Grant Thornton

Financial statements
Astea (UK) Limited

For the Year Ended 31 December 2008

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COMPANIES HOUSE

Company No. 2715377

Officers and professional advisers

Company registration number	2715377
Registered office	Trent House University Way Cranfield Technology Park Cranfield Bedfordshire MK43 0AN
Directors	I Evans
Secretary	R E Headlam
Bankers	National Westminster Bank Plc 501 Silbury Boulevard Saxon Gate East Central Milton Keynes MK9 3ER
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors 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 2008.

Principal activities and business review

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

2008 was a challenging year for the company. There were a number of new contracts that were delayed due to the impact of the financial marketplace and our customers exercising caution over new project spend.

Whilst the company made a loss in the year to 31 December 2008, a number of operational changes were implemented during 2009 in order to return to profitability. The decisions taken were to reduce overall headcount in-line with the pipeline projections for 2009 in addition to the temporary salary reductions made. The addition of a new Managing Director, experienced sales person and experienced lead generation person brings a new focus to acquiring new contracts whilst maintaining a loyal customer community.

The above changes have seen a significant improvement of the sales pipeline for the latter part of 2009 /2010 with 2 new contracts and 2 additional customer orders secured during the fourth quarter of 2009. Our 12 month outlook and cash flow for 2010 shows profitable operations throughout 2010.

The company continues to receive the full support from our parent to ensure we offer a global presence to our customer community.

Results and dividends

The loss for the year amounted to £398,972. The directors have not recommended a dividend.

Directors

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

M Comer resigned as a director on 31 July 2009

I Evans was appointed as a director on 7 September 2009.

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;
- 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 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

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

Ian Evans

I Evans
Director

8 January 2010

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 2008 which comprise the accounting policies, profit and loss account, balance sheet and notes 1 to 18. 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 2008 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 Report of the Director is consistent with the financial statements.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

8 January 2010

Accounting policies

Basis of accounting

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

Turnover represents sales to external customers at invoiced amounts less value added tax. License 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.

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.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Profit and loss account

	Note	2008 £	2007 £
Turnover	2	**1,978,011**	2,780,758
Cost of sales		**448,401**	713,174
Gross profit		**1,529,610**	2,067,584
Other operating charges	3	**1,768,983**	1,512,349
Operating (loss)/profit	4	**(239,373)**	555,235
Interest receivable		**4,320**	3,557
Interest payable and similar charges	7	**(163,919)**	(188,812)
(Loss)/profit on ordinary activities before taxation		**(398,972)**	369,980
Tax on (loss)/profit on ordinary activities	8	**–**	–
(Loss)/profit for the financial year		**(398,972)**	369,980
Balance brought forward		**(2,629,207)**	(2,999,187)
Balance carried forward		**(3,028,179)**	(2,629,207)

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.

The accompanying accounting policies and notes form part of these financial statements.

Balance sheet

	Note	2008 £	2007 £
Fixed assets			
Tangible assets	10	**9,754**	12,948
Current assets			
Debtors	11	**524,696**	1,083,104
Cash at bank		**378,721**	104,191
		903,417	1,187,295
Creditors: amounts falling due within one year	12	**3,941,348**	3,829,448
Net current liabilities		**(3,037,931)**	(2,642,153)
Total assets less current liabilities		**(3,028,177)**	(2,629,205)
Capital and reserves			
Called-up equity share capital	14	**2**	2
Profit and loss account		**(3,028,179)**	(2,629,207)
Deficit	16	**(3,028,177)**	(2,629,205)

These financial statements were approved by the director and authorised for issue on 8 January 2010 and are signed on their behalf by:

I Evans
Director

Company number: 2715377

Notes to the financial statements

1 Going Concern

In the year to 31 December 2008 the company reported a loss before taxation of £398,972 and a net current liabilities position of £3,037,931. The company made an unaudited loss before taxation of £271,000 in the 10 months to 31 October 2009.

The company has full support from its parent undertaking, Astea International Inc, to continue trading for the foreseeable future, being at least 12 months from the date of approval of these financial statements.

The director has prepared projected cash flow information for the 12 month period to 31 December 2010. The cashflow information demonstrates that there are sufficient cash resources over that period dependent on the following factors:

The director has projected improved trading volumes over the next 12 months through specific focus of resources on sales.

The director has reviewed and reduced the operating cost base of the entity.

For these reasons the director considers it appropriate to prepare the financial statements on a going concern basis.

2 Turnover

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

	2008	2007
	£	£
United Kingdom	**1,978,011**	2,780,758

3 Other operating charges

	2008	2007
	£	£
Distribution costs	**172,972**	306,391
Administrative expenses	**1,596,011**	1,205,958
	1,768,983	1,512,349

4 Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	2008 £	2007 £
Depreciation of owned fixed assets	**10,917**	20,748
Auditor's remuneration:		
Audit fees	**16,500**	21,000
Accountancy fees	**–**	1,000
Operating lease costs:		
Other	**39,872**	39,872

5 Particulars of employees

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

	2008 No	2007 No
Number of production staff	**13**	13
Number of distribution staff	**4**	4
Number of administrative staff	**2**	2
	19	19

The aggregate payroll costs of the above were:

	2008 £	2007 £
Wages and salaries	**1,197,679**	1,143,892
Social security costs	**125,353**	123,856
Other pension costs	**69,197**	46,972
	1,392,229	1,314,720

6 Directors

Remuneration in respect of directors was as follows:

	2008 £	2007 £
Emoluments receivable	**109,894**	137,090
Value of company pension contributions to money purchase schemes	**6,000**	10,065
Compensation for loss of directorship	**–**	85,872
	115,894	233,027

6 Directors (continued)

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

	2008 No	2007 No
Money purchase schemes	**1**	1

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

	2008 No	2007 No
Directors who exercised share options	**1**	1

7 Interest payable and similar charges

	2008 £	2007 £
Interest on loans from group undertakings	**163,919**	188,812

8 Taxation on ordinary activities

Analysis of charge in the year

The deferred tax asset of £593,716 (2007: £423,264) has not been recognised as there is insufficient evidence that the asset will be recoverable in the short-term.

Factors affecting current tax charge

The tax assessed on the (loss)/profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 28% (2007 - 30%).

	2008 £	2007 £
(Loss)/profit on ordinary activities before taxation	**(398,972)**	369,980
(Loss)/profit on ordinary activities by rate of tax	**(111,712)**	110,994
Expenses not deductible for tax purposes	**(10,772)**	56,892
Capital allowances for period in excess of depreciation	**1,819**	(15,119)
Utilisation of tax losses	**122,836**	(151,698)
Other short term timing differences	**(2,171)**	(1,069)
Total current tax	**-**	-

9 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 £69,197 (2007: £46,972)and accrued pension costs at the year end amount to 13,048 (2007: £nil).

10 Tangible fixed assets

	Leasehold Property £	Fixtures & Fittings £	Computer Equipment £	Office Equipment £	Total £
Cost					
At 1 January 2008	38,293	32,908	109,724	33,828	214,753
Additions	–	538	7,185	–	7,723
Disposals	–	–	–	(174)	(174)
At 31 December 2008	38,293	33,446	116,909	33,654	222,302
Depreciation					
At 1 January 2008	38,293	31,214	100,797	31,501	201,805
Charge for the year	–	797	7,849	2,271	10,917
On disposals	–	–	–	(174)	(174)
At 31 December 2008	38,293	32,011	108,646	33,598	212,548
Net book value					
At 31 December 2008	–	**1,435**	**8,263**	**56**	**9,754**
At 31 December 2007	–	1,694	8,927	2,327	12,948

11 Debtors

	2008 £	2007 £
Trade debtors	**503,396**	1,071,096
Other debtors	**1,780**	1,653
Prepayments and accrued income	**19,520**	10,355
	524,696	1,083,104

12 Creditors: amounts falling due within one year

	2008 £	2007 £
Trade creditors	**11,006**	58,659
Amounts owed to group undertakings	**3,142,613**	3,233,359
PAYE and social security	**35,323**	111,320
VAT	**23,537**	–
Accruals and deferred income	**728,869**	426,110
	3,941,348	3,829,448

13 Operating lease commitments

At 31 December 2008 the company had annual commitments under non-cancellable operating leases as set out below.

	Land & buildings 2008 £	2007 £
Operating leases which expire:		
Within 1 year	-	4,984
Within 2 to 5 years	39,872	-
	39,872	4,984

14 Share capital

Authorised share capital:

	2008 £	2007 £
1,000 Ordinary shares of £1 each	1,000	1,000

Allotted, called up and fully paid:

	2008 No	£	2007 No	£
Ordinary shares of £1 each	2	2	2	2

14 Share capital (continued)

Share-based payments

The ultimate parent company Astea International Inc 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 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:

	2008 Weighted average exercise price (US $)	2008 Number of share options	2007 Weighted average exercise price (US $)	2007 Number of share options
Outstanding at the beginning of the year	4.99	50,000	5.16	25,000
Granted during the year	-	-	4.53	30,000
Forfeited during the year	5.67	(20,000)	-	-
Exercised during the year	-	-	3.10	(5,000)
Outstanding at the end of the year	4.53	30,000	4.99	50,000

The exercise price of options outstanding at the end of the year was $4.53 (2007: ranged between $3.10 and $7.28) and their weighted average contractual life was 8.85 (2007: 9.5 years).

Of the total number of options outstanding at the end of the year 7,500 (2007: 6,250) had vested and were exercisable at the end of the year end.

The weighted average share price (at the date of exercise) of options exercised during the year was $nil (2007: $6.27).

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.

	2008	2007
Option pricing model used	Black Scholes	Black Scholes
Weighted average fair value at grant date	$3.11	$3.11
Weighted average contractual life (years)	4.29	4.18
Annual forfeiture rate	19.23%	18.99%
Expected volatility	87%	91%
Risk-free interest rate	2.22%	4.22%

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

The company recognised a total charge of £14,391 (2007: £13,882) relating to equity-settled

14 Share capital (continued)

share based payments during the year. The credit is 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.

15 Profit and loss account

	2008 £	2007 £
Balance brought forward	**(2,629,207)**	(2,999,187)
(Loss)/profit for the financial year	**(398,972)**	369,980
Balance carried forward	**(3,028,179)**	(2,629,207)

16 Reconciliation of movements in shareholders' funds

	2008 £	2007 £
(Loss)/Profit for the financial year	**(398,972)**	369,980
Opening shareholders' deficit	**(2,629,205)**	(2,999,185)
Closing shareholders' deficit	**(3,028,177)**	(2,629,205)

17 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.

18 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.