

**Note 19. Stock-Based Compensation** (\$, except where otherwise indicated)

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

The Company's net stock-based compensation cost recognized in operating income related to its stock option plan and the associated equity forwards and the restricted share unit plan was as follows:

(\$ millions)	2006	2005
Stock option plan income	\$ (11)	\$ (35)
Equity forwards loss (note 20)	32	71
Restricted share unit plan expense	16	7
Net stock-based compensation cost	\$ 37	\$ 43

**Stock Option Plan** The Company maintains a stock option plan for certain employees. Under this plan, the Company may grant options for up to 20.4 million common shares; however, the Company 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 the Company'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 the Company at the price specified in the terms of the option, 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 2006, the Company granted 189,354 (2005 – 2,247,627) stock options with a weighted average exercise price of \$55.30 (2005 – \$69.73) 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.

In 2006, the share appreciation value of \$11 million (2005 – \$41 million) was paid on the exercise of 815,403 (2005 – 1,135,221) stock options. The Company issued 118,750 (2005 – 25,000) common shares on the exercise of stock options and received cash consideration of \$4 million (2005 – \$0.9 million) for which it had recorded a stock-based compensation liability of \$0.1 million (2005 – \$1 million).

At year end, a total of 4,084,646 (2005 – 5,305,422) stock options were outstanding, and represented approximately 1.5% (2005 – 1.9%) of the Company's issued and outstanding common shares, which was within the Company's guideline of 5%. Of the 4,084,646 (2005 – 5,305,422) outstanding options, 4,043,406 (2005 – 5,151,682) relate to stock option grants that allow for settlement in shares or in the share appreciation value in cash at the option of the employee and 41,240 (2005 – 153,740) relate to stock option grants, issued prior to December 30, 2001 that will be settled by issuing common shares.

## Notes to the Consolidated Financial Statements

A summary of the status of the Company's stock option plan and activity was as follows:

	2006		2005	
	Options (number of shares)	Weighted Average Exercise Price/Share	Options (number of shares)	Weighted Average Exercise Price/Share
Outstanding options, beginning of year	5,305,422	\$ 56.98	4,365,958	\$ 45.04
Granted	189,354	\$ 55.30	2,247,627	\$ 69.73
Exercised	(934,153)	\$ 35.18	(1,160,221)	\$ 36.41
Forfeited/cancelled	(475,977)	\$ 61.56	(147,942)	\$ 59.49
Outstanding options, end of year	4,084,646	\$ 61.36	5,305,422	\$ 56.98
Options exercisable, end of year	1,544,232	\$ 57.37	1,701,050	\$ 43.25

Range of Exercise Prices	2006 Outstanding Options			2006 Exercisable Options	
	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
\$ 43.80 – \$ 49.05	157,240	1	\$ 48.67	157,240	\$ 48.67
\$ 53.60 – \$ 55.50	1,928,006	3	\$ 53.83	976,113	\$ 53.70
\$ 61.95 – \$ 72.95	1,999,400	5	\$ 69.61	410,879	\$ 69.41

**Restricted Share Unit (“RSU”) Plan** The Company has adopted 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 award. The RSU payment will be an amount equal to the weighted average price of a Loblaw common share on the last three trading days preceding the end of the performance period for the RSUs multiplied by the number of RSUs held by the employee.

During 2006, the Company granted 691,001 (2005 – 393,335) RSUs to 238 (2005 – 236) employees, 211,526 (2005 – 10,151) RSUs were cancelled and 112,707 (2005 – nil) were paid out. At year end, a total of 749,952 (2005 – 383,184) RSUs were outstanding.

**Employee Share Ownership Plan (“ESOP”)** The Company maintains an ESOP which allows employees to acquire the Company's common shares through regular payroll deductions of up to 5% of their gross regular earnings. The Company contributes an additional 25% (2005 – 25%) of each employee's contribution to the plan. The ESOP is administered through a trust which purchases the Company's common shares on the open market on behalf of employees. A compensation cost of \$6 million (2005 – \$5 million) related to this plan was recognized in operating income.

**Deferred Share Units (“DSUs”) Plan** Members of the Company's Board of Directors 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 the Company'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, 44,397 (2005 – 36,666) DSUs were outstanding. The year-over-year change in the deferred share units liability was minimal and was recognized in operating income.