ASTEA INTERNATIONAL INC
Form 10-Q
May 12, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2011

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934.

For the transition period from to

Commission File Number: 0-26330

ASTEA INTERNATIONAL INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	23-2119058 (I.R.S. Employer Identification No.)
240 Gibraltar Road, Horsham, PA (Address of principal executive offices)	19044 (Zip Code)

Registrant's telephone number, including area code: (215) 682-2500

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer", "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange act.

Large Accelerated filer __ Accelerated Filer __ Non-accelerated Filer Smaller Reporting Company X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No X

As of May 9, 2011, 3,555,049 shares of the registrant's Common Stock, par value $.01 per share, were outstanding.

ASTEA INTERNATIONAL INC. AND SUBSIDIARIES

FORM 10-Q
QUARTERLY REPORT
INDEX

PART I - FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

ASTEA INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$3,280,000	$2,404,000
Investments available for sale	135,000	206,000
Receivables, net of allowance of $113,000 (unaudited) and $115,000	6,335,000	6,328,000
Prepaid expenses and other	629,000	503,000
Total current assets	10,379,000	9,441,000
Property and equipment, net	546,000	340,000
Intangibles, net	606,000	640,000
Capitalized software, net	2,507,000	2,145,000
Goodwill	1,538,000	1,538,000
Restricted cash	121,000	87,000
Other assets	121,000	109,000
	$15,818,000	$14,300,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$3,981,000	$3,230,000
Deferred revenues	6,128,000	6,019,000
Total current liabilities	10,109,000	9,249,000
Long-term liabilities:		
Deferred tax liability	203,000	194,000
Commitment and contingencies		
Stockholders' equity:		
Convertible redeemable preferred stock, $.01 par value, shares authorized 5,000,000; issued and outstanding 826,000	8,000	8,000
Common stock $.01 par value, 25,000,000 shares authorized; issued 3,597,000; outstanding 3,555,000	36,000	36,000
Additional paid-in capital	31,066,000	31,083,000

Accumulated deficit, including accumulated comprehensive loss of of $556,000 and $589,000	(25,396,000)	(26,062,000)
Less: treasury stock at cost, 42,000 shares	(208,000)	(208,000)
Total stockholders' equity	5,506,000	4.857,000
Total liabilities and stockholders' equity	$ 15,818,000	$ 14,300,000

See accompanying notes to the consolidated financial statements.

ASTEA INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Revenues:		
Software license fees	$2,286,000	$974,000
Services and maintenance	4,673,000	3,716,000
Total revenues	6,959,000	4,690,000
Costs and expenses:		
Cost of software license fees	440,000	531,000
Cost of services and maintenance	3,013,000	2,602,000
Product development	486,000	891,000
Sales and marketing	1,309,000	785,000
General and administrative	1,074,000	973,000
Total costs and expenses	6,322,000	5,782,000
Income (loss) from operations	637,000	(1,092,000)
Interest income	5,000	9,000
Income (loss) before income taxes	642,000	(1,083,000)
Income tax expense	9,000	10,000
Net income (loss)	$633,000	$(1,093,000)
Preferred dividend	75,000	71,000
Net income (loss) allocable to common stockholders	$558,000	$(1,164,000)
Net income (loss)	$633,000	$(1,093,000)
Cumulative translation adjustment and unrealized gain on investment	33,000	120,000
Comprehensive income (loss)	$666,000	$(973,000)
Basic earnings (loss) per share allocable to common stockholders	$0.16	$(0.33)
Diluted earnings (loss) per share allocable to common stockholders	$0.13	$(0.33)
Weighted average shares outstanding used in computing basic earnings (loss) per share	3,555,000	3,555,000
Weighted average shares outstanding used in computing diluted earnings (loss) per share	4,447,000	3,555,000

See accompanying notes to the consolidated financial statements.

4

ASTEA INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	For the Three Months Ended March 31, 2011 (Unaudited)	For the Year Ended December 31, 2010
Convertible redeemable preferred Stock		
Balance, beginning and end of period	$8,000	$8,000
Common stock		
Balance, beginning and end of period	36,000	36,000
Additional paid-in-capital		
Balance, beginning of period	31,083,000	31,005,000
Exercise of stock options	-	3,000
Dividends paid	(75,000)	(210,000)
Stock-based compensation	58,000	285,000
Balance, end of period	31,066,000	31,083,000
Accumulated deficit		
Balance, beginning of period	(26,062,000)	(24,355,000)
Net income (loss)	633,000	(1,570,000)
Other comprehensive income (loss):		
Net unrealized gain on investments available for sale	1,000	7,000
Translation adjustments	32,000	(144,000)
Comprehensive income (loss)	666,000	(1,707,000)
Balance, end of period	(25,396,000)	(26,062,000)
Treasury stock, at cost		
Balance, beginning and end of period	(208,000)	(208,000)
Total stockholders' equity	$5,506,000	$4,857,000

See accompanying notes to the consolidated financial statements.

ASTEA INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended March 31, 2011	2010
Cash flows from operating activities:		
Net income (loss)	$ 633,000	$ (1,093,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	477,000	599,000
Recoveries of bad debt	(2,000)	(23,000)
Stock based compensation	58,000	74,000
Deferred tax	9,000	10,000
Changes in operating assets and liabilities:		
Receivables	104,000	221,000
Prepaid expenses and other	(119,000)	(76,000)
Accounts payable and accrued expenses	588,000	229,000
Deferred revenues	117,000	1,181,000
Other assets	(12,000)	(64,000)
Net cash provided by operating activities	1,853,000	1,058,000
Cash flows from investing activities:		
Sale of short term investments	497,000	299,000
Purchase of short term investments	(426,000)	(206,000)
Purchases of property and equipment	(72,000)	(45,000)
Capitalized software development costs	(753,000)	(274,000)
(Increase) decrease in restricted cash	(34,000)	4,000
Net cash used in investing activities	(788,000)	(222,000)
Cash flows from financing activities:		
Proceeds from the exercise of common stock options	-	3,000
Dividend payments on preferred stock	(75,000)	(45,000)
Net cash used in financing activities	(75,000)	(42,000)
Effect of exchange rate changes on cash	(114,000)	(88,000)
Net increase in cash and cash equivalents	876,000	706,000
Cash and cash equivalents, beginning of period	2,404,000	2,498,000
Cash and cash equivalents, end of period	$ 3,280,000	$ 3,204,000
Supplemental schedule of non-cash investing activities:		
Lease incentive liability	$ 185,000	$ -

See accompanying notes to the consolidated financial statements.

Item 1. CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ASTEA INTERNATIONAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The consolidated financial statements at March 31, 2011 and for the three month periods ended March 31, 2011 and 2010 of Astea International Inc. and subsidiaries (“Astea” or the "Company") are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The following unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto, included in the Company’s latest annual report (Form 10-K) and our Form 10-Q’s for the quarters ended March 31, 2010, June 30, 2010 and September 30, 2010. The interim financial information presented is not necessarily indicative of results expected for the entire year ending December 31, 2011.

2. RECENTLY ADOPTED ACCOUNTING GUIDANCE

In October 2009, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance on revenue recognition, which was effective for us beginning January 1, 2011. Under the new guidance, arrangements that include tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance. Software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. Adoption of this new guidance has not had a material impact on our financial statements.

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosure on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of fair value measurements hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for us with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which was effective for us beginning January 1, 2011. Other than requiring additional disclosures, adoption of this new guidance did not have a material impact on our financial statements.

In June 2010, the FASB issued authoritative guidance on milestone method of revenue recognition, which was effective for us beginning January 1, 2011. Under the new guidance, it clarifies when revenue can be recognized when a milestone is achieved if the milestone meets all criteria to be considered substantive. A milestone does not include events for which the occurrence is either contingent solely upon the passage of time or the result of a counter-party's performance.

For a milestone to be substantive it must meet the following criteria:

1. The consideration being earned should be commensurate with either the vendor's performance to achieve the milestone or the enhancement of the value of
   the item delivered as a result of the vendor's performance,
2. Should be related solely to past performance,
3. Be reasonable relative to all deliverables and payment terms in the arrangement, and
4. Should be considered in its entirety and cannot be bifurcated.

The decision to use the milestone method is a policy election and any of the other revenue recognition methods could be applied. The new guidance includes disclosures on how the milestone method should be reported within each reporting period. Adoption of this new guidance has not had a material impact on our financial statements.

In December 2010, the FASB issued authoritative guidance which modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts, which was effective for us beginning on January 1, 2011. Early adoption was not permitted. Under the new guidance reporting units with zero or negative carrying amounts will be required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples in the FASB guidance document, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Adoption of this new guidance has not had a material impact on our financial statements.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company accounts for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

1. Level 1 - Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access.
2. Level 2 - Valuations based on inputs on other than quoted prices included within Level 1, for which all significant inputs are observable, either directly or indirectly.
3. Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The inputs reflect the Company's assumptions about the assumptions a market participant would use in pricing the asset.

The carrying amounts of cash and cash equivalents, trade accounts receivable, other assets, trade accounts payable, and accrued expenses at face value approximate fair value because of the short maturity of these instruments.

Investments classified as available for sale are measured using quoted market prices multiplied by the quantity held where quoted market prices were available.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. Fair value is calculated based on publicly available market information or other estimates determined by management. We employ a systematic methodology on a quarterly basis that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality, the duration and extent to which the fair value is less than cost, and for equity securities, our intent and ability to hold, or plans to sell, the investment. For fixed income securities, we also evaluate whether we have plans to sell the security or it is more likely than not that we will be required to sell the security before recovery. We also consider specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to other income (expense) and a new cost basis in the investment is established.

The fair value of goodwill is determined by estimating the expected present value of future cash flows without reference to observable market transactions.

4. INVESTMENTS AVAILABLE FOR SALE

Investments that the Company designated as available-for-sale are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income (loss). The Company bases the cost of the investment sold on the specific identification method. The available-for-sale investments consist of mutual funds. If an available-for-sale investment is other than temporarily impaired, the loss is charged to either earnings or stockholders' equity depending on our intent and ability to retain the security until we recover the full cost basis and the extent of the loss attributable to the creditworthiness of the issuer.

On March 31, 2011 and December 31, 2010 the fair value for all of the Company's investments was determined based upon quoted prices in active markets for identical assets (Level 1).

The carrying amount, gross unrealized holding gains, gross unrealized holding losses, and fair value of available-for-sale debt securities by major security type and class of security at March 31, 2011 and December 31, 2010 were as follows:

	Aggregate cost basis	Gross unrealized holding gains	Gross unrealized holding (losses)	Aggregate fair value
At March 31, 2011				
Available-for-sale:				
Mutual Funds	$133,000	$2,000	—	$135,000
	$133,000	$2,000	—	$135,000
At December 31, 2010				
Available-for-sale:				
Mutual Funds	$205,000	$1,000	—	$206,000
	$205,000	$1,000	—	$206,000

5. INCOME TAX

The Company has identified its federal tax return and its state returns in Pennsylvania and California as "major" tax jurisdictions. Based on the Company's evaluation, it has been concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements. The Company's evaluation was performed for tax years ended 2005 through 2010, the only periods subject to examination. The Company believes that its income tax positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position.

The Company's policy for recording interest and penalties associated with audits is to record such items as a component of income before income taxes. Penalties are recorded in general and administrative expenses and interest paid or received is recorded in interest expense or interest income, respectively, in the statement of operations. For the first quarter 2011, there was no interest or penalties related to the settlement of audits.

At March 31, 2011, the Company maintains a 100% valuation allowance for its remaining deferred tax assets, based on the uncertainty of the realization of future taxable income.

In 2008, the Israel Taxing Authority "ITA" notified the Company that it intends to re-examine a 2002 transaction that it had previously approved. The Company is vigorously defending itself in court and based on information to date, does not expect this issue to result in any additional tax to the Company. It is the opinion of the Company based on current information that this matter will not have a material impact on its financial condition or results of operations.

6. STOCK-BASED COMPENSATION

The Company records stock-based compensation using the modified prospective transition method. Under this method, compensation costs recognized in 2010 include (a) compensation costs for all share-based payments granted to employees and directors prior to, but not yet vested as of January 1, 2006, based on the grant date value estimated and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value.

The Company estimates the fair value of stock options granted using the Black-Scholes-Merton (Black-Scholes) option-pricing formula and amortizes the estimated option value using an accelerated amortization method where each option grant is split into tranches based on vesting periods. The Company's expected term represents the period that the Company's share-based awards are expected to be outstanding and was determined based on historical experience regarding similar awards, giving consideration to the contractual terms of the share-based awards and employee termination data. Executive level employees who hold a majority of options outstanding, and non-executive level employees each have similar historical option exercise and termination behavior and thus were grouped for valuation purposes. The Company's expected volatility is based on the historical volatility of its traded common stock and places exclusive reliance on historical volatilities to estimate our stock volatility over the expected term of its awards. The Company has historically not paid dividends to common stockholders and has no foreseeable plans to issue dividends. The risk-free interest rate is based on the yield from the U.S. Treasury zero-coupon bonds with an equivalent term.

As of March 31, 2011, the total unrecognized compensation cost related to non-vested options amounted to $343,000, which is expected to be recognized over the options' average remaining vesting period of 2.56 years. No income tax benefit was realized by the Company in the three months ended March 31, 2011.

Under the Company's stock option plans, option awards generally vest over a four year period of continuous service and have a 10 year contractual term. The fair value of each option is amortized on a straight-line basis over the option's vesting period. The fair value of each option is estimated on the date of grant using the Black-Scholes option valuation model.

There were 10,000 options granted during the first three months of 2011. During the same period in 2010, the Company granted 15,000 options.

Activity under the Company's stock option plans is as follows:

	OPTIONS OUTSTANDING	
	Shares	Weighted Average Exercise Price Per Share
Balance, December 31, 2010	615,000	$ 4.42
Granted	10,000	3.20
Balance, March 31, 2011	625,000	$ 4.40

The following table summarizes outstanding options under the Company's stock options plans as of March 31, 2011.

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding Options	625,000	$ 4.40	6.58	$ 897,000
Ending Vested and Expected to Vest	474,000	$ 4.67	7.01	$ 606,000
Options Exercisable	369,000	$ 5.32	5.09	$ 307,000

7. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share is computed on the basis of the weighted average number of shares and common stock equivalents outstanding during the period. In the calculation of diluted earnings per share, shares outstanding are adjusted to assume conversion of the Company's non-interest bearing convertible stock and exercise of options as if they were dilutive. In the calculation of basic earnings (loss) per share, weighted average numbers of shares outstanding are used as the denominator.

In the calculation of basic earnings per share, weighted average numbers of shares outstanding are used as the denominator. The Company had net income allocable to the common stockholders for the three months ended March 31, 2011 and a net loss allocable to common stockholders for the three months ended March 31, 2010. Earnings (loss) per share is computed as follows:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Numerator:		
Net income (loss) allocable to common stockholders (A)	$558,000	$(1,164,000)
Denominator:		
Weighted average shares used to compute net earnings (loss) allocable to common stockholders per common share-basic (B)	3,555,000	3,555,000
Conversion of preferred shares to common stock	826,000	-
Effect of dilutive stock options	66,000	-
Weighted average shares used to compute net earnings (loss) allocable to common stockholders per common share-dilutive (C)	4,447,000	3,555,000
Basic net earnings (loss) per share to common stockholders (A/B)	$0.16	$(0.33)
Dilutive net earnings (loss) per share to common stockholders (A/C)	$0.13	$(0.33)

All options outstanding at March 31, 2010 to purchase shares of common stock and shares of common stock issued on the assumed conversion of the eligible preferred stock were excluded from the diluted loss per common share calculation as the inclusion of these options would have been antidilutive.

8. MAJOR CUSTOMERS

For the three months ended March 31, 2011 and 2010, there was one customer that accounted for 17% and 15%, respectively, of total revenues. At March 31, 2011, there were two customers that accounted for 20% and 12%, respectively of total accounts receivable. At December 31, 2010, there were two customers that accounted for 31% and 11%, respectively, of total accounts receivable.

9. GEOGRAPHIC SEGMENT DATA

The Company and its subsidiaries are engaged in the design, development, marketing and support of its service management software solutions. Substantially all revenues result from the license of the Company's software products and related professional services and customer support services. The Company's chief executive officer reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by geographic region for purposes of making operating decisions and assessing financial performance. Accordingly, the Company considers itself to have three reporting segments as follows:

For the Three Months Ended,	March 31, 2011	March 31, 2010
Revenues:		
Software license fees		
United States	$ 794,000	$ 62,000
Total United States software license fees	794,000	62,000
Europe	210,000	216,000
Asia Pacific	1,282,000	696,000
Total international software license fees	1,492,000	912,000
Total software license fees	2,286,000	974,000
Services and maintenance		
United States	2,589,000	2,345,000
Total United States service and maintenance revenue	2,589,000	2,345,000
Europe	920,000	551,000
Asia Pacific	1,164,000	820,000
Total international service and maintenance revenue	2,084,000	1,371,000
Total service and maintenance revenue	4,673,000	3,716,000
Total revenue	$ 6,959,000	$ 4,690,000
Net income (loss)		
United States	$ 665,000	$ (943,000)
Europe	(183,000)	(113,000)
Asia Pacific	151,000	(37,000)
Net income (loss)	$ 633,000	$ (1,093,000)

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

This document contains various forward-looking statements and information that are based on management's beliefs, assumptions made by management and information currently available to management. Such statements are subject to various risks and uncertainties, which could cause actual results to vary materially from those contained in such forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected or projected. Certain of these, as well as other risks and uncertainties are described in more detail herein and in Astea International Inc.'s ("Astea or the Company") Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Astea is a global provider of service management software that addresses the unique needs of companies who manage capital equipment, mission critical assets and human capital. Clients include Fortune 500 to mid-size companies which Astea services through company facilities in the United States, United Kingdom, Australia, Japan, the Netherlands and Israel. Since its inception in 1979, Astea has licensed applications to companies in a wide range of sectors including information technology, telecommunications, instruments and controls, business systems, and medical devices.

Astea Alliance, the Company's service management suite of solutions, supports the complete service lifecycle, from lead generation and project quotation to service and billing through asset retirement. It integrates and optimizes critical business processes for Contact Center, Field Service, Depot Repair, Logistics, Professional Services, and Sales and Marketing. Astea extends its application with portal, analytics and mobile solutions. Astea Alliance provides service organizations with technology-enabled business solutions that improve profitability, stabilize cash-flows, and reduce operational costs through automating and integrating key service, sales and marketing processes.

Marketing and sales of licenses, service and maintenance related to the Company's legacy system DISPATCH-1® products are limited to existing DISPATCH-1 customers.

FieldCentrix

On September 21, 2005, the Company, through a wholly owned subsidiary, FC Acquisition Corp., acquired substantially all of the assets of FieldCentrix Inc., the industry's leading mobile field force automation company. FieldCentrix develops and markets mobile field service automation (FSA) systems, which include the wireless dispatch and support of mobile field technicians using portable, hand-held computing devices. The FieldCentrix offering has evolved into a leading complementary service management solution that runs on a wide range of mobile devices (handheld computers, laptops and PC's, and Pocket PC devices), and integrates seamlessly with popular CRM and ERP applications. FieldCentrix has licensed applications to Fortune 500 and mid-size companies in a wide range of sectors including HVAC, building and real estate services, manufacturing, process instruments and controls, and medical equipment.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are more fully described in its Summary of Accounting Policies, Note 2, in the Company's 2010 Annual Report on Form 10-K. The preparation of financial statements in conformity with accounting principles generally accepted within the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying financial statements and related notes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below; however, application of these accounting policies involves the exercise of judgments and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of Astea International Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated upon consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant assets and liabilities that are subject to estimates include allowances for doubtful accounts, goodwill and other acquired intangible assets, deferred tax assets and certain accrued and contingent liabilities.

Revenue Recognition

Astea's revenue is principally recognized from two sources: (i) licensing arrangements and (ii) services and maintenance.

The Company markets its products primarily through its direct sales force and resellers. License agreements do not provide for a right of return, and historically, product returns have not been significant.

The Company recognizes revenue from license sales when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the license fee is fixed and determinable and the collection of the fee is probable. We utilize written contracts as a means to establish the terms and conditions by which our products support and services are sold to our customers. Delivery is considered to have occurred when title and risk of loss have been transferred to the customer, which generally occurs after a license key has been delivered electronically to the customer. Revenue for arrangements with extended payment terms in excess of one year is recognized when the payments become due, provided all other recognition criteria are satisfied. If collectability is not considered probable, revenue is recognized when the fee is collected. Our typical end user license agreements do not contain acceptance clauses. However, if acceptance criteria are required, revenues are deferred until customer acceptance has occurred.

If these criteria are not met, then revenue is deferred until such criteria are met or until the period(s) over which the last undelivered element is delivered. If there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on each unit's relative fair value. There may be cases, however, in which there is objective and reliable evidence of fair value of the undelivered item(s) but no such evidence for the delivered item(s). In those cases, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered item(s) equals the total arrangement consideration less the aggregate fair value of the undelivered item(s). We apply the revenue recognition policies discussed below to each separate unit of accounting.

Astea allocates revenue to each element in a multiple-element arrangement based on the elements' respective fair value, determined by the price charged when the element is sold separately. Specifically, Astea determines the fair value of the maintenance portion of the arrangement based on the price, at the date of sale, if sold separately, which is generally a fixed percentage of the software license selling price. The professional services portion of the arrangement is based on hourly rates which the Company charges for those services when sold separately from software. If evidence of fair value of all undelivered elements exists, but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. If an undelivered element for which evidence of fair value does not exist, all revenue in an arrangement is deferred until the undelivered element is delivered or fair value can be determined. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. The proportion of the revenue recognized upon delivery can vary from quarter-to-quarter depending upon the determination of vendor-specific objective evidence ("VSOE") of fair value of undelivered elements. The residual value, after allocation of the fee to the undelivered elements based on VSOE of fair value, is then allocated to the perpetual software license for the software products being sold.

When appropriate, the Company may allocate a portion of its software revenue to post-contract support activities or to other services or products provided to the customer free of charge or at non-standard rates when provided in conjunction with the licensing arrangement. Amounts allocated are based upon standard prices charged for those services or products which, in the Company's opinion, approximate fair value. Software license fees for resellers or other members of the indirect sales channel are based on a fixed percentage of the Company's standard prices. The Company recognizes software license revenue for such contracts based upon the terms and conditions provided by the reseller to its customer. The Company regularly communicates with its resellers and recognizes revenue based on information from its resellers regarding possible returns and collectability. However, the Company does not have a history of returns from the resellers.

Revenue from post-contract support is recognized ratably over the term of the contract, which is generally twelve months on a straight-line basis. Consulting and training service revenue is generally unbundled and recognized at the time the service is performed. If the Company does have any fixed-price arrangements for services the revenue is recognized using the proportional performance method based on direct labor hours incurred to date as a percentage of total estimated direct labor hours required to complete the project. Fees from licenses sold together with consulting services are generally recognized upon shipment, provided that the contract has been executed, delivery of the software has occurred, fees are fixed and determinable and collection is probable.

We believe that our accounting estimates used in applying our revenue recognition are critical because:

- the determination that it is probable that the customer will pay for the products and services purchased is inherently judgmental;
- the allocation of proceeds to certain elements in multiple-element arrangements is complex;
- the determination of whether a service is essential to the functionality of the software is complex;
- establishing company-specific fair values of elements in multiple-element arrangements requires adjustments from time-to-time to reflect recent prices charged when each element is sold separately; and
- the determination of the stage of completion for certain consulting arrangements is complex.

Changes in the aforementioned items could have a material effect on the type and timing of revenue recognized.

If we were to change our pricing approach in the future, this could affect our revenue recognition estimates, in particular, if bundled pricing precludes establishment of VSOE.

For the three months ended March 31, 2011 and 2010, the Company recognized $6,959,000 and $4,690,000, respectively, of revenue related to software license fees and services and maintenance.

We present taxes assessed by a governmental authority including sales, use, value added and excise taxes on a net basis and therefore the presentation of these taxes is excluded from our revenues and is included in accrued expenses in the accompanying consolidated balance sheets until such amounts are remitted to the taxing authority.

Reimbursable Expenses

The Company charges customers for out-of-pocket expenses incurred by its employees during the performance of professional services in the normal course of business. Billings for out-of-pocket expenses that are reimbursed by the customer are to be included in revenues with the corresponding expense included in cost of services and maintenance.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts based on specifically identified amounts that management believes to be uncollectible. The Company also records an additional allowance based on certain percentages of aged receivables, which are determined based on historical experience and management's assessment of the general financial conditions affecting the Company's customer base. Once management determines that an account will not be collected, the account is written off against the allowance for doubtful accounts. If actual collections experience changes, revisions to the allowances may be required.

We believe that our estimate of our allowance for doubtful accounts is critical because of the significance of our accounts receivable relative to total assets. If the general economy deteriorates, or factors affecting the profitability or liquidity of the industry changed significantly, then this could affect the accuracy of our allowance for doubtful accounts.

Capitalized Software Research and Development Costs

The Company capitalizes software development costs incurred during the period subsequent to the establishment of technological feasibility through the product's availability for general release. Costs incurred prior to the establishment of technological feasibility are charged to product development expense. Product development expense includes payroll, employee benefits, other headcount-related costs associated with product development and any related costs to third parties under sub-contracting or net of any collaborative arrangements.

Software development costs are amortized on a product-by-product basis over the greater of the ratio of current revenues to total anticipated revenues or on a straight-line basis over the estimated useful lives of the products beginning with the initial release to customers. The Company's estimated life for its capitalized software products is two years based on current sales trends and the rate of product release. The Company continually evaluates whether events or circumstances have occurred that indicate that the remaining useful life of the capitalized software development costs should be revised or that the remaining balance of such assets may not be recoverable. The Company evaluates the recoverability of capitalized software based on the estimated future revenues of each product. As of March 31, 2011, management believes that no revisions to the remaining useful lives or write-downs of capitalized software development costs are required.

We believe that our estimate of our capitalized software costs and the period for their amortization is critical because of the significance of our balance of capitalized software costs relative to our total assets. Potential impairment is determined by comparing the balance of unamortized capitalized software costs to the sales revenue projected for a capitalized software product. If efforts to sell that software product are terminated, or if the projected sales revenue from that software product drops below a level that is less than the unamortized balance, then an impairment would be recognized.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired at the date of acquisition. Goodwill is not amortized but rather tested for impairment at least annually. The Company performs its annual impairment test as of the first day of the fiscal fourth quarter. The impairment test must be performed more frequently if there are triggering events, as for example when our market capitalization significantly declines for a sustained period, which could cause us to do interim impairment testing that might result in an impairment to goodwill.

The Company uses a two step method for determining goodwill impairment. In the first step, the Company determines the fair value of the reporting unit and compares that fair value to the carrying value of the reporting unit including goodwill. The fair value of the reporting unit is determined using various valuation techniques, including a comparable companies market multiple approach and a discounted cash flow analysis (an income approach). If the carrying value of a reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to measure the impairment loss, if any.

The Company compares the implied fair value of goodwill with the carrying amount of goodwill. The Company determined the implied fair value of goodwill in the same manner as if the Company had acquired those business units. Specifically, the Company must allocate the fair value of the reporting unit to all of the assets of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the implied fair value of goodwill.

The determination of the fair value of the reporting units and the allocation of that value to individual assets and liabilities within those reporting units requires the Company to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: the selection of appropriate peer group companies; control premiums appropriate for acquisitions in the industries in which the Company competes; the discount rate; terminal growth rates; and forecasts of revenue, operating income, depreciation and amortization, and capital expenditures.

Due to the inherent uncertainty involved in making these estimates, actual financial results could differ from those estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting unit or the amount of the goodwill impairment charge.

Our annual impairment test, which was completed during the fourth quarter of 2010, indicated that the fair value of our one reporting unit exceeded the carrying value and, therefore, the goodwill amount was not impaired. The Company determined there was no triggering event at March 31, 2011 and December 31, 2010 which could require an interim impairment analysis.

Major Customers

For the three months ended March 31, 2011 and 2010 there was one customer that accounted for 17% and 15%, respectively, of total revenues. At March 31, 2011, there were two customers that accounted for 20% and 12%, respectively, of total accounts receivable. At December 31, 2010, there were two customers that accounted for 31% and 11% respectively, of total accounts receivable.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to credit risk, consist of cash equivalents and accounts receivable. The Company's policy is to limit the amount of credit exposure to any one financial institution. The Company places investments with financial institutions evaluated as being creditworthy, or investing in short-term money market which are exposed to minimal interest rate and credit risk. Cash balances are maintained with several banks. Certain operating accounts may exceed the FDIC limits.

The Company sells its products to customers involved in a variety of industries including information technology, medical devices and diagnostic systems, industrial controls and instrumentation and retail systems. While the Company does not require collateral from its customers, it does perform continuing credit evaluations of its customer's financial condition.

Fair Value of Financial Instruments

The Company defines the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company accounts for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

1. Level 1 - Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access.
2. Level 2 - Valuations based on inputs on other than quoted prices included within Level 1, for which all significant inputs are observable, either directly or indirectly.
3. Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The inputs reflect the Company's assumptions about the assumptions a market participant would use in pricing the asset.

The carrying amounts of cash and cash equivalents, trade accounts receivable, other assets, trade accounts payable, and accrued expenses at face value approximate fair value because of the short maturity of these instruments.

Investments classified as available for sale are measured using quoted market prices multiplied by the quantity held where quoted market prices were available.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. Fair value is calculated based on publicly available market information or other estimates determined by management. We employ a systematic methodology on a quarterly basis that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality, the duration and extent to which the fair value is less than cost, and for equity securities, our intent and ability to hold, or plans to sell, the investment. For fixed income securities, we also evaluate whether we have plans to sell the security or it is more likely than not that we will be required to sell the security before recovery. We also consider specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to other income (expense) and a new cost basis in the investment is established.

The fair value of goodwill is determined by estimating the expected present value of future cash flows without reference to observable market transactions.

Accounting for Income Taxes

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and operating loss and tax credit carryforwards and are measured using the enacted tax rates and laws that will be in effect when the difference and carryforwards are expected to be recovered or settled. A valuation allowance for deferred tax assets is provided when we estimate that it is more likely than not that all or a portion of the deferred tax assets may not be realized through future operations. This assessment is based upon consideration of available positive and negative evidence which included, among other things, our most recent results of operations and expected future profitability. We consider our actual historical results to have a stronger weight than other more subjective indicators when considering whether to establish or reduce a valuation allowance on deferred tax assets.

The Company prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Estimated interest is recorded as a component of interest expense and penalties are recorded as a component of general and administrative expenses. Such amounts were not material for the first three months of 2011 and 2010 and did not have a material impact on our financial position.

Currency Translation

The accounts of the international subsidiaries and branch operations translate the assets and liabilities of international operations by using the exchange rate in effect at the balance sheet date. The results of operations are translated at average exchange rates during the period. The effects of exchange rate fluctuations in translating assets and liabilities of international operations into U.S. dollars are accumulated and reflected as a currency translation adjustment as other comprehensive loss in the accompanying consolidated statements of stockholders’ equity. Transaction gains and losses are included in net income (loss). General and administrative expenses include transaction gains (losses) of $32,000 and ($23,000) for the three months ended March 31, 2011 and 2010, respectively.

Earnings (Loss) Per Share

Earnings (loss) per share is computed on the basis of the weighted average number of shares and common stock equivalents outstanding during the period. In the calculation of diluted earnings per share, shares outstanding are adjusted to assume conversion of the Company’s non-interest bearing convertible stock and exercise of options as if they were dilutive. In the calculation of basic earnings (loss) per share, weighted average numbers of shares outstanding are used as the denominator.

In the calculation of basic earnings per share, weighted average numbers of shares outstanding are used as the denominator. The Company had a net income allocable to the common stockholders for the three months ended March 31, 2011 and a net loss allocable to common stockholders for the three months ended March 31, 2010.

Earnings (loss) per share is computed as follows:

	Three Months Ended March 31, 2011	2010
Numerator:		
Net income (loss) allocable to common stockholders (A)	$558,000	$(1,164,000)
Denominator:		
Weighted average shares used to compute net earnings (loss) allocable to common stockholders per common share-basic (B)	3,555,000	3,555,000
Conversion of preferred shares to common stock	826,000	-
Effect of dilutive stock options	66,000	-
Weighted average shares used to compute net earnings (loss) allocable to common stockholders per common share-dilutive (C)	4,447,000	3,555,000
Basic net earnings (loss) per share to common stockholders (A/B)	$0.16	$(0.33)
Dilutive net earnings (loss) per share to common stockholders (A/C)	$0.13	$(0.33)

All options outstanding at March 31, 2010 to purchase shares of common stock and shares of common stock issued on the assumed conversion of the eligible preferred stock were excluded from the diluted loss per common share calculation as the inclusion of these options would have been antidilutive.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss), unrealized gains (losses) on investments available for sale and foreign currency translation adjustments. The effects are presented in the accompanying Consolidated Statements of Stockholders' Equity.

Stock-Based Compensation

The Company records stock-based compensation using the modified prospective transition method. Under this method, compensation costs recognized in 2010 include (a) compensation costs for all share-based payments granted to employees and directors prior to, but not yet vested as of January 1, 2006, based on the grant date value estimated and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value.

The Company estimates the fair value of stock options granted using the Black-Scholes-Merton (Black-Scholes) option-pricing formula and amortizes the estimated option value using an accelerated amortization method where each option grant is split into tranches based on vesting periods. The Company's expected term represents the period that the Company's share-based awards are expected to be outstanding and was determined based on historical experience regarding similar awards, giving consideration to the contractual terms of the share-based awards and employee termination data. Executive level employees who hold a majority of options outstanding, and non-executive level employees each have similar historical option exercise and termination behavior and thus were grouped for valuation purposes. The Company's expected volatility is based on the historical volatility of its traded common stock and places exclusive reliance on historical volatilities to estimate our stock volatility over the expected term of its awards. The Company has historically not paid dividends to common stockholders and has no foreseeable plans to issue dividends. The risk-free interest rate is based on the yield from the U.S. Treasury zero-coupon bonds with an equivalent term. Results for prior periods have not been restated.

Under the Company’s stock option plans, options awards generally vest over a four year period of continuous service and have a 10 year contractual term. The fair value of each option is amortized on a straight-line basis over the option’s vesting period. The fair value of each option is estimated on the date of the grant using the Black-Scholes Merton option pricing formula. There were 10,000 and 15,000 options granted during the three months ended March 31, 2011 and 2010, respectively.

Convertible Redeemable Preferred Stock

On September 24, 2008 the Company issued 826,000 shares of Series-A Convertible Redeemable Preferred Stock ("Series A Preferred Stock") to its Chief Executive Officer at a price of $3.63 per share for a total of $3,000,000. Dividends accrue daily on the Series A Preferred Stock at an initial rate of 6% and are payable only when, as and if declared by the Company's Board of Directors, quarterly in arrears.

The Series A Preferred Stock may be converted into common stock at the initial rate of one share of common for each share of Series A Preferred Stock. After six months from issuance there is no limit on the number of shares that may be converted. Commencing two years after issuance, the Company shall have certain rights to cause conversion of all of the shares of Series A Preferred Stock then outstanding. Commencing four years after issuance, the Company may redeem, subject to board approval, all of the shares of Series A Preferred Stock then outstanding at a price equal to the greater of (i) 130% of the purchase price plus all accrued and unpaid dividends and (ii) the fair market value of such number of shares of common stock which the holder of the Series A Preferred Stock would be entitled to receive had the redeemed Series A Preferred Stock been converted immediately prior to the redemption.

The Company recorded the Series A Preferred Stock on the Company's consolidated balance sheet within stockholders' equity. The Series A Preferred Stock is recorded on the consolidated balance sheet at the amount of net proceeds received less an imputed dividend cost. The imputed dividend cost of $218,000 was the result of the Series A Preferred Stock having a dividend rate during the first two years after its issuance (6%) that is lower than the rate that becomes fixed (10%) after the initial two year period. The imputed dividend cost of $218,000 was amortized over the first two years from the date of issuance and is based upon the present value of the dividend discount using a 10% yield.

Results of Operations

Comparison of Three Months Ended March 31, 2011 and 2010

Revenues

Revenues increased $2,269,000 or 48%, to $6,959,000 for the three months ended March 31, 2011 from $4,690,000 for the three months ended March 31, 2010. Software license fee revenues increased $1,312,000, or 135%, from the same period last year. Services and maintenance fees for the three months ended March 31, 2011 amounted to $4,673,000, a 26% increase from the same quarter in 2010.

Software license fee revenues increased 135% to $2,286,000 in the first quarter of 2011 from $974,000 in the first quarter of 2010. Astea Alliance license revenues increased $1,226000 or 129%, to $2,180,000 in the first quarter of 2011 from $954,000 in the first quarter of 2010. The increase results from license sales in all regions in which the Company operates but primarily the Asia Pacific region. The Company sold $106,000 of software licenses from its FieldCentrix subsidiary, an increase of 430% from the same quarter of 2010. The increase is attributable to a greater distribution of sales to existing customers in the first three months of 2011 compared to 2010.

Services and maintenance revenues increased to $4,673,000 from $3,716,000 in the first quarter of 2011, an increase of 26%. Astea Alliance service and maintenance revenues increased by $1,118,000 or 43% compared to the first quarter of 2010. The increase resulted from increased demand from customers from new license deals that closed in 2010. Service and maintenance revenues generated by FieldCentrix, decreased by $160,000 or 15% from $1,051,000 to $891,000 during the same period in 2010. The decrease is due to a reduction in implementation projects compared to the same period in 2010. In addition, DISPATCH-1 service and maintenance revenues of $64,000 in the first three months of 2011 remained fairly consistent compared to the same period in 2010. The Company anticipates a future decline in service and maintenance revenue for DISPATCH-1 as the Company discontinued development of DISPATCH-1 at the end of 1999.

Costs of Revenues

Cost of software license fees decreased 17% to $440,000 in the first quarter of 2011 from $531,000 in the first quarter of 2010. Included in the cost of software license fees are the fixed costs of capitalized software amortization and amortization of software acquired from FieldCentrix and the cost of all third party software embedded in the Company's software licenses sold to customers. The principal cause of the decrease in cost of revenues is lower amortization of capitalized software, as certain versions which were amortized in 2010 have been fully amortized prior to this quarter. Amortization of capitalized software development costs was $391,000 for the quarter ended March 31, 2011 compared to $480,000 for the same quarter in 2010. The software license gross margin percentage was 81% in the first quarter of 2011 compared to 45% in the first quarter of 2010. The improvement in license margin resulted primarily from both the significant increase in license revenues and a small decrease in cost of revenues.

Cost of services and maintenance increased 16% to $3,013,000 in the first quarter of 2011 from $2,602,000 in the first quarter of 2010. The increase in cost of service and maintenance is attributed primarily to an increase in headcount from last year to this year and increases in salaries in the beginning of 2011. The services and maintenance gross margin percentage was 36% in the first quarter of 2011 compared to 30% in the first quarter of 2010. The increase in services and maintenance gross margin was primarily due to the increase in billable projects in all regions in which the Company operates.

Product Development

Product development expense decreased 46% to $486,000 in the first quarter of 2011 from $891,000 in the first quarter of 2010. The large decrease resulted from an increase in capitalized product development costs in the first quarter of 2011 compared to the same period in 2010. In the first three months of 2011, the Company began a new development project and added significant functionality to an existing version of its Astea Alliance product compared to the prior year. In addition, the Company released version 10 of its Astea Alliance product in January 2010, at which time capitalization of development costs ceased for that project. Fluctuations in product development expense from period to period can vary due to the amount of development expense which is capitalized. Development costs of $753,000 were capitalized in the first quarter of 2010 compared to $274,000 during the same period in 2010. Gross product development expense was $1,239,000 in the quarter ended March 31, 2011 which is 6% more than the same quarter in 2010. Product development expense as a percentage of revenues decreased to 7% in the first quarter of 2011 compared with 19% in the first quarter of 2010. The decrease in costs relative to revenues is due to the increase in revenues as well as decrease in product development cost.

Sales and Marketing

Sales and marketing expense increased 67% to $1,309,000 in the first quarter of 2011 from $785,000 in the first quarter of 2010. The increase in sales and marketing expense is attributable to an increase in costs associated with marketing projects, increases in headcount and an increase in commissions resulting from higher licenses sales. The Company continues to focus on improving its market presence through intensified marketing efforts to increase awareness of the Company’s products. This occurs through the use of Webinars focused in the vertical industries in which the Company operates, attendance at selected trade shows, and increased efforts in lead generation for its sales force. As a percentage of revenues, sales and marketing expense was 19% in the first three months of 2011 compared to 17% in the same period of 2010.

General and Administrative

General and administrative expenses increased 10% to $1,074,000 during the first quarter of 2011 from $973,000 in the first quarter of 2010. The increase in general and administrative expenses is principally attributable to an increase in headcount, salary increases in the beginning of 2011 and management bonuses accrued in the first quarter of 2011. As a percentage of revenue, general and administrative expenses decreased to 15% in the first quarter of 2011 from 21% in the first quarter of 2010.

Interest Income

Interest income decreased $4,000 to $5,000 in the first quarter of 2011 from the first quarter of 2010. The decrease resulted primarily from a decrease in investments and the decline in interest rates paid on invested cash.

Income Tax Expense

The Company recorded a provision for income tax of $9,000 for the three months ended March 31, 2011 compared to $10,000 for the same period in 2010.

International Operations

The Company's international operations contributed $3,576,000 of revenues in the first quarter of 2011, which is a 62% increase compared to revenues generated during the first quarter of 2010. The Company's revenues from international operations amounted to 51% of the total revenue for the first quarter in 2011, compared to 47% of total revenues for the same quarter in 2010. The increase in international revenues compared to the same period in 2010 is primarily due to increased revenues generated by both the Asia Pacific region, as well as, an increase in the European region.

Net Income (Loss)

Net income for the three months ended March 31, 2011 was $633,000 compared to net loss of ($1,093,000) for the three months ended March 31, 2010. The increase in the net income of $1,726,000 is primarily the result of a 48% increase in revenues, partially offset by a 9% increase in operating costs. The increase in operating expense was primarily due to increase in headcount in all regions. The increase in revenues was primarily due to an increase in license sales in all regions and an increase in professional service revenue.

Liquidity and Capital Resources

Operating Activities

Net cash generated by operating activities increased by $795,000 to $1,853,000 for the three months ended March 31, 2011 compared to cash provided by of $1,058,000 for the three months ended March 31, 2010. The increase was attributable to an increase in net income of $1,726,000, an increase in accounts payable of $359,000 and an increase in other long term assets of $52,000. Partially offsetting the increases in cash flow were a decrease in noncash expenses of $117,000, a decrease in accounts receivable of $117,000, a decrease in deferred revenue of $1,064,000, a decrease in prepaid expenses of $43,000 and an increase deferred taxes of $1,000.

Investing Activities

The Company used $788,000 for investing activities in the first three months of 2011 compared to $222,000 used in the first three months of 2010. The increase in cash used for investing activities is attributable to the purchase of $220,000 of short term investments, an increase of $27,000 in the purchases of property and equipment, and an increase in capitalized software development costs of $479,000. Partially offsetting the increases were sales of short term investments of $200,000 compared to the first three months of 2010 and the increase of $38,000 in restricted cash.

Financing Activities

The Company used $75,000 for financing activities in the first three months of 2011 compared to using $42,000 in the same period of 2010. In the first three months of 2011 and 2010, the only financing expenditures were payments of $75,000 and $45,000, respectively, of preferred stock dividends partially offset by the exercise of stock options which provided $3,000 in the first three months of 2010. The dividend payments increased in accordance with the underlying Series-A Convertible Preferred Stock agreement.

Due to the weakening of the U.S. dollar related to most other currencies in which the Company operates, primarily the Australian dollar, Japanese yen, the Euro, the British pound sterling and Israel shekel, the effect of exchange rates on cash provided an outflow of ($114,000) in 2011 compared to an outflow of ($88,000) in 2010.

At March 31, 2011, the Company had a working capital ratio of 1.03:1, with cash and investments available for sale of $3,415,000. The Company believes that it has adequate cash resources to make the investments necessary to sustain its continuing operations for the next twelve months. The Board of Directors from time to time reviews the Company's forecasted operations and financial condition to determine whether and when payment of a dividend or dividends is appropriate. The Company does not anticipate that its operations or financial condition will be affected materially by inflation.

Off Balance Sheet Arrangements

The Company is not involved in off-balance sheet arrangements that have or are reasonably likely to have a material current or future impact on our financial condition, changes in financial condition, revenues or expenses result in operations, liquidity, capital expenditures or capital resources.

Variability of Quarterly Results and Potential Risks Inherent in the Business

The Company's operations are subject to a number of risks, which are described in more detail in the Company's prior SEC filings, including in its Annual Report on Form 10-K for the fiscal year ended December 31, 2010. Risks which are peculiar to the Company on a quarterly basis, and which may vary from quarter to quarter, include but are not limited to the following:

- The Company's quarterly operating results have in the past varied and may in the future vary significantly depending on factors such as the size, timing and recognition of revenue from significant orders, the timing of new product releases and product enhancements, and market acceptance of these new releases and enhancements, increases in operating expenses, and seasonality of its business.

- The market price of the Company's common stock could be subject to significant fluctuations in response to, and may be adversely affected by, variations in quarterly operating results, changes in earnings estimates by analysts, developments in the software industry, adverse earnings or other financial announcements of the Company's customers and general stock market conditions, as well as other factors.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market risk represents the risk of loss that may impact the Company's financial position due to adverse changes in financial market prices and rates. The Company's market risk exposure is primarily a result of fluctuations in interest rates and foreign currency exchange rates. The Company does not hold or issue financial instruments for trading purposes.

Interest Rate Risk. The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of March 31, 2011, the Company's investments consisted of mutual funds. The Company does not expect any material loss with respect to its investment portfolio. In addition, the Company does not believe that a 10% change in interest rates would have a significant effect on its interest income.

Foreign Currency Risk. The Company does not use foreign currency forward exchange contracts or purchased currency options to hedge local currency cash flows or for trading purposes. All sales arrangements with international customers are denominated in foreign currency. For the three months ended March 31, 2011, approximately 51% of the Company's overall revenue resulted from sales to customers outside the United States. A 10% change in the value of the U.S. dollar relative to each of the currencies of the Company's non-U.S.-generated sales would not have resulted in a material change to its results of operations. The Company does not expect any material loss with respect to foreign currency risk.

Item 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15 as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect the Company’s business, financial condition or future results. The risks described in this report and in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company’s business, financial condition and/or operating results.

Item 6. Exhibits

31.1	Certification Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Executive Officer
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Financial Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	ASTEA INTERNATIONAL INC.
Date: May 12, 2011	/s/Zack Bergreen Zack Bergreen Chief Executive Officer (Principal Executive Officer)
Date: May 12, 2011	/s/Rick Etskovitz Rick Etskovitz Chief Financial Officer (Principal Financial and Chief Accounting Officer)

Exhibit Index

No.	Description
31.1	Certification Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Executive Officer
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Financial Officer