

25. STOCK-BASED COMPENSATION (\$ except table)

The Company maintains six types of stock-based compensation plans, which are described below.

Stock Option Plans

GWL maintains a stock option plan for certain employees. Under this plan, GWL may grant options for up to seven million of its common shares; however, GWL has set a guideline which limits the number of stock option grants to a maximum of 5% of outstanding common shares at any time. Stock options have up to a seven-year term, vest 20% – 33% cumulatively on each anniversary of the date of the grant and are exercisable at the designated common share price, which is 100% of the market price of GWL's common shares on the last trading day prior to the effective date of the grant. Each stock option is exercisable into one common share of GWL at the price specified in the terms of the option agreement, or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

During 2008, GWL granted 222,362 (2007 – 693,327) stock options with a weighted average exercise price of \$46.29 (2007 – \$72.23) per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

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During 2008, the share appreciation value of nil (2007 – nominal) was paid on the exercise of nil (2007 – 21,965) stock options and 138,753 (2007 – 86,973) stock options were forfeited or cancelled.

In 2008 and 2007, GWL did not issue common shares or receive cash consideration on the exercise of stock options.

Loblaw maintains a stock option plan for certain employees. Under this plan, Loblaw may grant options for up to 13.7 million common shares which is Loblaw's guideline on the number of stock option grants up to a maximum of 5% of outstanding common shares at any time. Stock options have up to a seven-year term, vest 20% – 33% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of Loblaw's common shares on the last trading day prior to the effective date of the grant. Each stock option is exercisable into one common share of Loblaw at the price specified in the terms of the option agreement, or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

During 2008, Loblaw granted 3,431,432 (2007 – 4,368,980) stock options with a weighted average exercise price of \$28.99 (2007 – \$47.28) per common share under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

During 2008, the share appreciation value of nil (2007 – nominal) was paid by Loblaw on the exercise of nil (2007 – 108,000) stock options and 2,071,528 (2007 – 1,812,870) stock options were forfeited or cancelled.

In 2008 and 2007, Loblaw did not issue common shares or receive cash consideration on the exercise of stock options.

Share Appreciation Right Plan

GWL maintains a share appreciation right plan for certain senior United States employees. Share appreciation rights have up to a seven-year term, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of GWL's common shares on the last trading day prior to the effective date of the grant.

When they are exercised, the employee will receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified right price.

In 2008, 2,400 (2007 – 16,400) share appreciation rights were forfeited or cancelled.

Restricted Share Unit ("RSU") Plans

GWL and Loblaw maintain a RSU plan for certain senior employees. The RSUs entitle employees to a cash payment after the end of each performance period, of up to 3 years, following the date of the award. The RSU payment will be an amount equal to the weighted average price of a GWL or Loblaw common share for a prescribed period preceding the end of the performance period for the RSUs multiplied by the number of RSUs held by the employee.

During 2008, GWL granted 58,179 (2007 – 36,099) RSUs to 39 (2007 – 40) employees, 6,921 (2007 – 4,285) RSUs were cancelled and 69,482 (2007 – 4,350) were settled in cash in the amount of \$4 (2007 – nominal). In addition, during 2008, Loblaw granted 416,294 (2007 – 335,056) RSUs to 346 (2007 – 349) employees, 103,103 (2007 – 161,621) RSUs were cancelled and 252,479 (2007 – 154,700) were settled in cash in the amount of \$9 (2007 – \$8). As at year end 2008, a total of 151,769 (2007 – 169,993) GWL RSUs and 829,399 (2007 – 768,687) Loblaw RSUs were outstanding.

The following table summarizes the Company's cost recognized in operating income related to its stock-based compensation plans, equity derivatives and RSU plans:

(\$ millions)	2008	2007
Stock option plans/share appreciation right plan expense	\$ 8	
Equity derivatives (gain) loss (note 27)	(22)	\$ 100
Restricted share unit plan expense	12	8
Net stock-based compensation (income) expense	\$ (2)	\$ 108

Deferred Share Unit (“DSU”) Plans

Members of GWL’s and Loblaw’s Boards of Directors who are not management may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of DSUs, the number of which is determined by the market price of GWL’s or Loblaw’s common shares at the time the director’s annual retainer(s) or fees are earned. Upon termination of Board service, the common shares due to the director, as represented by the DSUs, will be purchased on the open market on the director’s behalf. As at year end 2008, GWL had 59,787 (2007 – 41,023) and Loblaw had 79,939 (2007 – 56,082) DSUs outstanding. During 2008, a compensation cost of \$2 (2007 – nominal) was recognized in operating income.

Executive Deferred Share Unit (“EDSU”) Plan

In 2008, GWL and Loblaw approved the introduction of an EDSU plan. Under this plan, executives may elect to defer up to 100% of the STIP bonus earned by the executive in any year into the EDSU plan, subject to an overall cap of three times the executive’s base salary. All EDSUs held by an executive will be paid out in cash by December 15 of the year following the year in which the executive’s employment ceases for any reason. An election to participate in the plan in any year must be made before the beginning of the year and is irrevocable. The number of EDSUs granted in respect of any year will be determined by dividing the STIP bonus that is subject to the EDSU plan election by the value of the GWL or Loblaw common shares on the date the STIP bonus would otherwise be payable. For this purpose, and for purposes of determining the value of an EDSU upon conversion of the EDSUs into cash, the value of the EDSUs will be calculated by using the weighted average of the trading prices of GWL or Loblaw common shares on the Toronto Stock Exchange for the five trading days prior to the valuation date. As at year end 2008, there were no EDSUs outstanding.

Employee Share Ownership Plans (“ESOPs”)

GWL and Loblaw maintain ESOPs for their employees which allow employees to acquire GWL’s and Loblaw’s common shares through regular payroll deductions of up to 5% of their gross regular earnings. GWL and Loblaw contribute an additional 25% (2007 – 25%) of each employee’s contribution to its plan. The ESOPs are administered through a trust which purchases GWL’s and Loblaw’s common shares on the open market on behalf of employees. During 2008, a compensation cost of \$7 (2007 – \$7) related to these plans was recognized in operating income.

GWL’s stock option and share appreciation right transactions were as follows:

	2008		2007	
	Options/ Rights (number of shares)	Weighted Average Exercise Price/Share	Options/ Rights (number of shares)	Weighted Average Exercise Price/Share
Outstanding options/rights, beginning of year	1,535,135	\$ 87.45	967,146	\$ 99.00
Granted	222,362	\$ 46.29	693,327	\$ 72.23
Exercised			(21,965)	\$ 53.70
Forfeited/cancelled	(141,153)	\$ 85.69	(103,373)	\$ 100.65
Outstanding options/rights, end of year ^(1,2)	1,616,344	\$ 81.94	1,535,135	\$ 87.45
Options/rights exercisable, end of year ⁽²⁾	699,390	\$ 94.61	516,663	\$ 96.28

(1) Options outstanding of 1,522,344 (2007 – 1,438,735) represented approximately 1.2% (2007 – 1.1%) of GWL’s issued and outstanding common shares, which was within GWL’s guideline of 5%.

(2) Included in the outstanding balance are 94,000 (2007 – 96,400) share appreciation rights at a weighted average exercise price of \$101.25 (2007 – \$101.05). Included in the exercisable balance are 77,200 (2007 – 57,280) share appreciation rights at a weighted average exercise price of \$99.12 (2007 – \$98.53).

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The following table summarizes information about GWL's stock option and share appreciation rights outstanding:

	2008				
	Outstanding Options/Rights			Exercisable Options/Rights	
Range of Exercise Prices (\$)	Number of Options/ Rights Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options/ Rights	Weighted Average Exercise Price/Share
\$46.24 – \$49.88	219,162	6	\$ 46.29		
\$72.21 – \$75.62	681,908	5	\$ 72.23	136,381	\$ 72.23
\$93.35 – \$111.02 ⁽¹⁾	715,274	2	\$ 102.12	563,009	\$ 100.03

- (1) Included in the outstanding balance are 94,000 share appreciation rights with a weighted average remaining contractual life of 2 years and a weighted average exercise price of \$101.25. Included in the exercisable balance are 77,200 share appreciation rights with a weighted average exercise price of \$99.12.