

eBay (UK) Limited

Annual report and financial statements for the year ended 31 December 2009

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**Annual report and financial statements
for the year ended 31 December 2009**

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**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2009**

DIRECTORS:	M Lewis, D Mcallum, M Jacobson
SECRETARY:	Taylor Wessing LLP
REGISTERED OFFICE:	5 New Street Square London EC4A 3TW
REGISTERED NUMBER	3726028 (England and Wales)
AUDITORS:	PricewaterhouseCoopers LLP

eBay (UK) Limited

Directors' report for the year ended 31 December 2009

The directors submit their annual report and the audited financial statements of eBay (UK) Limited ("the company") for the year ended 31 December 2009

Principal activities

eBay (UK) Limited is a service provider for eBay International AG, the company's immediate parent, and recommends market penetration and advertising strategies for the UK internet market place to eBay International AG. The company's revenues are derived from intercompany sales of these services.

eBay (UK) Limited and eBay International AG are subsidiary undertakings of eBay Inc, a global internet company incorporated in the USA, which offers an internet based personal trading community.

Review of business and future developments

The company's profit for the financial year amounted to £126,000 (2008: loss £2,417,000). The net assets at the end of the financial year increased however, due to capital contributions from the parent company.

The company has continued to focus on the UK marketplace growth strategy for achieving the Group's mission of creating the world's leading e-commerce business. The strategy has led to increased workforce costs again in 2009.

As the company's revenues are generated from the parent company on a cost plus basis, the financial risks and uncertainties faced by operating a business establishment in the UK are assumed by the parent company.

The services provided to the parent company are in support of the 'Marketplaces' business segment of the eBay group. The development and performance of the company is therefore closely linked to the business plans and strategies set by eBay Inc for this business segment.

Details of the principal risks affecting the eBay Group operations, the business review and forward looking statements are detailed in the eBay Inc Annual Report and other eBay Inc public announcements. A copy of the eBay Inc Annual Report may be obtained from the address given in note 14.

The company will continue to provide services to the parent company in pursuance of the Group's strategy for the UK marketplace.

Key performance indicators

The directors of eBay Inc manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of eBay (UK) Ltd. As a means of understanding the global key performance indicators of the eBay Marketplaces business refer to the analysis of the results of operations within the eBay Inc Annual Report.

Financial risk management

Credit risk

Financial assets that potentially subject the company to concentrations of credit risk consist of principally of cash at bank and debtors. The company's cash is placed with quality financial institutions. The company's exposure to debtor risk is principally concentrated in the intra-group debt with the immediate parent company arising from the charges due under the services agreement.

Foreign currency and interest rate risk

The company is not exposed to significant foreign exchange risk.

The company's operating income and cash flows are substantially independent of changes in market interest rates.

Due to the limited risk exposure the company does not have a specific hedging policy with respect to foreign currency exchange and interest rate risk.

Dividends

The directors do not recommend the payment of dividend (2008: £nil).

Directors' report for the year ended 31 December 2009 (continued)

Charitable donation

The company made no donations to charities during the year (2008: £nil)

Directors

The directors who held office during the year and up to the signing of accounts were

Mike Jacobson (resigned July 17th 2009)
Douglas McCallum (resigned July 16th 2009)
Mark Lewis (resigned February 10th 2010)
Paul Drake (appointed February 10th 2010)
Phillip Rinn (appointed February 10th 2010)

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with Section 418, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



Phillip Rinn
Director

11/05/2010

Report of the independent auditors to the members of eBay (UK) Limited

We have audited the financial statements of eBay (UK) Limited for the year ended 31 December 2009 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31st December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Brian Henderson (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors, London

Date 21/05/2010

eBay (UK) Limited

Profit and loss account

for the year ended 31 December 2009

		2009	2008
	Note	£'000	£'000
Turnover		22,157	19,956
Cost of Sales		<u>(22,483)</u>	<u>(22,154)</u>
Operating loss	2	(326)	(2,198)
Interest receivable and similar income	4	<u>54</u>	<u>331</u>
Loss on ordinary activities before taxation		(272)	(1,867)
Tax on loss on ordinary activities	5	398	(550)
Profit/(loss) for the financial year	13	<u>126</u>	<u>(2,417)</u>

There is no difference between the loss on ordinary activities before taxation and the profit/(loss) for the financial year stated above and their historical cost equivalents

These results derive from continuing operations

The company has no recognised gains or losses other than those included in the results above, and therefore no separate statement of recognised gains or losses has been presented

The notes on pages 10 to 21 form part of these financial statements

eBay (UK) Limited

Balance Sheet at 31 December 2009

		2009	2008
	Note	£'000	£'000
Fixed assets			
Tangible assets	6	2,056	2,858
Debtors amounts falling due after more than one year	7	1,467	593
		<u>3,523</u>	<u>3,451</u>
Current Assets			
Debtors amounts falling due within one year	7	3,628	3,575
Cash at bank and in hand		<u>11,247</u>	<u>10,500</u>
		14,875	14,075
Creditors amounts falling due with one year	8	<u>(4,903)</u>	<u>(6,056)</u>
Net current assets		<u>9,972</u>	<u>8,019</u>
Total assets less current liabilities		13,495	11,470
Creditors amounts falling due after more than one year	9	(801)	(746)
Provisions for liabilities and charges	10	(131)	(131)
Net assets		<u>12,563</u>	<u>10,593</u>
Capital and reserves			
Called up share capital	12	2,451	2,451
Capital contributions	13	10,208	8,364
Profit and loss account	13	(96)	(222)
Total Shareholders' funds	13	<u>12,563</u>	<u>10,593</u>

The financial statements on pages 10 to 21 were approved by the board of directors on

2010

Phillip Rinn
Director
eBay (UK) Limited (Registered number 3726028)

Date

11/05/10

**Notes to the financial statements
for the year ended 31 December 2009**

1 Accounting policies

Accounting Convention

The financial statements are prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards. The principal accounting policies which have been applied consistently are set out below.

Turnover

Turnover represents the revenue excluding value added tax, from the provision of services to eBay International AG. Revenue is recognised in line with performance under the underlying contract.

Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Tangible fixed assets and depreciation

Depreciation is provided on all tangible fixed assets to write off the cost less estimated residual value over an asset's estimated useful life on a straight-line basis.

Fixed assets are depreciated at the following rates:

Computer equipment	-33% per annum
Short leasehold property improvements	-over 5 years or over the term of the lease
Computer software	-100% per annum
Office furniture and equipment	-33% per annum

The gross capitalised cost of the asset includes its cost plus the essential costs incurred to bring the asset to its intended use. Any related costs incurred after the asset's acquisition, such as additions, improvements, or replacements, are added to the asset's cost if they provide future service potential.

Taxation

The charge of taxation is based upon the profit and loss for the period, as adjusted for disallowable items and timing differences.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Deferred tax assets may arise in respect of share-based remuneration. For accounting purposes, the value of share options granted to employees is charged to the profit and loss account over the vesting period of the options. For taxation purposes, a deduction against taxable profit is only allowable when the options are exercised by the employees. It is this timing difference that creates the potential deferred tax asset.

1 Accounting policies (continued)

Taxation (continued)

In determining whether a potential deferred tax asset in respect of share options should be recognised or not, the directors examine, on an annual basis, the likelihood of a future taxable deduction being available to the company in relation to the share options outstanding at the end of the year. This examination takes into consideration a range of factors including the current eBay Inc. Share price and the range of exercise prices on the outstanding share options. Where a future tax deduction is considered likely, the directors also examine whether it is possible to accurately measure the value of such a deduction.

Where the directors consider that it would be imprudent to recognise a deferred tax asset in respect of share options, either because a future tax deduction is considered unlikely, or because it is considered impracticable to value accurately, no such asset will be recognised. Instead, the best estimate of the potential tax asset will be disclosed in the notes to the financial statements.

Pension costs

The company operates a defined contribution stakeholder pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The employer contributions charged to profit and loss account represents the amounts contracted as due in respect of the year.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet or at the agreed contractual rate. Transactions in foreign currency are converted to sterling at the rate at the date of the transaction. All differences on exchange are taken to the profit and loss account.

Cash flow statement

The company is a wholly owned subsidiary company of the group headed by eBay Inc, and is included in the consolidated financial statements of the parent company, which are available to the public. Consequently, the company has taken advantage of the exemption from the requirement to prepare a cash flow statement, permitted within Financial Reporting Standard 1 "Cashflow Statements (revised 1996)".

Transactions with fellow group undertakings

The company is a wholly owned subsidiary of the ultimate parent undertaking, eBay Inc, incorporated in the United States of America. The company is exempt under Financial Reporting Standard 8 from disclosure of transactions with entities that are part of the group headed by eBay Inc provided that the subsidiary undertaking which is a party to the transaction is a wholly owned member of the eBay group.

Share based remuneration

The company employees participate in the share-based benefit plans of the ultimate parent eBay Inc. To be consistent with eBay Inc terminology hereafter share-based remuneration is referred to as stock-based compensation.

The company accounts for stock-based compensation under Financial Reporting Standard 20 ("FRS 20") "Share-based payment", which addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments.

Stock-based compensation expense recognised during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest. As stock-based compensation recognised in the consolidated statement of operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. FRS 20 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are discounted where the time value of money is material.

eBay (UK) Limited

2 Operating loss

	2009	2008
	£'000	£'000
The operating loss is stated after charging/ (crediting)		
Fees payable to the company's auditor for audit of its annual accounts	25	23
Foreign currency exchange loss	64	58
Depreciation - owned assets	1,028	1,392
Loss / (Profit) on disposal of fixed assets	3	(4)
Operating lease rentals - buildings	<u>1,333</u>	<u>1,634</u>

Auditors' remuneration for non-audit services was £nil (2008 £nil)

3 Directors and employees

	2009	2008
	£'000	£'000
Employee costs consist of		
Wages and salaries	10,123	8,193
Social security costs	1,146	1,009
Other pension costs	857	641
Stock-based compensation	<u>2,625</u>	<u>3,762</u>
Total	<u>14,751</u>	<u>13,605</u>

Refer to note 15 for details of the stock-based compensation of employees

3 Directors and employees (continued)

The average number of employees during the year (including paid directors) was as follows

	2009	2008
	Number	Number
Management	9	9
Administration and operations	101	98
Total	110	107

Directors Remuneration

	2009	2008
	£'000	£'000
Aggregate emoluments excluding pension contributions	370	377
Aggregate company contributions to the stakeholder pension plan for the directors	13	11
	383	388

The directors participated in the stock-based benefit plans detailed in note 15

	2009	2008
	£'000	£'000
Number of directors who exercised share options	None	None
Number of directors in respect of whose services shares were received or receivable under long term incentive schemes	1	2
Number of directors to whom retirement benefits were accruing under the stakeholder pension plan	1	2

Highest paid director

	2009	2008
	£'000	£'000
Emoluments excluding pension contributions	370	189
Company contributions to the stakeholder pension plan	13	7
	383	196

The highest paid director in 2009 did not exercise any options (2008 none exercised)

The highest paid director in 2009 and 2008 received shares due to participation in the employee stock purchase plan and the other equity plans

eBay (UK) Limited

4 Interest receivable and similar income

	2009	2008
	£'000	£'000
Bank and other interest receivable	<u>54</u>	<u>331</u>

5 Tax on loss on ordinary activities

	2009	2008
	£'000	£'000
Current tax		
Payable to fellow subsidiary for tax saved by way of group relief	<u>476</u>	<u>535</u>
Deferred tax		
Change in timing differences	40	5
Adjustments in respect of previous periods	<u>(914)</u>	<u>10</u>
	<u>(874)</u>	<u>15</u>
Total tax (credit)/charge	<u>(398)</u>	<u>550</u>

5 Tax on loss on ordinary activities (continued)**Factors affecting the tax charge for the period**

The difference between the current tax charge and the standard rate of corporation tax in the UK is explained below

	2009	2008
	£'000	£'000
Loss on ordinary activities before tax	<u>(272)</u>	<u>(1,867)</u>
Loss on ordinary activities before tax multiplied by the standard rate of tax in the UK of 28% (2008 28.5%)	(76)	(532)
Effects of		
Permanent difference on stock-based compensation	519	153
Expenses not deductible for tax purposes	55	108
Accelerated depreciation	74	133
Timing difference on relief for stock-based compensation	(54)	810
Other short-term timing differences	(60)	(6)
Tax losses brought forward utilised	18	(131)
Group relief	(453)	(535)
Provision for consideration payable group relief	453	535
Current tax charge for the year	<u>476</u>	<u>535</u>
Deferred tax asset at tax rate of 28% (2008 28%) provided		
Opening balance	121	136
Credited/(Debited) to profit and loss account for the year	<u>874</u>	<u>(15)</u>
Closing balance (see note 7)	<u>995</u>	<u>121</u>
Unprovided	<u>-</u>	<u>1,656</u>
The above deferred tax asset comprised		
Depreciation in excess of capital allowances/ (accelerated capital allowances)	183	115
Fair values debited to profit and loss relating to unexercised options Tax relief deferred until exercise	805	1,656
Other short-term timing differences	<u>7</u>	<u>6</u>
Closing balance	<u>995</u>	<u>1,777</u>

6 Tangible fixed assets

	Short leasehold property improvements	Computer Equipment	Office furniture and equipment	Computer Software	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2009	5,038	652	995	131	6,816
Additions in the year	50	145	24	12	231
Disposals in the year	-	(165)	(8)	-	(173)
At 31 December 2009	<u>5,088</u>	<u>632</u>	<u>1,011</u>	<u>143</u>	<u>6,874</u>
Accumulated Depreciation					
At 1 January 2009	2,640	410	784	124	3,958
Charge for the year	708	167	147	6	1,028
Disposals in the year	-	(160)	(8)	-	(168)
At 31 December 2009	<u>3,348</u>	<u>417</u>	<u>923</u>	<u>130</u>	<u>4,818</u>
Net book value					
At 31 December 2009	<u>1,740</u>	<u>215</u>	<u>88</u>	<u>13</u>	<u>2,056</u>
At 1 January 2009	<u>2,398</u>	<u>242</u>	<u>211</u>	<u>7</u>	<u>2,858</u>

7 Debtors

	2009 £'000	2008 £'000
Amounts falling due within one year		
Amounts owed by group undertakings	2,903	2,901
Other debtors	-	10
Prepayments and accrued income	<u>725</u>	<u>664</u>
	<u>3,628</u>	<u>3,575</u>
Amounts falling due after more than one year		
Other debtors	472	472
Deferred tax asset (see note 5)	<u>995</u>	<u>121</u>
	<u>1,467</u>	<u>593</u>
Total debtors	<u>5,105</u>	<u>4,168</u>

Amounts receivable from group undertakings are unsecured, interest free and payable on demand

8 Creditors amounts falling due within one year

	2009	2008
	£'000	£'000
Trade creditors	319	662
Amounts owed to group undertakings	1,869	1,933
Other taxation and social security	189	193
Other creditors	14	88
Accruals and deferred income	<u>2,512</u>	<u>3,180</u>
Total	<u>4,903</u>	<u>6,056</u>

Amounts owed to group undertakings are unsecured, interest free and payable on demand. Other creditors includes £48,987 employee and employer pension contributions payable (2008 £40,257)

9 Creditors amounts falling due after more than one year

	2009	2008
	£'000	£'000
Accruals and deferred income	<u>801</u>	<u>746</u>

10 Provisions for liabilities and charges

	2009	2008
	£'000	£'000
Provision for de-commissioning of leasehold improvements at expiry of lease	<u>131</u>	<u>131</u>

A provision has been made in respect of the anticipated cost of de-commissioning the alterations made within the leasehold properties occupied by the company. The provision is included in the cost of the leasehold properties in fixed assets and is being depreciated over the lease term. The leases terminate in March 2013 and June 2018.

There were no changes in provision during the year.

11 Operating lease commitments

The company has annual commitments under non-cancellable operating leases which expire as follows:

	Land and buildings	Land and buildings
	2009	2008
	£'000	£'000
Between 2 and 5 years	1,764	895
More than 5 years	-	869
	<u>1,764</u>	<u>1,764</u>

eBay (UK) Limited

12 Called up share capital

	2009	2008
	£'000	£'000
Authorised		
1000,000,000 ordinary shares at £1 each	<u>100,000</u>	<u>100,000</u>
Allotted, issued and fully paid		
2,451,000 ordinary shares at £1 each	<u>2,451</u>	<u>2,451</u>

13 Combined statement of reserves and reconciliation of movements in shareholders' funds

	Called up Share capital	Capital Contributions	Profit and loss account	Total shareholders' funds 2009	Total shareholders' funds 2008
	£'000	£'000	£'000	£'000	£'000
At 1 January	2,451	8,364	(222)	10,593	9,752
Share issue	-	-	-	-	-
Capital contribution from eBay Inc in respect of stock-based benefit plans	-	1,844	-	1,844	3,258
Profit/(loss) for the financial year	-	-	126	126	(2,417)
At 31 December	2,451	10,208	(96)	12,577	10,593

14 Immediate and ultimate parent undertaking

The immediate parent undertaking is eBay International AG

The ultimate parent undertaking and controlling party is eBay Inc, a company incorporated in Delaware, USA. eBay Inc is the parent company of the smallest and largest group to consolidate these financial statements. Copies of the eBay Inc financial statements may be obtained from:

eBay Inc
2145 Hamilton Avenue
San Jose CA
USA 95125

15 Share-based benefit plans

Employee stock purchase plan

The company participates in an employee stock purchase plan offered by eBay Inc ("eBay"), the ultimate parent company, for all eligible employees. Under the plan, shares of eBay's common stock may be purchased over an offering period with a maximum duration of two years at 85% of the lower of the fair market value on the first day of the applicable offering period or on the last day of the six-month purchase period. Employees may purchase shares having a value not exceeding 10% of their gross compensation during an offering period. eBay's employee stock purchase plan contains an "evergreen" provision that automatically increases, on 1 January, the number of shares reserved for issuance under the employee stock purchase plan by the number of shares purchased under this plan in the preceding calendar year.

Stock Option Exchange Program

On August 10, 2009, the Company launched a one-time stock option exchange program (the "Program") pursuant to which eligible employees were able to exchange certain outstanding stock options with an exercise price greater than or equal to \$27.01 per share, a grant date on or before August 10, 2008 and an expiration date after September 11, 2010, for a lesser amount of new restricted stock units ("RSUs") or, under certain circumstances, for new stock options or a cash payment. All surrendered options were cancelled effective as of the expiration of the Program. The number of new stock options granted, and the amount of cash payments issued, in exchange for outstanding stock options were insignificant. In general, the new RSUs have a vesting period that is at least one year longer than the original vesting period for the corresponding exchanged option grant. The Program did not result in any significant incremental stock-based compensation expense.

Other equity incentive plans

The company participates in eBay's equity incentive plans for directors, officers, employee and non-employees. Stock options granted under these plans generally vest 25% one year from the date of grant (or 12.5% six months from the date of grant for grants to existing employees) and the remainder vest at a rate of 2.08% per month thereafter, and generally expire 7-10 years from the date of grant.

Valuation assumptions

The fair value of each option award on the date of the grant was calculated using the Black-Scholes option pricing model. The following assumptions were used for options granted in each respective period:

	2009	2008
Risk-free interest rate	1.56%	2.23%
Expected lives (in years)	3.63	3.51
Dividend yield	0%	0%
Expected volatility	48.56%	34.06%

The computation of expected volatility for the years ended 31 December 2009 and 2008 is based on a combination of historical and market-based implied volatility from traded options on the company's stock. Prior to 1 January 2008, the computation of expected volatility was based on historical volatility. The computation of expected life for the years ended 31 December 2009 and 2008 was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behaviour. The range provided above results from the behaviour patterns of separate groups of employees that have similar historical experience. The interest rate for periods within the contractual life of the award is based on the US Treasury yield curve in effect at the time of grant. Weighted average fair value of the options granted during the year ended 31 December 2008 and 2009 is GBP 3.79 and GBP 2.75 respectively.

The company charges the cost of share-based payment over the vesting period of the related options, which is generally four years. The impact of recognising the fair value of the option grants and stock grants under our employee stock purchase plan as an expense under FRS 20 is £3,086,487 and £2,624,858 for the years ended 31 December 2008 and 2009, respectively.

15 Share-based Benefit Plans (continued)

Share-based Payment Award Activity

The following table summarises activity under our equity incentive plans for the years ended 31 December 2009 and 31 December 2008

	Year ended December 31,			Year ended December 31,		
	2009			2008		
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
		(GBP)	(in years)		(GBP)	(in years)
Outstanding at beginning of period	667,600	18.63	4.73	1,036,211	17.55	6.11
Granted	56,706	7.34		40,999	13.57	
Transfers, net	34,418	29.83		(286,668)	17.35	
Cancelled	(198,102)	23.24		(110,369)	19.71	
Options exchanged in connection with the option exchange program	(381,570)	24.21		-	-	
Exercised	(7,341)	8.35		(12,573)	8.68	
Outstanding at end of period	171,711	14.96	4.70	667,600	18.63	4.73
Options exercisable at end of period	95,469	17.79	3.98	459,321	19.35	4.71

The following table summarises information about stock options outstanding at 31 December 2009 and 31 December 2008

2009			2008		
£	Number of Shares outstanding	Weighted Average Contractual Remaining life	£	Number of Shares outstanding	Weighted Average Contractual Remaining life
6.74 – 7.93	45,796	6.16	6.54 – 14.49	77,489	4.41
8.46 – 17.56	51,521	4.82	14.85 – 15.74	116,360	4.28
18.06 – 20.49	56,241	3.80	15.87 – 15.87	103,024	4.73
21.05 – 28.16	18,153	3.42	17.30 – 19.05	104,353	4.91
			20.01 – 21.86	114,239	4.53
			22.35 – 30.38	152,135	5.26
	171,711	4.70		667,600	4.73

15 Share-based Benefit Plans (continued)

Restricted Stock Units Activity

The following table summarises activity for restricted stock units granted under equity incentive plans for the year ended 31 December 2008 and 31 December 2009

	2009		2008	
	Shares	Weighted Average Grant Date FV	Shares	Weighted Average Grant Date FV
		(GBP)		(GBP)
Outstanding at beginning of period	278,578	14 20	81,506	16 45
Awarded	338,531	7 41	248,681	13 63
Awarded in connection with the stock option exchange program	46,666	15 12	-	-
Transfers, net	(4,497)	17 83	(9,409)	16 99
Forfeited	(37,464)	15 93	(25,702)	15 73
Vested	(83,988)	17 26	(16,498)	17 49
Outstanding at end of period	537,826	10 94	278,578	14 20