

Astea (UK) Limited

Report and Financial Statements

Year Ended

31 December 2006



IBDO
BDO Stoy Hayward
Chartered Accountants

Astea (UK) Limited

Annual report and financial statements for the year ended 31 December 2006

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Director

M Comer

Secretary and registered office

J H Farman, Trent House, University Way, Cranfield, Bedfordshire, MK43 0AN

Company number

02715377

Auditors

BDO Stoy Hayward LLP, Prospect Place, 85 Great North Road
Hatfield, Herts, AL9 5BS

Astea (UK) Limited

Report of the director for the year ended 31 December 2006

The director presents his report together with the audited financial statements for the year ended 31 December 2006

Results and dividends

The profit and loss account is set out on page 5 and shows the loss for the year

The director has not recommended a dividend (2005 NIL)

Principal activities, review of business and future developments

The company's principal activity continued to be that of distribution of computer software and services

Sales for the year were £1,824,285 (2005 £4,205,860)

There was a loss on ordinary activities of £(245,610) (2005 restated profit £261,509), which is after charging interest of £192,518 on inter-company borrowing (2005 £230,708)

There have been no events since the balance sheet date, which materially affect the position of the company

Director

The director of the company during the year was

M L Kent (resigned 3 October 2007)

M Comer was appointed a director of the company on 3 October 2007

Director's responsibilities

The director is responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

Company law requires the director to prepare financial statements for each financial year which 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 year. In preparing those financial statements, the director is required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the financial statements comply with the Companies Act 1985. He is 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

Astea (UK) Limited

Report of the director for the year ended 31 December 2006 (Continued)

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

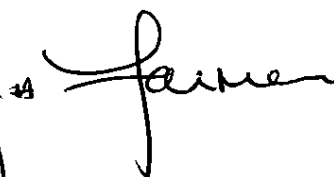
By order of the board

J H Farman

Secretary

Date

29/10/07

A handwritten signature in black ink, appearing to read 'J H Farman', written over a large, loopy circular mark.

Astea (UK) Limited

Independent auditor's report

To the shareholders of Astea (UK) Limited

We have audited the financial statements of Astea (UK) Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The director's responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of director's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the director's report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We read the director's report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

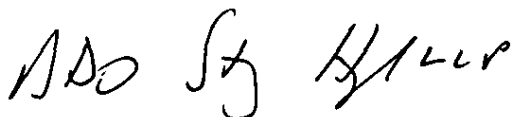
Astea (UK) Limited

Independent auditor's report (Continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the director's report is consistent with the financial statements



BDO STOY HAYWARD LLP

Chartered Accountants

and Registered Auditors

Hatfield

Date 29 October 2007

Astea (UK) Limited**Profit and loss account for the year ended 31 December 2006**

	Note	2006 £	2005 As restated £
Turnover	3	1,824,285	4,205,860
Cost of sales		482,686	1,141,873
		<hr/>	<hr/>
Gross profit		1,341,599	3,063,987
Distribution costs		89,138	170,256
Administrative expenses		1,312,741	2,411,698
		<hr/>	<hr/>
Operating (loss)/profit	4	(60,280)	482,033
Other interest receivable and similar income		7,203	10,184
Interest payable and similar charges	7	(192,533)	(230,708)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation		(245,610)	261,509
Taxation on (loss)/profit on ordinary activities	8	1,825	(1,825)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities after taxation		(243,785)	259,684
		<hr/>	<hr/>

All amounts relate to continuing activities

The notes on pages 8 to 18 form part of these financial statements

Astea (UK) Limited

Statement of total recognised gains and losses for the year ended 31 December 2006

	2006 £	2005 £
(Loss)/profit for the financial year	(243,785)	259,684
Prior year adjustment	(24,207)	
Total gains and losses recognised since last financial statements	(267,992)	

The notes on pages 8 to 18 form part of these financial statements

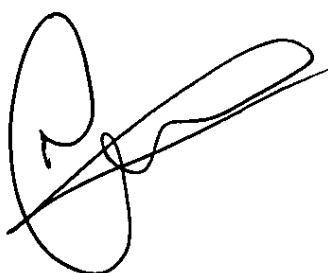
Astea (UK) Limited

Balance sheet at 31 December 2006

	Note	2006 £	2006 £	2005 As restated £	2005 As restated £
Fixed assets					
Tangible assets	9		30,164		39,088
Current assets					
Debtors	10	441,729		596,519	
Cash at bank and in hand		145,869		1,031,185	
		<u>587,598</u>		<u>1,627,704</u>	
Creditors: amounts falling due within one year	11	3,616,947		4,421,954	
		<u></u>		<u></u>	
Net current liabilities			(3,029,349)		(2,794,250)
			<u></u>		<u></u>
Total assets less current liabilities			(2,999,185)		(2,755,162)
			<u></u>		<u></u>
Capital and reserves					
Called up share capital	12		2		2
Share scheme reserve	13		23,969		24,207
Profit and loss account	13		(3,023,156)		(2,779,371)
			<u></u>		<u></u>
Shareholders' funds	14		(2,999,185)		(2,755,162)
			<u></u>		<u></u>

The financial statements were approved by the director and authorised for issue on

M Comer
Director



29/1/07

The notes on pages 8 to 18 form part of these financial statements

1 Accounting policies

The financial statements have been prepared under the historical cost convention

In preparing these financial statements the company has adopted for the first time FRS20 'Share-based payments' Further details are given in note 2

The following principal accounting policies have been applied

Cash flow statement

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 'Cash Flow Statements (Revised 1996)' not to prepare a cash flow statement on the grounds that at least 90% of the voting rights in the company are controlled within the group headed by the ultimate parent company Astea International Inc and the company is included in consolidated financial statements

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax or local taxes on sales Licence sales are recognised on acceptance of delivery of the software Software support is invoiced annually and taken to revenue rateably over the period covered Implementation and other work are invoiced as the work is performed

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, evenly over their expected useful lives It is calculated at the following rates

Leasehold land and buildings	- straight line over the term of the lease
Computer Equipment	- 33% straight line
Fixtures and fittings	- written off over 3 to 5 years
Office equipment	- 33% straight line

Foreign currency

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates Any differences are taken to the profit and loss account

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred

Current taxation is measured at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences

Deferred tax balances are not discounted

1 Accounting policies (*continued*)

Leased assets

All leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Pension costs

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the period in which they become payable. The assets of the scheme are held separately in an independently administered fund.

Share based employee remuneration

When share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Going concern

The director has received a letter of support from the parent undertaking stating that the company will be provided with adequate financial resources necessary to continue in operations for the foreseeable future. For this reason, the director continues to adopt the going concern basis in preparing the financial statements.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

2 Changes to accounting policies

The company has adopted FRS 20 'Share based payment', application of which is obligatory for periods commencing on or after 1 January 2006

FRS 20 'Share based payment' requires the recognition of share-based payments at fair value at the date of grant. Prior to the adoption of FRS 20, there were no such transactions as the share options were given in respect of the option to buy shares in the ultimate parent company

In accordance with transitional provisions of FRS 20, the standard was applied retrospectively to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005, and to liabilities for share-based transactions existing at 1 January 2005

For 2005, the change in accounting policy has resulted in a net increase in loss for the year of £24,207

For 2006, the impact of share-based payments is a net credit to income of £238 and an increase in net assets of £238

The share-based payments expense has been included in the income statement under administrative expenses in both 2005 and 2006

3 Turnover

	2006	2005
	£	£
Analysis by geographical market		
United Kingdom	617,902	3,680,140
Europe	1,151,551	503,969
Rest of the world	54,832	21,751
	<hr/>	<hr/>
	1,824,285	4,205,860
	<hr/>	<hr/>

Turnover is wholly attributable to the principal activity of the company

Astea (UK) Limited**Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)****4 Operating (loss)/profit**

	2006 £	2005 £
This is arrived at after charging/(crediting)		
Depreciation of tangible fixed assets	22,537	29,605
Loss on disposal of tangible fixed assets	-	677
Hire of other assets - operating leases	42,791	43,377
Audit services	20,400	15,935
Non-audit services	2,500	-
Exchange differences	(356,395)	237,718
Share-based payment (see note 12)	(238)	24,207
	<u> </u>	<u> </u>

5 Employees

Staff costs (including directors) consist of

	2006 £	2005 £
Wages and salaries	1,124,075	1,533,753
Social security costs	135,839	184,839
Other pension costs	54,182	56,039
	<u> </u>	<u> </u>
	1,314,096	1,774,631
	<u> </u>	<u> </u>

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

	2006 Number	2005 Number
Production	13	16
Distribution	5	3
Administration	2	3
	<u> </u>	<u> </u>
	20	22
	<u> </u>	<u> </u>

6 Director's remuneration

	2006 £	2005 £
Director's emoluments	124,874	172,719
Company contributions to money purchase pension schemes	8,240	6,000
	<u> </u>	<u> </u>

Astea (UK) Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

6 Director's remuneration (continued)

There was 1 director in the company's defined contribution pension scheme during the year (2005 - 1)

Of the share-based payment charge (see note 4), £6,315 relates to share-based payment to the director (2005 - £18,758)

7 Interest payable and similar charges

	2006 £	2005 £
Bank loans and overdrafts	15	-
Loans from group companies	192,518	230,708
	<u>192,533</u>	<u>230,708</u>

8 Taxation on (loss)/profit on ordinary activities

	2006 £	2005 £
<i>UK Corporation tax</i>		
Current tax on profits of the year	(1,825)	1,825

The tax assessed for the period is higher than the standard rate of corporation tax in the UK. The differences are explained below

	2006 £	2005 As restated £
(Loss)/profit on ordinary activities before tax	(245,610)	261,509
(Loss)/profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 - 30%)	(73,683)	78,453
Effect of		
Expenses not deductible for tax purposes	61,149	53,453
Capital allowances for period in excess of depreciation	(14,717)	7,877
Movement in general provision	-	664
Adjustment to tax charge in respect of previous periods	(1,825)	-
Losses utilised in the year	-	(137,800)
Marginal relief	-	(1,230)
Unrelieved tax losses and other deductions arising in period	26,683	-
Other short term timing differences	568	-
Current tax charge for period	<u>(1,825)</u>	<u>1,825</u>

Astea (UK) Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

8 Taxation on (loss)/profit on ordinary activities (continued)

The deferred tax asset, of £613,053 (2005 £598,085) has not been recognised on the basis that there is insufficient evidence that the asset would be recoverable in the short-term

9 Tangible fixed assets

	Leasehold land and buildings £	Computer equipment £	Fixtures and fittings £	Office equipment £	Total £
<i>Cost</i>					
At 1 January 2006	36,739	133,816	32,908	38,796	242,259
Additions	-	13,435	-	178	13,613
Disposals	-	(39,215)	-	(5,436)	(44,651)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	36,739	108,036	32,908	33,538	211,221
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At 1 January 2006	36,291	113,111	28,962	24,807	203,171
Provided for the year	448	14,518	1,436	6,135	22,537
Disposals	-	(39,215)	-	(5,436)	(44,651)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	36,739	88,414	30,398	25,506	181,057
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 2006	-	19,622	2,510	8,032	30,164
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	448	20,705	3,946	13,989	39,088
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Astea (UK) Limited**Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)****10 Debtors**

	2006 £	2005 £
Trade debtors	351,016	571,468
Prepayments and accrued income	90,713	25,051
	<u>441,729</u>	<u>596,519</u>

All amounts shown under debtors fall due for payment within one year

11 Creditors: amounts falling due within one year

	2006 £	2005 £
Trade creditors	25,696	58,360
Amounts owed to group undertakings	3,307,312	3,444,343
Taxation and social security	65,993	309,570
Other creditors	7,366	14,833
Accruals and deferred income	210,580	594,848
	<u>3,616,947</u>	<u>4,421,954</u>

12 Share capital

	2006 £	Authorised 2005 £	Allotted, called up and fully paid 2006 £	2005 £
Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>	<u>2</u>	<u>2</u>

12 Share capital (continued)

Share-based payments

The ultimate parent company operates an equity-settled share based remuneration scheme for certain directors and senior management. Under the unapproved scheme, tranches consisting of 25% of the options vest in one year intervals after the grant date. Vested options may be exercised at any time until the earlier of either the date the employee leaves the company or within 10 years from the vesting date.

Details of the share options outstanding during the year are as follows:

Date of grant	2006 Weighted average exercise price (US \$)	2006 Number of share options	2005 Weighted average exercise price (US \$)	2005 Number of share options
Outstanding at the beginning of the year	5.16	28,750	4.03	25,000
Granted during the year	5.03	5,000	7.28	10,000
Forfeited during the year	7.73	(3,750)	-	-
Exercised during the year	3.10	(5,000)	4.03	(6,250)
Outstanding at the end of the year	5.16	25,000	5.16	28,750

The exercise price of options outstanding at the end of the year ranged between \$3.10 and \$7.28 (2005 - \$3.10 and \$7.73) and their weighted average contractual life was 8.2 years (2005 - 8.7 years).

Of the total number of options outstanding at the end of the year, 2,500 (2005 - nil) had vested and were exercisable at the end of the year.

The weighted average share price (at the date of exercise) of options exercised during the year was \$9.18 (2005 - \$13.25).

The weighted average fair value of each option granted during the year was £4.10 (2005 - £2.40).

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled share based remuneration schemes operated by Astea (UK) Limited:

Astea (UK) Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

12 Share capital (continued)

Equity settled

Option pricing model used	Black-Scholes	Black-Scholes
Weighted average fair value at grant date	\$5 90	\$6 72
Exercise price	\$5 16	\$5 16
Weighted average contractual life (years)	6 15	6 25

Equity-settled

Expected volatility	115%	117%
Risk-free interest rate	4 77	4 32

The volatility assumption is based on the historical volatility of the Astea Incorporated's traded common stock

Astea (UK) Limited recognised a total (credit)/charge of £(238) and £24,207 relating to equity-settled share based payment transactions in 2006 and 2005 respectively

13 Reserves

	Share-based payment reserve £	Profit and loss account £
At 1 January 2006 as previously stated	-	(2,755,164)
Prior year adjustment	24,207	(24,207)
At 1 January 2006 as restated	24,207	(2,779,371)
Loss for the year	-	(243,785)
Share scheme charge	(238)	-
At 31 December 2006	23,969	(3,023,156)

Astea (UK) Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (*Continued*)

14 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
(Loss)/profit for the year as previously stated	(243,785)	283,891
Effect of adoption of FRS 20 at 31 December 2005	-	(24,207)
Share scheme charge	(238)	24,207
	<hr/>	<hr/>
Net (deductions from)/additions to shareholders' funds	(244,023)	283,891
Opening shareholders' funds as previously stated	(2,755,162)	(3,039,053)
	<hr/>	<hr/>
Closing shareholders' funds	(2,999,185)	(2,755,162)
	<hr/>	<hr/>

15 Commitments under operating leases

The company had annual commitments under non-cancellable operating leases as set out below

	2006 Land and buildings £	2005 Land and buildings £
Operating leases which expire		
In two to five years	39,872	46,352
	<hr/>	<hr/>

16 Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge amounted to £54,182 (2005 - £56,039). Included within other creditors is £6,829 (2005 £9,313) in respect of pension contributions payable.

17 Related party disclosures

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with members of the group headed by Astea International Inc on the grounds that at least 90% of the voting rights in the company are controlled within that group and the company is included in consolidated financial statements.

18 Ultimate parent company and parent undertaking of larger group

The company is a subsidiary of Astea Service & Distribution Systems BV, incorporated in the Netherlands. This is the smallest group in which the company's results are consolidated. The financial statements of Astea Service & Distribution Systems BV are available from Kamer van Koophandel Utrecht, Kroonstraat 50, 3511 RC Utrecht, The Netherlands (registration number 98543).

The ultimate parent company is Astea International Inc, a company incorporated in the United States of America. This is the largest group in which the company's results are consolidated. The financial statements of Astea International Inc are available from 240 Gibraltar Road, Horsham, Pennsylvania, 19044, United States of America.