in drugstore' s definitive proxy statement, which was filed with the SEC on April 30, 2010. You can obtain free copies of this document from drugstore using the contact information above.

Forward-Looking Statements

Information set forth in this communication contains forward-looking statements, which involve a number of risks and uncertainties. These statements include those regarding the closing of the transaction. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that could cause actual results to vary materially from those indicated, including: the ability to obtain regulatory approvals of the transaction on the proposed terms and schedule; the failure of drugstore' s stockholders to approve the transaction; and other factors described in Walgreens Annual Report on Form 10-K for the year ended August 31, 2010, drugstore.com' s Annual Report on Form 10-K for the year ended January 2, 2011 and their respective subsequent SEC filings, which risks and uncertainties are incorporated herein by reference. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this communication. Except to the extent required by law, Walgreens and drugstore.com disclaim any obligation to update any forward-looking statements after the distribution of this press release, whether as a result of new information, future events, changes in assumptions, or otherwise.

DRUGSTORE.COM, INC.

Notice to Holders of Restricted Stock Units (the “*Notice*”)

April [___], 2011

Dear Restricted Stock Unit Holder:

You are receiving this Notice because you hold restricted stock units (“*RSUs*”) granted under the drugstore.com, inc. (the “*Company*”) 2008 Equity Incentive Plan, as amended (the “*Plan*”).

On March 23, 2011, the Company entered into an Agreement and Plan of Merger (the “*Merger Agreement*”) with Walgreen Co. (“*Parent*”) and certain other parties with the transactions contemplated by the Merger Agreement referred to herein as the “*Merger*”.

Please note that until the Effective Time (as that term is defined in the Merger Agreement), each of your RSUs remain subject to the same terms and conditions, including vesting, as set forth in the Plan and your individual RSU agreement. Therefore, you will receive any shares of Company common stock covered by your RSUs when the RSUs vest (except as described below), subject to all of the normal terms and conditions of such RSUs. You may also sell any such shares after satisfying all the normal terms and conditions required for selling shares on the open market, including the Company’s insider trading policies. The issuance of shares subject to the RSUs and the sale of the shares on the open market will trigger tax reporting and withholding obligations, as would be the case with respect to any such vesting event or sale, so please be sure to review the Plan’s prospectus for more information on the tax impacts, or consult your personal tax advisor, prior to any vesting event or sale.

This Notice shall serve as notice of the Merger and the treatment of your RSUs in connection with the Merger. Please read this Notice carefully.

At the Effective Time, Parent will assume all RSUs that, immediately prior to the Effective Time, are outstanding and unvested (the “*Assumed RSUs*”). Each Assumed RSU will continue to be subject to the same terms and conditions, including vesting, set forth in the Plan and your individual RSU agreement, except that (i) references to the “*Company*” in the Plan and your individual RSU agreements will be references to Parent, (ii) the Assumed RSUs will become RSUs covering shares of Parent common stock rather than RSUs covering shares of Company common stock, (iii) the Parent’s board of directors (or a committee of the Parent’s board of directors) will administer the Assumed RSUs as of the Effective Time, and (iv) the number of shares of Parent common stock subject to each Assumed RSU will be adjusted as described below. Notwithstanding the foregoing, any RSUs that become vested prior to or as a result of the Merger will be settled for an amount in cash equal to \$3.80 multiplied by the number of shares subject to such RSUs, less applicable tax withholdings.

Number of Shares of Parent Common Stock Subject to Assumed RSUs. Each Assumed RSU will cover a number of shares of Parent common stock determined by multiplying (A) the number of shares of Company common stock subject to the Assumed RSUs as of immediately

prior to the Effective Time by (B) the Equity Award Ratio (as described below) and rounding down to the nearest whole number of shares of Parent common stock.

For purposes of determining the number of shares of Parent common stock subject to the Assumed RSUs, the “Equity Award Ratio” will equal the quotient determined by dividing (A) the Merger Consideration (\$3.80 per share), by (B) the average of the last reported sale price of a share of Parent’s common stock on the New York Stock Exchange during the 10 trading days immediately preceding the Effective Time. Because the Equity Award Ratio will depend upon the closing prices for a share of Parent common stock on the relevant dates, the exact number of shares of Parent common stock that will be subject to your Assumed RSUs cannot be determined at this time.

U.S. Federal Tax Implications.

You should consult your own tax advisor as to the specific tax implications to you of the Merger with respect to your Assumed RSUs, including the applicability and effect of federal, state, local and foreign tax laws. Your federal, state, local and foreign tax consequences depend upon your unique circumstances.

In general, U.S. taxpayers with Assumed RSUs will not recognize ordinary income at the time Parent assumes these RSUs. Instead, each individual will recognize ordinary income when Parent delivers shares of Parent common stock in settlement of his or her vested Assumed RSUs. The amount of ordinary income recognized for U.S. tax purposes will equal the fair market value on the payment date of the shares of Parent common stock that the individual receives. Such income generally will constitute wages and therefore will be subject to reporting and, if you were an employee on the date of your RSU grant, to the collection of applicable U.S. federal and state income and employment tax withholdings.

Please submit any questions you have regarding this Notice by e-mail to me at [EMAIL].

Sincerely,

DRUGSTORE.COM, INC.

[NAME]

[TITLE]

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Statement and other documents filed with the SEC by drugstore through the web site maintained by the SEC at www.sec.gov and by contacting drugstore Investor Relations at (212) 331-8424. In addition, investors and security holders will be able to obtain free copies of the documents filed with the SEC on drugstore' s website at www.drugstore.com.

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