ASTEA INTERNATIONAL INC
Form 10-Q
August 15, 2013

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 June 30, 2013

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	23-2119058
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
240 Gibraltar Road, Horsham, PA	19044
(Address of principal executive offices)	(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 X 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 August 8, 2013, 3,587,299 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

2

PART I - FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

ASTEA INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$1,339,000	$2,015,000
Investments available for sale	164,000	160,000
Receivables, net of allowance of $138,000 (unaudited) and $138,000, respectively	3,658,000	4,988,000
Prepaid expenses and other	492,000	488,000
Total current assets	5,653,000	7,651,000
Property and equipment, net	393,000	480,000
Intangibles, net	300,000	368,000
Capitalized software, net	5,528,000	4,421,000
Goodwill	1,538,000	1,538,000
Restricted cash	114,000	119,000
Other assets	147,000	128,000
Total assets	$13,673,000	$14,705,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$3,103,000	$2,911,000
Deferred revenues	5,575,000	6,351,000
Total current liabilities	8,678,000	9,262,000
Long-term liabilities:		
Line of credit from director/ officer	1,600,000	-
Deferred tax liability	319,000	294,000
Total long-term liabilities	1,919,000	294,000
Commitment and contingencies		
Stockholders' equity:		
	8,000	8,000

Convertible redeemable preferred stock, $.01 par value, shares authorized 5,000,000; issued and outstanding 826,000		
Common stock $.01 par value, 25,000,000 shares authorized; issued 3,629,000; outstanding 3,591,000	36,000	36,000
Additional paid-in-capital	30,982,000	31,056,000
Accumulated deficit, including accumulated comprehensive loss of $1,999,000 and $319,000	(27,742,000)	(25,743,000)
Less: treasury stock at cost, 42,000 shares	(208,000)	(208,000)
Total stockholders' equity	3,076,000	5,149,000
Total liabilities and stockholders' equity	$13,673,000	$14,705,000

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Software license fees	$898,000	$2,384,000	$1,372,000	$2,577,000
Services and maintenance	4,397,000	5,717,000	8,586,000	11,988,000
Total revenues	5,295,000	8,101,000	9,958,000	14,565,000
Costs of revenues:				
Cost of software license fees	379,000	377,000	753,000	769,000
Cost of services and maintenance	3,281,000	3,592,000	6,290,000	7,525,000
Total cost of revenues	3,660,000	3,969,222	7,043,000	8,294,000
Gross profit	1,635,000	4,132,000	2,915,000	6,271,000
Operating Expenses:				
Product development	329,000	687,000	600,000	1,258,000
Sales and marketing	1,154,000	1,424,000	2,232,000	2,527,000
General and administrative	892,000	1,046,000	1,826,000	2,132,000
Restructuring	182,000	-	182,000	-
Total operating expenses	2,557,000	3,157,000	4,840,000	5,917,000
(Loss) income from operations	(922,000)	975,000	(1,925,000)	354,000
Net interest (expense) income	(5,000)	4,000	(3,000)	9,000
(Loss) income before income taxes	(927,000)	979,000	(1,928,000)	363,000
Income tax expense	27,000	19,000	45,000	36,000
Net (loss) income	(954,000)	960,000	(1,973,000)	327,000
Preferred dividend	75,000	75,000	150,000	150,000
Net (loss) income available to common stockholders	$(1,029,000)	$885,000	$(2,123,000)	$177,000
Net (loss) income	$(954,000)	$960,000	$(1,973,000)	$327,000
Basic (loss) earnings per share available to common stockholders	$(0.29)	$0.25	$(0.59)	$0.05
Diluted (loss) earnings per share available to common stockholders	$(0.29)	$0.22	$(0.59)	$0.05

Weighted average shares outstanding used in computing basic (loss) earnings per common share	3,591,000	3,568,000	3,591,000	3,568,000
Weighted average shares outstanding used in computing diluted (loss) earnings per common share	3,591,000	4,411,000	3,591,000	3,568,000

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net (loss) income	$ (954,000)	$ 960,000	$ (1,973,000)	$ 327,000
Other comprehensive (loss) income:				
Foreign currency translation adjustment	39,000	(89,000)	(27,000)	(57,000)
Change in unrealized (loss) gain on available for sale investments	(1,000)	(1,000)	1,000	6,000
Comprehensive (loss) income	$ (916,000)	$ 870,000	$ (1,999,000)	$ 276,000

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended June 30, 2013 (Unaudited)	Year Ended December 31, 2012
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	31,056,000	31,048,000
Exercise of stock options	-	66,000
Dividends paid	(150,000)	(300,000)
Stock based compensation	76,000	242,000
Balance, end of period	30,982,000	31,056,000
Accumulated deficit		
Balance, beginning of period	(25,743,000)	(25,424,000)
Comprehensive loss	(1,999,000)	(319,000)
Balance, end of period	(27,742,000)	(25,743,000)
Treasury stock, at cost		
Balance, beginning and end of period	(208,000)	(208,000)
Total stockholders' equity	$3,076,000	$5,149,000

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net (loss) income	$ (1,973,000)	$ 327,000
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	869,000	877,000
Decrease in allowance for doubtful accounts	-	(6,000)
Stock-based compensation	76,000	113,000
Deferred income tax	24,000	21,000
Changes in operating assets and liabilities:		
Receivables	1,449,000	109,000
Prepaid expenses and other	65,000	154,000
Accounts payable and accrued expenses	246,000	(362,000)
Deferred revenues	(781,000)	(901,000)
Other assets	(18,000)	12,000
Net cash (used in) provided by operating activities	(43,000)	344,000
Cash flows from investing activities:		
Sale of short term investments	-	308,000
Purchases of short term investments	(4,000)	-
Purchases of property and equipment	-	(181,000)
Capitalized software development costs	(1,822,000)	(1,152,000)
Decrease (increase) in restricted cash	6,000	(66,000)
Net cash used in investing activities	(1,820,000)	(1,091,000)
Cash flows from financing activities:		
Proceeds from exercise of stock options	-	11,000
Dividend payments on preferred stock	(150,000)	(150,000)
Proceeds from line of credit	1,600,000	-
Deferred financing costs	(18,000)	-
Net cash provided by (used in) financing activities	1,432,000	(139,000)
Effect of exchange rate changes on cash	(245,000)	41,000
Net decrease in cash and cash equivalents	(676,000)	(845,000)
Cash and cash equivalents, beginning of period	2,015,000	2,146,000
Cash and cash equivalents, end of period	$ 1,339,000	$ 1,301,000

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 June 30, 2013 for the six month periods ended June 30, 2013 and 2012 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 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 omitted pursuant to the rules and regulations of the SEC for quarterly reports on Form 10-Q. It is suggested that these 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, 2012, June 30, 2012, September 30, 2012 and March 31, 2013. The interim financial information presented is not necessarily indicative of results expected for the entire year ending December 31, 2013.

Operating Matters and Liquidity
At June 30, 2013, the Company had a working capital ratio of .65:1, with cash and investments available for sale of $1,503,000. The Company believes that it has sufficient cash to meet its anticipated operating cash needs for at least the next 12 months. However, projections of future cash needs and cash flows are subject to substantial uncertainty. We continually evaluate our operating cash flows which can vary subject to the actual timing of expected new sales compared to our expectations of those sales and are sensitive to many factors, including changes in working capital and our net (loss) income. The Company has projected revenues for 2013 that will provide sufficient funds to sustain its continuing operations. However, due to unanticipated delays in the signing of certain license agreements and the cash flow timing impact of the Company's planned conversion to a subscription-based software delivery model it was determined that the Company needed additional liquidity in the near term and as a result entered into a line of credit (Note 6) for $2,000,000 with the CEO. As of June 30, 2013 the Company had borrowed $1,600,000 against the line of credit. In addition, in order to improve efficiencies and eliminate certain costs, the Company developed a restructuring plan to improve cash flows and improve profitability in the future. The plan was announced in June 2013 (Note 7). 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 plan any significant capital expenditures in 2013. In addition, it does not anticipate that its operations or financial condition will be affected materially by inflation.

2. RECENTY ADOPTED ACCOUNTING GUIDANCE

In February 2013, the Financial Accounting Standards Board ("FASB") issued guidance on disclosure requirements for items reclassified out of Accumulated Other Comprehensive Income (AOCI). This new guidance requires entities to present (either on the face of the income statement or in the notes) the effects on the line items of the income statement for amounts reclassified out of AOCI. The new guidance was effective for us beginning January 1, 2013. Other than requiring additional disclosures, this did not have material impacts 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. 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 positions which are exposed to minimal interest rate and credit risk. Cash balances are maintained with several banks. Certain operating accounts may exceed the Federal Deposit Insurance Corporation (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 customers' financial condition.

5. 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 (loss) income. 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 June 30, 2013 and December 31, 2012 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 securities by major security type and class of security at June 30, 2013 and December 31, 2012 were as follows:

	Aggregate cost basis	Gross unrealized holding gains	Gross unrealized holding (losses)	Aggregate fair value
At June 30, 2013				
Available-for-sale:				
Mutual Funds	$161,000	$3,000	$—	$164,000
At December 31, 2012				
Available-for-sale:				
Mutual Funds	$158,000	$2,000	$—	$160,000

The aggregate fair value of mutual funds as of June 30, 2013 was $164,000. As of June 30, 2013 and December 31, 2013 there were no mutual funds that had unrealized losses. The mutual funds contain investments that seek a high level of current income. The funds normally invest at least 80% of net assets, plus the amount of any borrowings for investment purposes, in floating or adjustable rate senior loans of any maturity or credit quality, including those rated below investment grade or determined by the fund's advisor to be of comparable quality.

6. LINE OF CREDIT FROM DIRECTOR/ OFFICER

On May 29, 2013, the Company entered into a Revolving Loan Agreement and associated Revolving Promissory Note (collectively the “ Loan Documents ”) with Zack Bergreen, the Company’s Chief Executive Officer. Pursuant to the Loan Documents, Mr. Bergreen will provide an unsecured $2,000,000 revolving line of credit to the Company (“ Line of Credit ”). Amounts outstanding under the Line of Credit bear interest at a rate of 7% per annum, payable monthly. The maturity date of the Line of Credit is May 29, 2015.   The Company may pay all amounts outstanding and terminate the Loan Documents prior to that time without any penalties. The Loan Documents contain customary covenants, default and other provisions. The Loan Documents were negotiated and approved by the Audit Committee of the Company’s Board of Directors. Borrowings under the Line of Credit are subject to the Audit Committee’s approval. The proceeds of the borrowings will be used by the Company for working capital and general corporate purposes. As of June 30, 2013 the Company borrowed $1,600,000 against the line of credit and incurred $7,000 in interest expense.

7. RESTRUCTURING

In order to reduce operating costs and improve efficiencies, the Company adopted a restructuring plan in June 2013 to reduce certain redundant positions within the Company, eliminating the lease in Irvine, California in order to find office space more appropriate for its needs, and reduce its product development cost to be more in line proportionately to its competitors. The plan is expected to be completed by the end of the third quarter. On June 28, 2013, the Company internally announced that in connection with its restructuring plan, it would terminate the lease obligation in Irvine, California by paying a one-time lease termination payment of $125,000 to terminate its lease 32 months prior to its scheduled expiration. In conjunction with the lease termination, the Company will accelerate the amortization of leasehold improvements and its deferred rent liability associated with the lease. As of June 30, 2013, this resulted in a reduction of the deferred rent liability by $5,000.   In addition, the Company announced that it eliminated certain redundant positions in connection with its restructuring plan. The employees are eligible for separation benefits upon their termination. On June 30, 2013, the Company recorded $182,000 of one-time restructuring charges associated with restructuring as this was the communication date to certain employees and the lessor of the Irvine lease. During the third quarter of 2013, $62,000 of termination benefits included in the restructuring charge will be paid. At June 30, 2013, liabilities of $62,000 remain in accrued expenses for the unpaid portion of the separation benefits. No other costs were incurred pursuant to the restructuring plan as of June 30, 2013. However, the Company expects to have additional restructuring charges in 2013 of approximately $150,000 as part of its restructuring plan and will record the charges once those changes are announced to the employees.

8. 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 2007 through 2012, 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 six months of 2013, there was no interest or penalties related to the settlement of any audits.

At June 30, 2013, the Company maintained a 100% valuation allowance for its remaining deferred tax assets, based on the uncertainty of the realization of future taxable income.

9. STOCK-BASED COMPENSATION

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 June 30, 2013, the total unrecognized compensation cost related to non-vested options amounted to $291,000, which is expected to be recognized over the options’ average remaining vesting period of 2.50 years. No income tax benefit was realized by the Company in the six months ended June 30, 2013.

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 65,000 and 40,000 options granted during the first six months of 2013 and 2012, respectively.

Activity under the Company’s stock option plans for the six months ended June 30, 2013 is as follows:

	OPTIONS OUTSTANDING

	Shares	Weighted Average Exercise Price Per Share
Balance, December 31, 2012	708,000	$4.14
Granted	65,000	2.76
Canceled	(87,000)	4.31
Balance, June 30, 2013	686,000	$3.98

The following table summarizes outstanding options under the Company's stock option plans as of June 30, 2013.

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding Options	686,000	$3.98	5.90	-
Ending Vested and Exercisable	447,000	$4.55	4.54	-
Options Expected to Vest	596,000	$4.08	5.90	-

10. (LOSS) EARNINGS PER SHARE

(Loss) earnings 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 loss 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 (loss) earnings per share, weighted average numbers of shares outstanding are used as the denominator.

The Company had net loss allocable to common stockholders for the three and six months ended June 30, 2013 and net income allocable to common stockholders for the three and six months ended June 30, 2012. (Loss) earnings per share is computed as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator:				
Net (loss) income available to common shareholders basic	$ (1,029,000)	$ 885,000	$ (2,123,000)	$ 177,000
Preferred dividend	-	75,000	-	-
Net (loss) income available to common shareholders diluted	(1,029,000)	960,000	(2,123,000)	177,000)
Denominator:				
Weighted average shares used to compute net (loss) earnings available to common shareholders per common share-basic	3,591,000	3,568,000	3,591,000	3,568,000
Preferred shares assumed to be converted to common	-	826,000	-	-
Effect of dilutive stock options	-	17,000	-	-
Weighted average shares used to compute net (loss) earnings available to common shareholders per common share-dilutive	3,591,000	4,411,000	3,591,000	3,568,000
Basic net (loss) earnings per share to common shareholder	$ (0.29)	$ 0.25	$ (0.59)	0.05

Dilutive net (loss) earnings per share to common shareholder	$	(0.29)	$	0.22	$	(0.59)	0.05

All options outstanding 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 for the three months ended June 30, 2013 and for the six months ended June 30, 2013 and 2012, as the inclusion of these options would have been antidilutive.

11. MAJOR CUSTOMERS

For the three months ended June 30, 2013 there were no customers that accounted for 10% of total revenues and for the three months ended June 30, 2012 there was one customer that accounted for 11% of total revenues. For the six months ended June 30, 2013 and 2012, no customers accounted for 10% or more of total revenues. At June 30, 2013 and December 31, 2012, there were no customers that accounted for 10% of total accounts receivable.

12. 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Software license fees				
United States	$ 383,000	$ 1,559,000	$ 746,000	$ 1,684,000
Total United States software license fees	383,000	1,559,000	746,000	1,684,000
Europe	136,000	89,000	237,000	156,000
Asia Pacific	379,000	736,000	389,000	737,000
Total foreign software license fees	515,000	825,000	626,000	893,000
Total software license fees	898,000	2,384,000	1,372,000	2,577,000
Services and maintenance				
United States	3,032,000	3,113,000	5,825,000	6,451,000
Total United States services and maintenance revenue	3,032,000	3,113,000	5,825,000	6,451,000
Europe	676,000	980,000	1,197,000	1,954,000
Asia Pacific	689,000	1,624,000	1,564,000	3,583,000
Total foreign service and maintenance revenue	1,365,000	2,604,000	2,761,000	5,537,000
Total services and maintenance revenue	4,397,000	5,717,000	8,586,000	11,988,000
Total revenue	$ 5,295,000	$ 8,101,000	$ 9,958,000	$ 14,565,000
Net (loss) income				
United States	$ (582,000)	$ 1,565,000	$ (879,000)	$ 1,645,000

Europe	(272,000)	(316,000)	(650,000)	(610,000)
Asia Pacific	(100,000)	(289,000)	(444,000)	(708,000)
Net (loss) income	$ (954,000)	$ 960,000	$ (1,973,000)	$ 327,000

13

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, 2012.

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.

The FieldCentrix Enterprise is a service management solution that runs on a wide range of mobile devices (handheld computers, laptops and PCs, and Pocket PC devices), and integrates seamlessly with popular customer relationship management ("CRM") and ERP applications. Add-on features include a web-based customer self-service portal, workforce optimization capabilities, and equipment-centric functionality. FieldCentrix has licensed applications to companies in a wide range of sectors including HVAC, building and real estate services, manufacturing and process instruments and controls, and medical equipment.

ServiceVision is exclusively offered as a cloud solution that leverages a multi-tenant architecture. The benefit to companies is a rich, high performance solution that provides rapid, low-cost, and low-risk deployment without the up-front fixed investment to purchase and install a software and hardware infrastructure. Customers have full control over their data in a secure, reliable and scalable environment without the additional costs and resource burdens required for ongoing support. By leveraging the cloud delivery model, companies can access a solution that has robust and proven functionality at a lower, more predictable cost, with seamless upgrades and a quicker return on investment.

The Company's sales and marketing efforts are primarily focused on new software licensing and support services for its latest generation of Astea Alliance, ServiceVision, and FieldCentrix products.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in its Summary of Accounting Policies, Note 2, in the Company's 2012 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 three sources: (i) licensing arrangements, (ii) subscription services and (iii) 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.

In subscription based arrangements, even though customers use the software element, they generally do not have a contractual right to take possession of the software at any time during the hosting period without significant penalty to either run the software on its own hardware or contract with an unrelated third party to host the software. Accordingly, these software as a service (SaaS) arrangements, including the software license fees within the arrangements, are accounted for as subscription services provided all other revenue recognition criteria have been met. The revenue is recognized on a straight-line basis over the lifetime of the contract. A SaaS contract is generally 1 to 3 years. In accordance with generally accepted accounting principles, the Company may not recognize any SaaS revenue before the services goes live, to ensure that the revenue will match the use of services. The implementation period can be anywhere between 2 and 6 months. When up-front implementation, consulting and training services are bundled with the subscription based arrangement the services are recognized over the life of the initial contract.

The post-contract support on perpetual licenses provides for technical support and updates to the Company's software products. Post-contract support is charged separately for renewals of annual maintenance in subsequent years. Fair value for maintenance is based upon either renewal rates stated in the contracts or separate sales of renewals to customers. Revenue is recognized ratably, or monthly, over the term of the maintenance period, which is typically one year.

Consulting and training service revenue are generally unbundled and recognized at the time the services are performed, except as noted above, when these services are bundled with subscription revenues. If the Company has 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. The Company offers a variety of consulting services that include project management, implementation, data conversion, integration, custom report writing and training. Our professional services are generally billed on a time and materials basis using hourly rates together with reimbursement for travel and accommodation expenses. We recognize revenue as these professional services are performed. On rare occasions these consulting service arrangements involve acceptance criteria. In these cases, revenue is recognized upon acceptance.

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 six months ended June 30, 2013 and 2012, the Company recognized $9,958,000 and $14,565,000, respectively, of revenue related to software license fees and services and maintenance. In addition, included in service revenue in the first six months of 2013 is subscription service revenue, of which the Company recognized $38,000.

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 from 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 (current and future 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 had 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 June 30, 2013, 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 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 impairment to goodwill.

In September 2011, the Financial Accounting Standards Board ("FASB") issued guidance on testing goodwill for impairment. The guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Company elected to early adopt this accounting guidance at the beginning of its fourth quarter of 2011 on a prospective basis for goodwill impairment tests.

In accordance with the guidance, the Company first performed a qualitative assessment to determine whether it was necessary to perform the two-step goodwill impairment test. If the Company believed, as a result of its qualitative assessment, that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the first and second steps of the goodwill impairment test were unnecessary.

If necessary, the goodwill impairment test is applied using a quantitative two-step approach. 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.

During the fourth quarter of 2012, the Company completed the qualitative goodwill impairment test, which involved assessing financial factors, including the Company's market capitalization and the business unit's profitability and deviations from projected results. In addition, the Company evaluated other business factors, including analysis of macroeconomic conditions, the current business environment, changes in the operations of the business unit and the results of the 2010 quantitative goodwill impairment test.

Based on the results of this qualitative assessment, the Company determined that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount and, as a result, a quantitative analysis is not needed. The Company determined there were no triggering events at June 30, 2013 which would require an impairment analysis.

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 six months of 2013 and 2012 and did not have a material impact on our financial position.

Currency Translation

Our international subsidiaries and branch operations translate the assets and liabilities of our 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 our international operations into U.S. dollars are accumulated and reflected as a currency translation adjustment and reported in other comprehensive (loss) income in the accompanying consolidated statements of stockholders' equity. Transaction exchange gains and losses are included in general and administrative expenses which include transaction gains (losses) of $1,000 and ($15,000) for the six months ended June 30, 2013 and 2012, respectively.

Comprehensive (Loss) Income

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

Convertible Redeemable Preferred Stock

On September 24, 2008 the Company issued 826,000 shares of Series-A Convertible 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 at a rate of 10% and are payable only when, as and if declared by the Company's Board of Directors, quarterly in arrears. The Company paid $150,000 and $300,000 in preferred stock dividends for the period ending June 30, 2013 and December 31, 2012, respectively.

The Series A Preferred Stock may be converted into common stock at the rate of one share of common for each share of Series A Preferred Stock. There is no limit on the number of shares that may be converted. The Company has certain rights to cause conversion of all of the shares of Series A Preferred Stock 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.

Results of Operations

Comparison of Three Months Ended June 30, 2013 and 2012

Revenues

Revenues decreased $2,806,000 or 35%, to $5,295,000 for the three months ended June 30, 2013 from $8,101,000 for the three months ended June 30, 2012. Software license fee revenues decreased $1,486,000, or 62%, from the same period last year. Services and maintenance revenue for the three months ended June 30, 2013 decreased $1,320,000 or 23% from the same quarter in 2012.

Software license fee revenues decreased 62% to $898,000 in the second quarter of 2013 from $2,384,000 in the second quarter of 2012. Astea Alliance license revenues decreased $1,338,000 or 61%, to $873,000 in the second quarter of 2013 from $2,211,000 in the second quarter of 2012. The decrease is related to the Company shifting to subscription based license deals for which we may not recognize revenue until the customer goes live and several license opportunities that were anticipated to close in the second quarter that have been delayed. However the Company still has a strong pipeline of new sales opportunities. FieldCentrix license fee revenue decreased $148,000 or 86% in the second quarter of 2013 compared to $173,000 in the second quarter of 2012. There were no new customers in 2013 or 2012 for FieldCentrix as license revenues consisted of sales of additional licenses to existing customers.

Services and maintenance revenues decreased by 23% to $4,397,000 in the second quarter of 2013 from $5,717,000. Astea Alliance service and maintenance revenues decreased by $1,253,000 or 26% compared to the second quarter of 2012. The decrease resulted from a reduction in the number of ongoing projects as a result of reduced new license sales as well as reduced service rates on certain projects. In addition, subscription related services such as implementation and training may not be recognized until the customer goes live. At that time, the deferred services revenue will be recognized ratably over the remaining life of the initial contract. Service and maintenance revenues generated by FieldCentrix decreased by $67,000 or 8% to $825,000 in 2013 compared to $892,000 during the same period in 2012. The decrease is due to upgrades and special projects from existing customers that are being completed and no new license deals. Subscription service revenue in the second quarter of 2013 was $13,000. Even though the Company signed several new Software as a Service (SaaS) customers, the revenue cannot be recognized until the customers go-live. The implementation period is expected to range from 2 to 6 months. Once the customer goes live on the SaaS solution, the revenue will then be recognized ratably over the remaining initial contractual period.

Costs of Revenues

Cost of software license fees slightly increased by less than 1% to $379,000 in the second quarter of 2013 from $377,000 in the second quarter of 2012. Included in the cost of software license fees are the fixed costs of capitalized software amortization and amortization of software acquired from FieldCentrix. It also includes the cost of all third party software embedded in the Company's software licenses which are sold to customers. Amortization of capitalized software development costs was $365,000 for the quarter ended June 30, 2013 compared to $329,000 for the same quarter in 2012. This slight increase resulted from the amortization of newer versions of capitalized software development costs that were released in 2012. The gross margin percentage on software license sales was 58% in the second quarter of 2013 compared to 84% in the second quarter of 2012. The decrease in the license margin resulted primarily from the decrease in license revenues in 2013.

Cost of services and maintenance decreased 9% to $3,281,000 in the first quarter of 2013 from $3,592,000 in the first quarter of 2012. The decrease in cost of service and maintenance is attributed primarily to decreases in headcount in all regions and travel expenses. In addition, due to fewer new license deals in all regions, service revenues decreased $1,300,000 compared to the same quarter in 2012. Because the Company is shifting to more of a Cloud solution provider in 2013, this trend may continue throughout 2013. The services and maintenance gross margin percentage was 25% in the second quarter of 2013 compared to 37% in the second quarter of 2012. The decrease in services and maintenance gross margin was primarily due to the decrease in service revenues partially offset by the decrease in services costs.

Gross Profit

Gross profit decreased 60% to $1,635,000 in the second quarter of 2013 from $4,132,000 in the second quarter of 2012. As a percentage of revenue, gross profit in the second quarter of 2013 was 31% compared to 51% in the second quarter of 2012. The quarter-over-quarter decrease in gross profit was largely driven by a decrease in license revenue of $1,486,000 and service revenue of $1,300,000 partially offset by a decrease in services and maintenance costs.

Operating Expenses

Product Development

Product development expense decreased 52% to $329,000 in the second quarter of 2013 from $687,000 in the second quarter of 2012. The decrease was mainly attributable to an increase in development costs which were capitalized in the second quarter of 2013 compared to the same quarter in 2012. In the second quarter of 2013, the Company continued with its current development projects focusing on completing Version 11 of its Alliance software. Fluctuations in product development expense from period to period can vary due to the amount of development expense which is capitalized. Development costs of $868,000 were capitalized in the second quarter of 2013 compared to $615,000 during the same period in 2012. Gross product development expense was $1,197,000 in the quarter ended June 30, 2013 compared to $1,302,000 during the same quarter in 2012. The decrease is the result of certain cost cutting measures and refocusing certain development staff on to professional services roles, partially offset by the strengthening of the Israeli Shekel, the functioning currency in our principal development center in Israel. Product development expense as a percentage of revenues decreased to 6% for the quarter ended June 30, 2013 compared to 8% for the quarter ended June 30, 2012.

Sales and Marketing

Sales and marketing expense decreased 19% to $1,154,000 in the second quarter of 2013 from $1,424,000 in the second quarter of 2012. The decrease in sales and marketing expense is attributable to a decrease in selling costs related to less commissions, recruiting costs and headcount offset by a slight increase in marketing costs. The Company continues to focus on expanding its market presence through intensified marketing efforts to increase awareness of the Company’s products, including its newest product, ServiceVision. 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 22% in the quarter ended June 30, 2013 compared to 18% in the same period of 2012, due to the decrease in revenue.

General and Administrative

General and administrative expenses decreased 15% to $892,000 during the second quarter of 2013 from $1,046,000 in the first quarter of 2012. The decrease is primarily due to lower recruiting costs and lower outside consulting costs. As a percentage of revenue, general and administrative expenses increased to 17% in the second quarter of 2013 from 13% in the first quarter of 2012.

Restructuring

In order to reduce operating costs and improve efficiencies, the Company adopted a restructuring plan in June 2013 to re-organize the Company by reducing certain redundant positions within the Company, eliminating the lease in Irvine, California in order to find office space more appropriate for its needs, and reduce its product development cost to be more in line proportionately to its competitors. The plan is expected to be completed by late-2013. On June 28, 2013, the Company internally announced that in connection with its restructuring plan, it would terminate the lease obligation in Irvine, California by paying a one-time lease termination payment of $125,000 to terminate its lease 32 months prior to its scheduled expiration. In conjunction with the lease termination, the Company will accelerate the amortization of leasehold improvements and its deferred rent liability associated with the lease. As of June 30, 2013, this resulted in a reduction of the deferred rent liability by $5,000. In addition, the Company announced that it eliminated certain redundant positions in connection with its strategic plan. The employees are eligible for separation benefits upon their termination. On June 30, 2013, the Company recorded $182,000 of one-time restructuring charges associated with restructuring as this was the communication date to certain employees and the lessor of the Irvine lease. During the third quarter of 2013, $62,000 of termination benefits included in the restructuring charge will be paid. At June 30, 2013, liabilities of $62,000 remain in accrued expenses for the unpaid portion of the separation benefits. No other costs were incurred pursuant to the restructuring plan as of June 30, 2013. However, the Company expects to have additional restructuring charges in 2013 of approximately $150,000 as part of its restructuring plan and will record the charges once those changes are announced to the employees.

Net Interest (Expense) Income

Net interest (expense) was $5,000 in the second quarter of 2013 compared to $4,000 of interest income in the second quarter of 2012. The Company has interest expense related to the line of credit. The Company borrowed $1,600,000 in the second quarter of 2013 resulting in interest expense of $7,000. The Company did not have this line of credit in 2012 therefore only interest income in the second quarter of 2012. The decrease in interest income resulted primarily from a decrease in investments. As of June 30, 2013 and 2012, the Company's investments consisted of mutual funds.

Income Tax Expense

The Company recorded a provision for income tax of $27,000 during the second quarter of 2013 compared to $19,000 during the same quarter in 2012. The Company no longer has a tax holiday in Israel. As a result, our Israeli subsidiary now accrues income tax liabilities to the Israel Taxing Authority.

International Operations

The Company's international operations contributed revenues of $1,880,000 in the second quarter of 2013, a 45% decrease compared to the second quarter of 2012. The Company's revenues from international operations amounted to 35% of the total Company revenue for the second quarter in 2013, compared to 42% of total revenues for the same quarter in 2012. The decrease in international revenues compared to the same period in 2012 is primarily due to decreases in licenses and service revenues primarily in the Asia Pacific region as certain large projects came to completion.

Net (Loss) Income

Net (loss) for the three months ended June 30, 2013 was ($954,000) compared to a net income of $960,000 for the three months ended June 30, 2012. The loss is primarily the result of a 62% decrease in license revenue from the U.S. and Asia Pacific regions and a 23% decrease in service and maintenance revenue due to a slowdown in projects in our foreign regions.

Comparison of Six Months Ended June 30, 2013 and 2012

Revenues

Revenues decreased $4,607,000, or 32%, to $9,958,000 for the six months ended June 30, 2013 from $14,565,000 for the six months ended June 30, 2012. Software license revenues decreased 47% from the same period last year. Service and maintenance fees for the six months ended June 30, 2013 amounted to $8,586,000 a 28% decrease over the same period in 2012.

Software license fees revenue decreased 47% to $1,372,000 in the first six months of 2013 from $2,577,000 in the first six months of 2012. Astea Alliance license revenues decreased $1,060,000 to $1,315,000 or 45% in the first six months of 2013 from $2,375,000 in the first six months of 2012. The decrease resulted from a decrease in Astea license sales in the U.S. and Asia Pacific region, partially offset by a slight increase in license sales in the Europe and Japan.

Services and maintenance revenues decreased 28% to $8,586,000 in the first six months of 2013 from $11,988,000 in the first six months of 2012. Astea Alliance service and maintenance revenues were $6,860,000 for the first six months of 2013 a decrease of 33%, from $10,191,000 in Alliance service and maintenance revenue for the six months ended June 30, 2012. The decrease resulted from a reduction in the number of ongoing projects as a result of fewer new license deals as well as reduced service rates on certain projects. In addition, subscription related services such as implementation and training may not be recognized until the customer goes live, and at that time will be recognized ratably over the life of the initial contract. There was a decrease of 4% or $71,000 of service and maintenance revenues from FieldCentrix in the first six months of 2013 compared to the same period last year. The decrease is due to a reduction in implementation projects compared to the same period in 2012.

Costs of Revenues

Cost of software license fees decreased 2% to $753,000 in the first six months of 2013 from $769,000 in the first six months of 2012. Included in the cost of software license fees is the fixed cost of capitalized software amortization. The decrease in cost of revenues was due to lower third party software costs as a result of lower license sales in 2013 compared to 2012. Amortization of capitalized software development costs was $715,000 for the six months ended June 30, 2013 compared to $675,000 for the same quarter in 2012. The software licenses gross margin percentage was 45% in the first six months of 2013 and 70% in the first six months of 2012. The decrease is a reflection of less license revenue in 2013 compared to 2012 as costs remained consistent.

Cost of services and maintenance decreased 16% to $6,290,000 in the first six months of 2013 from $7,525,000 in the first six months of 2012. The decrease in cost of service and maintenance is attributed primarily to decreases in headcount in all regions, travel expenses and a decrease in the use of outside consultants in the U.S. and European locations. In addition, due to a reduction in new license sales in all regions, service revenues decreased $3,234,000 compared to the same quarter in 2012. As the Company is shifting to generating more revenue from its Cloud solution in 2013, this trend may continue throughout 2013. The services and maintenance gross margin percentage decreased to 27% in the first six months of 2013 compared to 37% in the first six months of 2012.

Gross Profit

Gross profit decreased 54% to $2,915,000 in the first six months of 2013 from $6,271,000 in the first six months of 2012. As a percentage of revenue, gross profit was 29% in the first six months of 2013 compared to 43% in the first six months of 2012. The year-over-year decrease in gross profit was largely driven by a decrease in license and service revenue partially offset by a 15% reduction in cost of revenues.

Operating Expenses

Product Development

Product development expense decreased 52% to $600,000 in the first six months of 2013 from $1,258,000 in the first six months of 2012. The decrease was mainly attributable to an increase in development costs which were capitalized in the first six months of 2013 compared to the same quarter in 2012. In 2013, the Company continued with its current development projects focusing on completing Version 11 of its Alliance software. Fluctuations in product development expense from period to period can vary due to the amount of development expense which is capitalized. Software development costs of $1,822,000 were capitalized in the first six months of 2013 compared to $1,152,000 during the same period in 2012. Gross development expense was $2,422,000 during the first six months of 2013, less than 1% more than $2,410,000 for the same period in 2012. Product development as a percentage of revenues was 6% in the first six months of 2013 compared with 9% in the first six months of 2012. The decrease in costs relative to revenues is due to the decrease in product development expense.

Sales and Marketing

Sales and marketing expense decreased 12% to $2,232,000 in the first six months of 2013 from $2,527,000 in the first six months of 2012. The decrease in sales and marketing expense is attributable to a decrease in selling costs from lower sales commissions, reduced recruiting costs, and lower headcount offset by a slight increase in marketing costs. The Company continues to focus on expanding its market presence through intensified marketing efforts to increase awareness of the Company’s products, including its newest product, ServiceVision and its subscription services. 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 expenses was 22% in the first six months of 2013 compared with 17% in the first six months of 2012. The increase in costs relative to revenues is due to lower revenues in the first six months of 2013.

General and Administrative

General and administrative expenses decreased 14% to $1,826,000 in the first six months of 2013 from $2,132,000 in the first six months of 2012. The decrease is primarily due to lower recruiting costs, lower outside consulting costs, and no management bonuses. As a percentage of revenues, general and administrative expenses were 18% for the six months ended June 30, 2013 and 15% in the first six months of 2012. The increase in costs relative to revenues is due to lower revenues in the first six months of 2013.

Restructuring

Restructuring charges of $182,000 were recorded in the first six months of 2013 compared to $0 on the same period in 2012. In order to reduce operating costs, the Company adopted a restructuring plan in June 2013 to re-organize the Company by reducing certain redundant positions within the Company, eliminating excess rental space in Irvine, California, and reduce its product development cost to be more in line with the size and needs of the Company. As a result, the Company paid a one-time lease termination fee of $125,000, accelerated accounting for its deferred rent to be in line with the lease termination date by paying a lease termination fee which will allow the Company to leave its lease obligation and save future rent expense by leasing less space. This resulted in a $5,000 reduction of the liability and the recognition of $62,000 related to termination benefits. As a percentage of revenues, restructuring was 2% for the six months ended June 30, 2013.

Net Interest (Expense) Income

Net interest expense was $3,000 in the first six months of 2013 compared to $9,000 of interest income in the first six months of 2012. The Company has interest expense related to the line of credit. The Company borrowed $1,600,000 in the second quarter of 2013 resulting in interest expense of $7,000. The Company did not have this line of credit in 2012 therefore only interest income in the first six months of 2012. The decrease in interest income resulted primarily from a decrease in investments. As of June 30, 2013 and 2012, the Company's investments consisted of mutual funds.

Income Tax Expense

The Company recorded a provision for income tax of $45,000 for the six months ended June 30, 2013 compared to $36,000 for the six months ended June 30, 2012. The increase in the tax provision is due to the Company no longer having a tax holiday in Israel. As a result, our Israeli subsidiary must accrue income taxes to the Israel Taxing Authority.

Net (Loss) Income

Net (loss) for the six months ended June 30, 2013 was $1,973,000 compared to a net income of $327,000 for the six months ended June 30, 2012. The decrease in the net income of $2,300,000 is a direct result of a decrease in license and service revenues partially offset by a decrease in operating costs of 16%.

Liquidity and Capital Resources

Operating Activities

The Company used $43,000 of cash from operating activities in the first six months of 2013 compared to generating $344,000 in cash for the first six months of 2012. The decrease in operating cash of $387,000 was due to an increase in net loss of $2,300,000, a decrease in prepaids of $89,000, and a decrease of $120,000 in deferred revenue partially offset by an increase in accounts receivable of $1,340,000, an increase in accounts payable and accrued expenses of $608,000 and a decrease in other assets of $30,000. In addition, there was a decrease of $36,000 related to certain non-cash activities.

Investing Activities

The Company used $1,820,000 for investing activities in the first six months of 2013 compared to $1,091,000 used in the first six months of 2012. The increase in cash used for investing activities is principally attributable to an increase of $670,000 in capitalized software development costs, a decrease in the sale of short term investments of $308,000 offset by a decrease in capital expenditures of $181,000, and a decrease in long term restricted cash of $72,000 compared to the first six months of 2012.

Financing Activities

The Company generated $1,432,000 in cash from financing activities in the first six months of 2013 compared to using $139,000 in the first six months 2012. In the second quarter of 2013, the Company entered into a Revolving Loan Agreement and associated Revolving Promissory Note with the CEO which provided an unsecured revolving line of credit to the Company for $2,000,000. As of June 30, 2013 the Company had borrowed $1,600,000 under the revolving line of credit. In addition, in the first six months of 2012 the Company generated $11,000 from the exercise of stock options. There were associated costs with setting up the line of credit for $18,000 that will be amortized to interest expense over the life of the loan or two years. During the first six months of 2012 the Company did not have any borrowings. The only other financing expenditures were payments of preferred stock dividends of $150,000 in both 2013 and 2012.

The cash effect of exchange rates on 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, provided an outflow of $245,000 in 2013 compared to an inflow of $41,000 in 2012.

The Company has projected revenues for 2013 that will generate enough funds to sustain its continuing operations. However, due to unanticipated delays in the signing of certain license agreements and the cash flow timing impact of the Company's planned conversion to a subscription-based business model it was determined that the Company needed additional liquidity in the near term and as a result entered into a line of credit with the CEO (Note 6) for $2,000,000. As of June 30, 2013 the Company had borrowed $1,600,000 against the line of credit. In addition, in order to improve efficiencies and eliminate certain cost the Company developed a restructuring plan in order to reorganize the Company to be more profitable in the future. The plan was announced in June 2013 (Note 7). 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 plan any significant capital expenditures in 2013. In addition, it 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, 2012. 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 varied in the past, and may vary significantly in the future 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 June 30, 2013, 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 six months ended June 30, 2013, approximately 34% 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 June 30, 2013 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, 2012, 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, 2012 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: August 15, 2013	/s/Zack Bergreen Zack Bergreen Chief Executive Officer (Principal Executive Officer)
Date: August 15, 2013	/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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase