

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

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

Stock Option Plans

Weston maintains a stock option plan for certain employees. Under this plan, Weston may grant options for up to seven million of its common shares; however, Weston 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% 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 Weston'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 Weston 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 2007, Weston granted 693,327 (2006 – nil) stock options with a weighted average exercise price of \$72.23 (2006 – nil) 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 2007, the share appreciation value of \$0.5 million (2006 – \$1 million) was paid on the exercise of 21,965 (2006 – 58,550) stock options and 180,306 (2006 – 91,792) stock options were forfeited or cancelled. In 2006, Weston issued 36,300 common shares on the exercise of stock options and received cash consideration of \$2 million, for which it had recorded a stock-based compensation liability of nil.

Loblaw maintains a stock option plan for certain employees. Under this plan, Loblaw may grant options for up to 20.4 million of its common shares; however, Loblaw 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% 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 2007, Loblaw granted 4,368,980 (2006 – 189,354) stock options with a weighted average exercise price of \$47.28 (2006 – \$55.30) 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 2007, the share appreciation value of a nominal amount (2006 – \$11 million) was paid by Loblaw on the exercise of 108,000 (2006 – 815,403) stock options. Loblaw issued nil (2006 – 118,750) common shares on the exercise of stock options and received cash consideration of nil (2006 – \$4 million), for which it had recorded a stock-based compensation liability of nil (2006 – \$0.1 million).

Share Appreciation Right Plan

Weston 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 Weston'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 2007, 125,400 (2006 – 10,400) share appreciation rights were forfeited or cancelled.

Restricted Share Unit (“RSU”) Plans

Weston 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 Weston 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 2007, Weston granted 36,099 (2006 – 148,049) RSUs to 40 (2006 – 100) employees, 27,833 (2006 – 6,396) RSUs were cancelled and 16,818 (2006 – 2,643) were paid out in the amount of \$1 million (2006 – nominal). In addition, during 2007, Loblaw granted 335,056 (2006 – 691,001) RSUs to 349 (2006 – 238) employees, 161,621 (2006 – 211,526) RSUs were cancelled and 154,700 (2006 – 112,707) were paid out in the amount of \$8 million (2006 – \$6 million). At year end, a total of 290,359 (2006 – 298,911) Weston and 768,687 (2006 – 749,952) Loblaw RSUs were outstanding.

The following table summarizes the Company's cost recognized in operating income related to its stock-based compensation plans, related equity swaps and forwards and restricted share unit plans:

(\$ millions)	2007	2006
Stock option plans/share appreciation right plan income		\$ (11)
Equity swaps and forwards loss (note 24)	\$ 100	48
Restricted share unit plan expense	9	23
Net stock-based compensation cost	\$ 109	\$ 60

Notes to the Consolidated Financial Statements

Deferred Share Unit (“DSU”) Plans

Members of Weston's and Loblaw's Boards of Directors, who are not management of the Company, may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of DSUs, the value of which is determined by the market price of Weston'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. At year end, Weston had 41,023 (2006 – 28,303) and Loblaw had 56,082 (2006 – 44,397) DSUs outstanding. The year-over-year change in the DSU compensation liability was minimal and was recognized in operating income.

Employee Share Ownership Plans (“ESOPs”)

Weston and Loblaw maintain ESOPs for their employees which allow employees to acquire Weston's and Loblaw's common shares through regular payroll deductions of up to 5% of their gross regular earnings. Weston and Loblaw contribute an additional 25% (2006 – 25%) of each employee's contribution to its plan. The ESOPs are administered through a trust which purchases Weston's and Loblaw's common shares on the open market on behalf of employees. A compensation cost of \$7 million (2006 – \$7 million) related to these plans was recognized in operating income.

Weston's stock option and share appreciation right transactions were as follows:

	2007		2006	
	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	1,934,258	\$ 99.84	2,131,300	\$ 97.68
Granted	693,327	\$ 72.23		
Exercised	(21,965)	\$ 53.70	(94,850)	\$ 49.70
Forfeited/cancelled	(305,706)	\$ 99.19	(102,192)	\$ 101.41
Outstanding options/rights, end of year ^(1,2)	2,299,914	\$ 92.05	1,934,258	\$ 99.84
Options/rights exercisable, end of year ⁽²⁾	1,062,847	\$ 97.82	911,515	\$ 95.55

(1) Options/rights outstanding represented approximately 1.8% (2006 – 1.5%) of the Company's issued and outstanding common shares, which was within the Company's guideline of 5%.

(2) Included in the outstanding balance are 357,593 (2006 – 482,993) share appreciation rights at a weighted average exercise price of \$101.64 (2006 – \$101.20). Included in the exercisable balance are 240,671 (2006 – 236,393) share appreciation rights at a weighted average exercise price of \$99.49 (2006 – \$98.54).

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

	2007				
	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
\$72.21 – \$ 78.85	773,195	6	\$ 72.93	81,168	\$ 78.85
\$93.35 – \$111.02 ⁽¹⁾	1,526,719	3	\$ 101.73	981,679	\$ 99.39

(1) Included in the outstanding balance are 357,593 share appreciation rights with a weighted average remaining contractual life of 3 years and a weighted average exercise price of \$101.64. Included in the exercisable balance are 240,671 share appreciation rights with a weighted average exercise price of \$99.49.