Grant Thornton

Financial Statements
Astea (UK) Limited

For the Year Ended 31 December 2007

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COMPANIES HOUSE

Company No. 2715377

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Officers and professional advisers

Company registration number	2715377
Registered office	Trent House University Way Cranfield Technology Park Cranfield Bedfordshire MK43 0AN
Director	M Comer
Secretary	S D Jones
Bankers	National Westminster Bank Plc 501 Silbury Boulevard Saxon Gate East Central Milton Keynes MK9 3ER
Auditor	Grant Thornton UK LLP Registered Auditor Chartered Accountants 202 Silbury Boulevard Central Milton Keynes MK9 1LW

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Report of the director

The director presents his report and the financial statements of the company for the year ended 31 December 2007

Principal activity

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

Directors

The directors who served the company during the year were as follows

M Comer	(Appointed 3 October 2007)
M L Kent	(Resigned 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 regulations

Company law requires the director to prepare financial statements for each financial year Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The financial statements are required by law to 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 director is required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- 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 that disclose with reasonable accuracy at any time the financial position of the company and 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

In so far as the director is aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditor

Grant Thornton UK LLP was appointed auditor during the year following the resignation of BDO Stoy Hayward LLP

Small company provisions

This report has been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985

ON BEHALF OF THE BOARD

M Comer
Director

18 September 2008

Grant Thornton

Report of the independent auditor to the members of Astea (UK) Limited

We have audited the financial statements of Astea (UK) Limited for the year ended 31 December 2007 which comprise the accounting policies, profit and loss account, balance sheet and notes 1 to 17 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of director and auditor

The director's responsibilities for preparing the Report of the Director and the financial statements in accordance with United Kingdom law and 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 are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Report of the Director is consistent with the financial statements

In addition we 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 Report of the Director and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of 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

Report of the independent auditor to the members of Astea (UK) Limited (continued)

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

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 2007 and of its profit 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 Report of the Director is consistent with the financial statements

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS

Central Milton Keynes

23 September 2008

Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable UK accounting standards

There have been no changes in accounting policies during the year

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 and the company is included in consolidated financial statements

Turnover

License sales are recognised on acceptance of delivery of the software Software support is taken to revenue rateably over the period covered Implementation and other work is recognised as revenue as the work is performed

Fixed assets

All fixed assets are initially recorded at cost

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Leasehold Property	-	straight line over the term of the lease
Fixtures & Fittings	-	written off over 3 to 5 years
Computer Equipment	-	33% straight line
Office Equipment	-	33% straight line

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company The annual contributions payable are charged to the profit and loss account

Deferred taxation

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 have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

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

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction Exchange differences are taken into account in arriving at the operating profit

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

Equity-settled share based payment

The ultimate parent company Astea International Inc operates an equity settled share based payment scheme for certain directors and senior management

All share-based payment arrangements granted after 7 November 2002 are recognised in the financial statements All goods and services received in exchange for the grant of any share-based payment are measured at their fair values Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets)

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates Any cumulative adjustment prior to vesting is recognised in the current period No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised

All equity-settled share-based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to the inter-company account with the ultimate parent company These entries reflect the recharge arrangement with the ultimate parent company, which is clearly linked to the share based payment transaction

Profit and loss account

	Note	2007 £	2006 £
Turnover	1	**2,780,758**	1,824,285
Cost of sales		**713,174**	482,686
Gross profit		**2,067,584**	1,341,599
Other operating charges	2	**1,512,349**	1,401,879
Operating profit/(loss)	3	555,235	(60,280)
Interest receivable		**3,557**	7,203
Interest payable and similar charges	6	**(188,812)**	(192,533)
Profit/(loss) on ordinary activities before taxation		**369,980**	(245,610)
Tax on profit/(loss) on ordinary activities	7	–	(1,825)
Profit/(loss) for the financial year	14	**369,980**	(243,785)

All of the activities of the company are classed as continuing

The company has no recognised gains or losses other than the results for the year as set out above

Balance sheet

	Note	2007 £	2006 £
Fixed assets			
Tangible assets	9	**12,948**	30,164
Current assets			
Debtors	10	**1,083,104**	441,729
Cash at bank		**104,191**	145,869
		1,187,295	587,598
Creditors: amounts falling due within one year	11	**3,829,448**	3,616,947
Net current liabilities		**(2,642,153)**	(3,029,349)
Total assets less current liabilities		**(2,629,205)**	(2,999,185)
Capital and reserves			
Called-up equity share capital	13	**2**	2
Profit and loss account	14	**(2,629,207)**	(2,999,187)
Deficit	15	**(2,629,205)**	(2,999,185)

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

M Comer
Director 18/9/08

Notes to the financial statements

1 Turnover

The turnover and profit before tax are attributable to the one principal activity of the company
An analysis of turnover is given below

	2007	2006
	£	£
United Kingdom	**865,435**	617,902
Europe	**1,890,560**	1,151,551
Rest of the world	**24,763**	54,832
	2,780,758	1,824,285

2 Other operating charges

	2007	2006
	£	£
Distribution costs	**73,364**	89,138
Administrative expenses	**1,438,985**	1,312,741
	1,512,349	1,401,879

3 Operating profit/(loss)

Operating profit/(loss) is stated after charging

	2007	2006
	£	£
Depreciation of owned fixed assets	**20,748**	22,537
Auditor's remuneration		
Audit fees	**21,000**	20,400
Taxation	**-**	2,500
Other services	**1,000**	-
Operating lease costs		
Other	**39,872**	42,791

4 Particulars of employees

The average number of staff employed by the company during the financial year amounted to

	2007 No	2006 No
Number of production staff	**13**	13
Number of distribution staff	**4**	5
Number of administrative staff	**2**	2
	19	20

The aggregate payroll costs of the above were

	2007 £	2006 £
Wages and salaries	**1,143,892**	1,124,075
Social security costs	**123,856**	135,839
Other pension costs	**46,972**	54,182
	1,314,720	1,314,096

5 Director

Remuneration in respect of the directors was as follows

	2007 £	2006 £
Emoluments receivable	**137,090**	124,874
Value of company pension contributions to money purchase schemes	**10,065**	8,240
Compensation for loss of directorship	**85,872**	–
	233,027	133,114

The number of directors who accrued benefits under company pension schemes was as follows

	2007 No	2006 No
Money purchase schemes	**1**	1

The number of directors who exercised share options during the year were as follows

	2007 No	2006 No
Directors who exercised share options	**1**	1

6 Interest payable and similar charges

	2007 £	2006 £
Interest payable on bank borrowing	-	15
Interest on loans from group undertakings	188,812	192,518
	188,812	192,533

7 Taxation on ordinary activities

(a) Analysis of charge in the year

	2007 £	2006 £
Current tax		
UK Corporation tax based on the results for the year at 30% (2006 - 30%)	-	(1,825)
Total current tax	-	(1,825)

The deferred tax asset of £423,264 (2006 £613,053) has not been recognised as there is insufficient evidence that the asset will be recoverable in the short-term

(b) Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2006 - 30%)

	2007 £	2006 £
Profit/(loss) on ordinary activities before taxation	369,980	(245,610)
Profit/(loss) on ordinary activities by rate of tax	110,994	(73,683)
Expenses not deductible for tax purposes	56,892	61,149
Capital allowances for period in excess of depreciation	(15,119)	(14,717)
Utilisation of tax losses	(151,698)	-
Unrelieved tax losses	-	26,683
Adjustments to tax charge in respect of previous periods	-	(1,825)
Other short term timing differences	(1,069)	568
Total current tax (note 7(a))	-	(1,825)

8 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 £46,972 (2006 £54,182) Included within other creditors is £nil (2006 £6,829) in respect of pension contributions payable

9 Tangible fixed assets

	Leasehold Property £	Fixtures & Fittings £	Computer Equipment £	Office Equipment £	Total £
Cost					
At 1 January 2007	36,739	32,908	108,036	33,538	211,221
Additions	1,554	–	1,688	290	3,532
At 31 December 2007	38,293	32,908	109,724	33,828	214,753
Depreciation					
At 1 January 2007	36,739	30,398	88,414	25,506	181,057
Charge for the year	1,554	816	12,383	5,995	20,748
At 31 December 2007	38,293	31,214	100,797	31,501	201,805
Net book value					
At 31 December 2007	–	**1,694**	**8,927**	**2,327**	**12,948**
At 31 December 2006	–	2,510	19,622	8,032	30,164

10 Debtors

	2007 £	2006 £
Trade debtors	**1,071,096**	351,016
Other debtors	**1,653**	–
Prepayments and accrued income	**10,355**	90,713
	1,083,104	441,729

11 Creditors: amounts falling due within one year

	2007 £	2006 £
Trade creditors	**58,659**	25,696
Amounts owed to group undertakings	**3,233,359**	3,307,312
PAYE and social security	**111,320**	65,993
Other creditors	**–**	7,366
Accruals and deferred income	**426,110**	210,580
	3,829,448	3,616,947

12 Operating lease commitments

At 31 December 2007 the company had annual commitments under non-cancellable operating leases as set out below

	Land & buildings	
	2007	2006
	£	£
Operating leases which expire		
Within 1 year	**4,984**	-
Within 2 to 5 years	**-**	39,872
	4,984	39,872

13 Share capital

Authorised share capital

	2007	2006
	£	£
1,000 Ordinary shares of £1 each	**1,000**	1,000

Allotted, called up and fully paid

	2007		2006	
	No	**£**	No	£
Ordinary shares of £1 each	**2**	**2**	2	2

13 Share capital (continued)

Share-based payments

The ultimate parent company Astea International Inc operates an equity-settled share based payment 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 3 months after the date the employee leaves the company or within 10 years from the grant date

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

	2007 Weighted average exercise price (US $)	**2007 Number of share options**	2006 Weighted average exercise price (US $)	2006 Number of share options
Outstanding at the beginning of the year	**5.16**	**25,000**	5 16	28,750
Granted during the year	**4.53**	**30,000**	5 03	5,000
Forfeited during the year	**-**	**-**	7 73	(3,750)
Exercised during the year	**3.10**	**(5,000)**	3 10	(5,000)
Outstanding at the end of the year	**4.99**	**50,000**	5 16	25,000

The exercise price of options outstanding at the end of the year ranged between $3 10 and $7 28 (2006 $3 10 and $7 28) and their weighted average contractual life was 9 5 (2006 8 2 years)

It is noted that 15,000 options with a weighted average exercise price of $5 88 lapsed shortly after the year end following the resignation of director M Kent on 3 October 2007, increasing the weighted average contractual life to 9 7 years

Of the total number of options outstanding at the end of the year 6,250 (2006 2,500) had vested and were exercisable at the end of the year, however following the resignation of M Kent, 5,000 lapsed shortly after the year end

The weighted average share price (at the date of exercise) of options exercised during the year was $6 27 (2006 $9 18)

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 International Inc

	2007	2006
Option pricing model used	**Black Scholes**	Black Scholes
Weighted average fair value at grant date	**$3.11**	$5 90
Weighted average contractual life (years)	**4.18**	6 15
Annual forfeiture rate	**18.99%**	24 5%
Expected volatility	**91%**	115%
Risk-free interest rate	**4.22%**	4 77%

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

The company recognised a total charge of £13,882 (2006 £12,290) relating to equity-settled share based payments during the year The credit has been taken to the inter-company account with the ultimate parent company, reflecting the recharge arrangement with the ultimate parent company, which is clearly linked to the share based payment transaction

14 Profit and loss account

	2007	2006
	£	£
Balance brought forward	**(2,999,187)**	(2,755,164)
Profit/(loss) for the financial year	**369,980**	(243,785)
Share based payment charge	**-**	(238)
Balance carried forward	**(2,629,207)**	(2,999,187)

15 Reconciliation of movements in shareholders' funds

	2007	2006
	£	£
Profit/(Loss) for the financial year	**369,980**	(243,785)
Share based payment charge	**-**	(238)
Net addition/(reduction) to shareholders' deficit	**369,980**	(244,023)
Opening shareholders' deficit	**(2,999,185)**	(2,755,162)
Closing shareholders' deficit	**(2,629,205)**	(2,999,185)

16 Ultimate parent company

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

17 Related party transactions

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