ASTEA INTERNATIONAL INC
Form 10-K
March 31, 2014

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

FORM 10-K

(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2013

or

o 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 (IRS Employer Identification No.)
240 Gibraltar Road, Horsham, Pennsylvania (Address of principal executive offices)	19044 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on which Registered:
Common Stock, $0.01 Par Value Per Share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Exchange Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o   No þ

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 þ   No o

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 þ   No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 if the Exchange Act.)
Yes o   No þ

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 28, 2013 (based on the closing price of $2.03 as reported by the Capital Market of The NASDAQ Stock Market LLC as of such date) was $2,659,121. For purposes of determining this amount only, the registrant has defined affiliates of the registrant to include the executive officers and directors of registrant and holders of more than 10% of the registrant's common stock on June 28, 2013.

As of March 20, 2014, 3,587,299 shares of the registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K may contain, in addition to historical information, forward-looking statements. These forward-looking statements are based on the Company's current assumptions, expectations and projections about future events. Words like "believe," "anticipate," "intend," "estimate," "expect," "project," and si expressions are used to identify forward-looking statements, although not all forward-looking statements contain these words. These forward-looking statements are estimates reflecting the best judgment of the Company's management and actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include:

- each of the factors discussed in Item 1A of this Annual Report on Form 10-K, Risk Factors, as well as risks discussed elsewhere in this report;
- our ability to recruit and retain key technical and management personnel;
- changes in existing laws;
- our ability to expand our customer base;
- infringement on the proprietary rights of our property and the rights of others;
- competitive pricing pressures in the service management industry and our responses to those pressures;
- our ability to develop new products on a timely basis that keep pace with new technological developments;
- our increased dependence on technology from third parties; and
- our ability to expand our products into international markets.

Many of these factors are beyond our ability to predict or control. In addition, as a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. The cautionary statements referred to in this section also should be considered in connection with any subsequent written or oral forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report might not occur. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements.

The Company is not under any obligation and does not intend to make publicly available any update or other revision to any forward-looking statements to reflect circumstances existing after the date of this Annual Report on Form 10-K or to reflect the occurrence of future events even if experience or future events make it clear that any expected results expressed or implied by these forward-looking statements will not be realized.

Item 1. Business.

General

Astea International Inc. and subsidiaries (collectively "we," "us," "Astea" or the "Company") develop, market and suppor service management software solutions, which are licensed to companies that sell and service equipment, and/or sell and deliver professional services. Companies invest in Astea's software and services to automate enterprise business processes for purposes of revenue enhancement, cost containment, operational efficiency improvement, and the expansion of their awareness of operational performance through analytical reporting. Customers' return on investment from implementing Astea's solutions is achieved through more efficient management of information, people, processes and cash flows, which we believe increases competitive advantage and customer satisfaction as well as top-line revenue and profitability.

Astea's solutions are used in industries such as information technology, medical devices and diagnostic systems, industrial controls and instrumentation, retail/point-of-sale equipment, HVAC (heating, ventilation, air conditioning), office equipment, imaging systems, fire & security, gaming/leisure equipment, facilities management, telecommunications and other related industries with equipment sales and service requirements. Astea's strong focus on enterprise solutions for organizations that sell and deliver services is a unique industry differentiator that draws upon the Company's extensive industry experience and core expertise.

Founded in 1979, Astea is known throughout the industry, largely from its proven success as a provider of software solutions for field service management. Astea has since expanded its product portfolio to also include integrated management applications for sales and marketing, multi-channel customer contact centers, third party vendor management and professional services automation.

Astea offers all the cornerstones of service lifecycle management, including customer management, service management, asset management, reverse logistics management and mobile workforce management. We believe this comprehensive approach provides unmatched expertise in service lifecycle workflow and integration needs throughout the service continuum. Astea's solutions empower companies by making more actionable data readily accessible, providing companies the agility needed to achieve sustainable value more quickly and to compete successfully in a global community.

Astea's software has been licensed to approximately 650 companies worldwide. Customers range from mid-size organizations to large, multinational corporations with geographically dispersed locations around the globe. The Company markets and supports its products through a worldwide network of direct and indirect sales and services offices with corporate headquarters in the United States and regional headquarters in the United Kingdom, Australia and Japan. Sales partners include distributors (value-added resellers, system integrators and sales agents) and original equipment manufacturing partners ("OEM partners"). See Note 15 to the Consolidated Financial Statements Geographic Segment Data for revenues, income (loss) from operations and long lived assets related to each of the Company's geographic operating regions for the past two years.

In addition to its own product development that is conducted at Company facilities in the United States and Israel, Astea participates in contractual relationships with complementary technology companies in order to reduce time-to-market with new product capabilities and continually increase its value proposition to customers. The Company's product strategies are developed from the collective feedback from customers, industry consultants, technology partners and sales partners, in addition to its internal product management, professional services, and development teams. Astea also works with its active user community who closely advises and participates in ongoing product development efforts.

Astea provides customers with an array of professional consulting, training and customer support services to implement its products and integrate them with other corporate systems such as back-office financial and enterprise resource planning ("ERP") applications. Astea also maintains and supports its software over its installed life cycle. The Company's experience and domain expertise in service and sales management, distribution, logistics, finance, mobile technologies, internet applications and enterprise systems integration are made available to customers during their assessments of where and how their business processes can be improved.

The Company's sales and marketing efforts are primarily focused on new software licensing and support services for its latest generation of Astea Alliance and FieldCentrix products. Marketing and sales of licenses and services related to the Company's legacy system DISPATCH-1® products are limited to existing DISPATCH-1 customers.

Industry Overview – Service Management

Service management is generally defined as a technician performing repair, installation, or regularly scheduled/preventive maintenance work at a customer site. It involves the management of incoming service requests, dispatching of service technicians, managing parts, managing contracts, prioritizing service based on service level agreements and severity of problems, and the repair, refurbishment and retirement process for a piece of equipment. Field service organizations vary greatly in size, industries and supported technologies. Although every industry relies on field service to some degree, for certain industries field service is critical. Equipment, ranging from computers and peripherals to building systems, office equipment and medical equipment depends on field service. Sometimes, this equipment is the lifeblood of a company, and any downtime or service interruptions can significantly impair operations or even endanger human life and safety.

Managing today's service enterprise means planning and coordinating service on a global scale. It means delighting your customers - and it calls for new technologies and business practices designed specifically to solve the service lifecycle management challenge. The benefits of implementing service management solutions are applicable in virtually every service organization, regardless of type, size, or geography served.

Current Product Offerings

Astea Alliance

Astea Alliance is a service management offering consisting of software applications and services. The software product consists of a series of applications. The offering has been developed as a global solution from the ground up with multi-lingual and multi-currency capabilities.

Astea Alliance has been designed to address 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 Campaigns, Call Center, Depot Repair, Field Service, Logistics, Projects and Sales and Order Processing applications. Astea extends its application suite with mobile workforce management, dynamic scheduling optimization, third party vendor and customer self-service portals, and business intelligence. In order to ensure customer satisfaction and quick return on investment, Astea also offers infrastructure tools and services.

In September 2013 the latest software version, Astea Alliance 11.0 was released. With this release, Astea introduced an abundance of new features and enhancements that were developed based on three primary concepts; optimizing and streamlining processes, enabling proactive service insight and intelligence at every level, and significantly increasing ease of use and customizations without technical skills. Accelerated revenue growth, proactive intelligence, productivity and process optimization, enriched employee interaction experience, and increased customer satisfaction are just a few of the advantages organizations will be able to achieve with this new release. Astea Alliance is available either on-premise or in the cloud, allowing every company to choose the right offering that aligns with their strategy and IT ecosystem.

Below are just a fraction of the features and enhancements in Astea Alliance 11.0 that accelerates innovation to transform the way companies provide exemplary service:

- Productivity and Process Optimization –When it comes to workforce management, having too many or too few resources can dramatically impact a service organization's ability to provide superior service. With Astea's new Workforce Planning module, organizations will be able to ensure that they have the right amount of resources, with the right skill sets, at the right time, in the right geography to meet demand while optimizing resources and costs. Service organizations will be able to create, monitor and proactively adjust plans, in real-time, to ensure optimal resource utilization across the organization. When it comes to empowering the technician in the field and improving productivity, Astea has consistently delivered. Now, Astea has shifted the focus on enabling the technician to become a source of new revenue generation by enabling the technician to identify, quote, and sell products and services while on site at the customer. Additionally, Astea has developed extensive process optimization facilities pervasive throughout their entire solution suite. By adding more workflow wizards, increasing "one click" updates, and further compressing processes, service organizations will be able to increase efficiencies and provide faster service to their customers.

- Proactive Service Insight and Intelligence at Every Level – Astea has developed Smart Checklist functionality that will provide organizations with the ability to create unlimited, conditional branching checklists and learning guides that can assist the back office or technician in the field to accurately diagnose, troubleshoot, record key information, follow instructions based on specific responses, and ultimately resolve the issue the first time. When it comes to enabling intelligence, Astea has a long history of providing embedded dashboards and contextual reports throughout the application. With this latest release, Astea is extending its powerful reporting and business intelligence framework. Delivering easy-to-use report creation and end-user personalization capabilities, without needing any technical or programming skills, will provide even more meaningful and relevant metrics and key performance indicators at every level. Astea has also introduced innovative Operational Heatmaps that combine geographic data with business and demographic data for highly interactive dashboard visualizations that enrich understanding and lead towards rapid identification of key insights for better decision making across the service enterprise.

- Ease of Use, Customizations without Code, and Connecting with the Enterprise – By leveraging Astea's intuitive, point and click interface, non-programmers can easily customize without code to quickly adapt the solution to the dynamic needs of their business. Additionally, Astea's HTML5 mobile platform users can leverage the groundbreaking Mobile Options Editor tool to modify the mobile application without needing technical skills or learning a separate development application. When it comes to sharing information with existing ERP, CRM or other solutions, Astea provides an extensible platform that is designed to easily integrate with existing systems within a company's infrastructure. Astea has added numerous plug-and-play connectors to ensure that relevant information is shared and exchanged across the enterprise. The newest connectors that have been added to their existing portfolio of integrations are: Salesforce.com, Oracle JDEdwards, Microsoft Dynamics (CRM, AX, NAV, GP), and Quickbooks.

ServiceAlliance and SalesAlliance, the earliest versions of Astea Alliance solutions, were the Company's initial technology offerings following a long and highly successful history with its DISPATCH-1 legacy system solutions. Astea Alliance solutions have been licensed to over 300 customers worldwide. Market acceptance of Astea Alliance by global and regional companies has continually increased since 2002 and the Company has aggressively pursued opportunities for larger system implementations with mid-size to large enterprises on a worldwide basis.

The current Astea Alliance offering consists of:

- Core Applications

- Mobile Applications
- Extended Portals
- Reporting and Business Intelligence
- Tools

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Astea Alliance Core Applications:

Alliance Contact Center
Alliance Depot Repair
Alliance Field Service
Alliance Logistics
Alliance Marketing Campaigns
Alliance Order Processing
Alliance Professional Services
Alliance Sales
Alliance Dynamic Scheduling Engine
Alliance Workforce Planning

Astea Alliance Mobile Applications:

Alliance Mobile – Laptop & Smartphones & Tablets
Alliance 2-way Paging

Astea Alliance Extended Portals:

Alliance Customer Self-Service
Alliance Remote Technician
Alliance Vendor & Third Party Management

Astea Alliance Reporting and Business Intelligence:

Alliance Reporting
Alliance Business Intelligence

Astea Alliance Tools:

Alliance Link
Alliance Knowledge Base

Astea Alliance Core Applications

Alliance Contact Center

The Alliance Contact Center application supports call centers, information desks, service hotlines, inside sales and telemarketing activities. Integrated multi-channel inbound/outbound capabilities enable customer service representatives to serve prospects and customers in their media of choice, including phone, fax, e-mail or Internet. Integrated customer self-service portals with automated e-mail response, automated call escalation and interface to Computer Telephony Integration (CTI) systems help streamline customer interaction processes. Work scheduling and demand balancing optimize staff utilization. Employee personal portals with access to comprehensive real-time customer data and decision support tools including intelligent knowledge management and scripting for problem resolution and inside sales, drive higher staff productivity. The objectives of Astea's Alliance Contact Center software are to reduce overhead through improved first-call resolution rates and shorter service-call handling times, as well as more efficient customer service and higher levels of customer satisfaction. A third-party knowledge engine is integrated into this application to extend the diagnostic tools available to contact center agents. This optional module is also available for Depot Repair and Field Service applications.

Alliance Depot Repair

Alliance Depot Repair automates tracking of assets through equipment calibration and repair chains, including merchandise ownership, location, repair status and warranty coverage. Objectives are to gain real-time visibility of all repair chain activities, ensure compliance with warranty and contractual agreements, respond to customer inquiries with up-to-the-minute repair status, collect and analyze repair statistics for product design improvement, and reduce overhead such as inventory carrying costs. Applications support in-house, subcontractor and vendor calibration and repair; customer and vendor exchanges and advance exchanges; equipment on loan; change of ownership; merchandise shipments, cross shipments and pickups; consolidated repair orders; and, storage and refurbishment programs. Integration with other Astea Alliance modules allows repair orders and repair status queries to be initiated from customer contact centers, field service, field sales and warehouses as well as the repair depot.

Alliance Field Service

The Alliance Field Service core application delivers a set of automated capabilities intended to streamline and improve management of field service activities. By automating workflow, field service representatives should be able to efficiently complete and document assignments, manage vehicle assets, capture expenses and generate revenue through add-on sales during a customer contact. Applications alert dispatchers to contractual minimum response times and expedite coordination of field force skills matching, scheduling, dispatch and repair parts logistics. The use of the Dynamic Scheduling Engine should automate much of this process. The Remote Technician portal allows site-based field engineers and other off-site agents secure access to the core system. The software supports all field service categories including equipment installations, break/fix, planned maintenance and meter reading. Applications can also be integrated with equipment diagnostic systems for fully automated solutions that initiate and prioritize service requests and dispatch assignments to field employees' PDAs without human intervention.

Alliance Logistics

The Alliance Logistics core application is divided into three functional portals. These are Supply Chain, Inventory Management and Reverse Supply Chain, reflecting the diversity of needs in this area. Seamlessly integrated with sales and service applications, Alliance Logistics enables equipment service organizations to control inventory costs, manage assets and implement proactive service management strategies. Automated calculation of stock profiles based on usage eliminates overstocking and dramatically reduces costs associated with storing, depreciating, and insuring inventory. The application supports parts and tools management for effective field service delivery and Service Level Agreements (SLA) compliance. We believe that improved cost management improves cash flow by streamlining and shortening the cycles from inventory to usage to billing. Lower logistics costs open opportunities to recognize higher margins on products and services. Key areas to apply Alliance Logistics include asset management, field service parts/tools management, demand fulfillment, and sales fulfillment.

Alliance Marketing Campaigns

This core application coordinates the planning, execution and analysis of marketing campaigns. The software supports budgeting and tracking complete multi-channel campaigns that integrate advertising, direct mail, e-mail marketing, telemarketing, etc. Electronic campaigns such as e-mail and telemarketing are further supported with list management, script development and user interfaces for campaign execution. Marketing managers can define campaign offerings such as products and services to be sold, pricing and discount tolerances; assign campaign attributes; attach campaign documentation such as descriptive text, images, slogans and lead conversion literature; and monitor and measure response. The big picture view enables managers to assess synergies each channel delivers to an overall campaign and adjust channel details such as prospect lists, scripts, budgets or offering incentives to elicit best results. Integration with other Astea Alliance modules enables equipment and service organizations to leverage customer information with the goal of identifying potential new revenue sources and marketing to maximize customer loyalty and sales opportunities.

Alliance Order Processing

The Alliance Order Processing module provides straightforward functionality for the management of quotations and order fulfillment. Quotations can be created for the sale of products and the provision of field services. Integration with the approvals process and the Logistics and Field Service modules should ensure efficient management control and sustainable promises for delivery. This application is ideally suited to the sale of "consumable products" in association with the provision of equipment-based services, but can be equally applied to the supply of finished products resulting from up-sell and cross-sell opportunities.

Alliance Professional Services

Alliance Professional Services supports management of knowledge workers, such as those deployed by professional services organizations and internal service departments of large organizations. Functionality focuses on planning, deploying and billing service engagements that can extend for days, weeks, months and years. Applications are expected to improve resource planning and allocation, workflow management, consultant time and expense reporting, subcontractor and vendor invoice processing, customer billing, and visibility of service engagements. Integration with other Astea Alliance modules delivers an end-to-end solution to market, sell, manage and bill professional services. Capabilities to share sales, service, project, and post-project field service data across the enterprise, generally enables professional services organizations to operate with less overhead, improved cash flow, higher profitability, and more competitive bidding.

Alliance Sales

Alliance Sales consolidates and streamlines the sales processes of an enterprise, from quote generation through order processing, at all points of customer contact including field sales, inside sales, contact center sales and field service sales. Lead-to-close sales process capabilities include integration with Astea Alliance marketing, customer support and field service applications, leveraging all enterprise knowledge pools with the goal to increase sales opportunities, margins and close rates. Consolidated views of sales and service data also provide a clearer understanding of enterprise operations to drive strategic business decisions. Sales force automation application automates business rules and practices such as enterprise-defined sales methodologies, sales pipeline management, territory management, contact and opportunity management, forecasting, collaborative team selling and literature fulfillment. The same functionality is delivered to mobile resources via the notebook application – with full two-way data synchronization with the central database, via wired and wireless networks. Other applications prompt customer support and service staff to up-sell and cross-sell during contact with customers.

Alliance Dynamic Scheduling Engine (DSE)

Alliance DSE is the new generation of field service scheduling solutions for a new era of service management. It is a real-time scheduling solution designed to optimize and balance the tradeoffs between service cost and level of service. It addresses the specific challenges of field service scheduling, while simultaneously calculating ways to increase efficiency, accuracy and profitability with the goal to help users sustain a competitive advantage in today's volatile environment. Astea has taken a scheduling engine that was developed to handle mission critical environments such as emergency response, where a response time determined life or death, and embedded it into its core product. We believe that Alliance DSE provides for maximum flexibility that enables companies to proactively drive, manage and monitor their technicians through demand forecasting, workforce profiling, and operational optimization. Powered by the latest Microsoft .NET technology, Astea's Alliance DSE is designed to enhance productivity, improve business processes and maximize return on investment.

Alliance Workforce Planning

Workforce Planning assists in forecasting workforce requirements based on planned and unplanned orders and tracks actual results against the plan. Multiple workforce plans can be created, and plans can be maintained for different groups of resources and/or different planning periods. The Workforce planning module is flexible and can be leveraged to create plans that are comprised of days dedicated to only unplanned work, or the workforce can be allocated a percentage of planned work to be accomplished. Workforce demands for service technicians are not always consistent from period to period or from branch to branch. This creates a surplus of manpower in some locations and a shortage in others. Based on an Alliance Workforce plan, personnel can be temporarily transferred to another branch or action group to take care of the workload. A workforce plan shows the daily available hours for labor, and compares these to the daily activities from both planned and unplanned selected sources, including PM schedules, field change orders, project demands, committed sales orders and unplanned work. Plans can be frozen to compare actual time spent against the frozen plan to track performance.

Astea Alliance Mobile Applications

Astea's Alliance Mobility Suite consists of Alliance Mobile Select, which is Astea's original mobile solution supporting Windows Mobile devices and Windows laptops, and the newest addition, Alliance Mobile Universal. Alliance Mobile Universal is optimized to operate with the latest devices in the market including Android smartphones and tablets, iPhones, and iPads. Organizations can choose the device that works best for their environment and still be able to leverage the most powerful mobile solution designed specifically for the way field technicians work. Astea's Alliance

Mobility Suite leverages the latest HTML5 technology to deliver a sleek and innovative user interface while still providing the ability for mobile workers to continue working whether they are in or out of wireless coverage. Field service technicians' days are transformed by receiving work orders which are automatically sent to the device, being able to view asset and service history; customer, account and job site information; contract and warranty information; receiving step-by-step guidance to complete the job; capturing customer signature; and completing work orders for invoicing. The real-time connectivity integrates field sales and service activity with automated front-office processes and eliminates the time, costs, procedural delays and errors of paper reporting. Expected benefits include reduced field administration costs; electronic data sharing among field and in-house personnel; improved speed, accuracy, content and compliance of field reporting; faster sales order processing and customer service invoicing; and other operational efficiencies.

Astea Alliance Extended Portals

Alliance Customer Portal

The Alliance Customer Portal is a secure, multi-level entry point that supports unattended e-business transactions for customer self-service and self-sales. Alliance Customer Portal empowers customers as it lessens dependence on sales and service staff to conduct transactions that can be performed over the Internet. It reduces routine voice and fax calls to customer contact centers, freeing lines for customers whose critical needs do require assistance from a service representative. The pre-defined Entry-Level, Standard and Enterprise profiles, in connection with a security utility, are designed to ensure tight control on access to sensitive data and a range of features that can be enabled. It also provides another channel to promote and sell more products and services to an existing customer base. The customer portal can delay or eliminate needs for contact center expansion and associated increases in facility, equipment and staffing costs.

Alliance Remote Technician Portal

The Remote Technician Portal provides secure connectivity to the enterprise system from customer sites, technician's homes or other non-corporate locations. The available functionality covers the needs of a mobile service resource in the areas of work and inventory management.

Alliance Vendor & Third Party Management Portal

The Vendor & Third Party Management portal enables companies to manage their external vendors and third party service providers with a robust, secure and unified platform. This portal can now serve as their single point of information for all full-time and out-sourced stakeholders. As a result, they will have the necessary level of upstream and downstream visibility and accountability that is a critical stepping stone to better service network automation and optimizations. Whether that third party is an external service agent or a vendor that supplies parts, they will now be able to track and manage all of the parties that participate in your service supply chain. Their vendors and external service agents (SAs) will have access to a secure portal that allows them to enter, update and view pertinent information as it relates to a service order and logistics and reverse logistics functions. At the click of a mouse service organizations will be able to interconnect their entire service lifecycle ecosystem to eliminate redundant processes and drive ongoing efficiencies. Additionally, you will benefit by increased visibility, collaboration and communication.

Astea Alliance Reporting and Business Intelligence (BI)

For proactive service management, Alliance BI provides highly visual, real-time analysis of business performance, focusing on key performance indicators - a tool that facilitates businesses' understanding of customer behavior. Alliance BI enables the viewing of information for the entire enterprise, increasing revenues and identifying new business opportunities. Alliance BI has been designed to ensure that users of all kinds have immediate access to crucial information whenever it's needed. In the boardroom, at agent level, or even for customers, this tool effortlessly allows the viewing of performance data such as performance against service level agreements, contract profitability, product failure rate, repair turnaround times, customer satisfaction and engineer efficiency. Reports allow businesses to see how many orders have met their contractual service ETA and how many failed, which helps organizations better understand customer satisfaction. Workloads show the available working hours at a specific location in contrast to the demand for workforce planning and optimization.

Astea Alliance Tools

Alliance Link

Alliance Link is an enterprise application integration product that interfaces Astea Alliance to other enterprise systems, such as back-office financial and ERP applications, remote equipment monitoring and diagnostic software, and wireless data transmission services. Alliance Link extends Astea Alliance's return on investment for customers by making all Alliance modules accessible to external software through web services and open, well defined, synchronous and asynchronous application programming interfaces (APIs) that are XML based.

Alliance Knowledge Base

Alliance Knowledge Base provides powerful and scalable enterprise search functionality for corporate content, across a network or on a portal, intranet or Internet site. Delivering single-point access to enterprise-wide data collections; full-text searches can be conducted quickly and easily across disparate data sources, from a single PC to corporate networks, intranets, extranets, websites and portals, improving knowledge retention and sharing across the organization. Alliance Knowledge Base offers advanced functionality for entering queries and results navigation to help users quickly find the information they need. Alliance Knowledge Base can provide user-friendly access to a vast range of information, including product manuals, technical support documentation, maintenance histories, repair notes, announcements, and much more. With search functionality, Alliance Knowledge Base becomes much more than simply an operations tool; it provides organizations the capability to share all sorts of information, improve problem resolution times, and improve the quality of decision-making across an organization.

Astea ServiceVision™

Astea ServiceVision provides powerful functionality at an affordable price to help small to mid-sized companies overcome the traditional challenges that bog down service operations and adversely impact customer satisfaction, service revenue, and business growth. ServiceVision strategically automates, standardizes and streamlines manual/paper processes, and centralizes disparate systems associated with providing the optimal level of customer service. With ServiceVision, Astea is making it easy for companies to leverage industry-proven, best-practice processes and workflows based on Astea’s depth of experience and hundreds of implementations.

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.

Astea ServiceVision offering includes powerful capabilities such as managing customers, equipment, contracts & warranties; advanced scheduling; parts & logistics management; work order management; customer self-service; advanced analytics; and innovative mobility.

FieldCentrix Enterprise Suite

The FieldCentrix Enterprise is a service management solution that runs on a wide range of mobile 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 management 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.

The current FieldCentrix Enterprise offering consists of:

- FX Service Center
- FX Mobile
- FX e-Service
- FX Fleet Manager
- FX Interchange
- FX Interchange for JD Edwards
- FX Mobility Express

FX Service Center

FX Service Center is an Internet-based service management and dispatch solution that gives organizations command over their field service operation in order to more effectively manage call taking, entitlement verification, field personnel scheduling and dispatching, customer service, work orders, timesheets, service agreements, inventory and equipment tracking, pre-invoicing, and reporting. The software is intuitive, giving organizations graphical picture views of the scheduling board, work order lists, field service worker and site locations, and more. Real-time drag-and-drop scheduling and re-scheduling take just a few mouse clicks, and pre-scheduling preventive maintenance calls are simple as well. FX Service Center makes completed work order and timesheet information instantly available for export to an organization's accounting, ERP, or CRM system. They can integrate FX Service Center with an organization's accounting, ERP or CRM system for seamless information flow. FX Resource Utilization is a strategic workforce modeling tool expected to accurately plan, track, and analyze service resources in real-time. It provides an automated way to size, manage, and report on resource capacity and utilization across the enterprise to provide suggestions to deploy resources, cost-effectively balance workloads and service engineers, and still make sure all service level commitments are met and contracts remain profitable. By adding FX Resource Utilization as part of the Service Center module, organizations have a new tool that is designed to increase the productivity and efficiency of their work force and service operations through load balancing and optimized resource planning.

FX Mobile

FX Mobile is a workflow software product that uses wireless communications technology with handheld computers, laptops, and PDA's to automate field service processes and should help field service personnel do their jobs better and faster. FX Mobile leverages the latest HTML5 technology, optimized for the latest devices such as Android, iPhone and iPad, to deliver a sleek and innovative user interface while still providing the ability for mobile workers to continue working whether they are in or out of wireless coverage. With FieldCentrix's technology, field service workers are be able to complete their work, uninterrupted, regardless of wireless coverage. Along with FX Service Center, FX Mobile eliminates the manual inefficiencies and paperwork that can overwhelm service technicians and an organization's business. With FX Mobile, service technicians receive work orders electronically on their mobile devices. It then guides them, screen by screen, through the job – prompting them to perform standard tasks, take notes, and even record future recommended repairs or activities. With FX Mobile, field service personnel can now spend their time in the field, better serving customers, generating new business, and increasing organizations' bottom lines. FX Mobile is an international offering that supports various languages, as well as currencies, measurement systems and time zones.

FX e-Service

FX e-Service is an extension of the FieldCentrix solution that provides a dynamic customer self-service portal that links directly from a customer's web site. When integrated with FX Mobile software, it provides the unique capability to truly deliver real-time information from the point of service to your customers. Working seamlessly with FX Service Center call center and dispatching software, FX e-Service gives an organization's customers the flexibility of submitting service requests, accessing work order information, and managing their account over the Internet. Customers can receive an e-mail notification each time the status of a work order changes. This allows them to know instantly when the request has been received, scheduled, is in progress and when it is complete – all without ever calling into the office, waiting on hold or taking up valuable CSR resource.

FX Fleet Manager

FX Fleet Manager is FieldCentrix's Global Positioning System (GPS) offering to help customers manage their mobile resources more effectively. FX Fleet Manager gives companies control and management of their field operations with the expectation that they will make decisions that will increase profitability, reduce service costs, enhance customer responsiveness and satisfaction, and improve productivity and efficiency. With FX Fleet Manager, dispatchers and office personnel will always know where mobile resources are located — in real-time. Are they where they should be? Are they lost? Are they safe? There's an emergency service request — which resource is the closest with the right parts and skill sets? All this information and more should contribute to more efficiently managed mobile resources.

FX Interchange

FX Interchange software provides data transporting services that allow enterprises to quickly and easily integrate FieldCentrix Enterprise to existing legacy and business systems – that are expected to maximize value from field data. FX Interchange converts data stored in FX Service Center knowledge base to XML (eXtensible Markup Language) or a Microsoft SQL Server database. Once converted, the data is accessible to other systems for basic billing and payroll extraction, and bi-directional integration purposes that should support the needs of an accounting, call center, or service dispatch integrated solution.

FX Interchange for JD Edwards®

FieldCentrix field service automation software and JD Edwards® Enterprise and EnterpriseOne applications are integrated to provide medium to large companies with an easy-to-use, cost-effective way to streamline and automate field service operations. The systems are integrated through FX Interchange™ for JD Edwards. This interface dynamically transfers key customer, work order, and accounting related information between the FieldCentrix and JD Edwards applications. This means the key functions that organizations need to run their business efficiently and cost-effectively are now seamless and completed electronically — without paper.

With the FieldCentrix and JD Edwards solution, service workers in the field access and enter all work order information using a mobile device at the job site. When the work is done, the service worker closes the work order and the completed information is sent wirelessly back to the office automatically. The electronic information is instantly accessible for processing by an organization's billing system so there's no data entry needed. Because you also no longer have to wait for the field service worker to bring in the paperwork before you can close the work order, customers can be billed quicker.

FX Mobility Express™

For customers who want to mobilize their workforce without deploying a full field service automation solution, FieldCentrix offers a special mobilized application development toolkit called FX Mobility Express™. The FX Mobility Express toolkit is bundled with FieldCentrix's popular mobile middleware and allows organizations to quickly and easily build custom mobile applications that fully leverage FieldCentrix's robust and scalable mobile infrastructure and user-friendly interface. Mobilizing applications with FX Mobility Express should provide organizations with a cost-effective way to create a solution that fits their unique business requirements on a platform built from years of mobile and wireless technology experience and used by thousands of users worldwide.

Astea Client Services

Professional Services:

Astea's typical professional services engagement includes planning, prototyping and implementing of Astea's products within the client's organization. Some customers may require customization, but they are relatively insignificant.

During the initial planning phase of the engagement, Astea's professional services personnel work closely with representatives of the customer to prepare a detailed project plan that includes a timetable, resource requirements, milestones, in-house training programs, onsite business process training and demonstrations of Astea's product capabilities within the customer's organization.

The next phase of the Astea professional services engagement is the prototyping phase, in which Astea works closely with representatives of the customer to configure Astea's software solutions to the customer's specific business process requirements.

The next integral phase in the professional services engagement is the implementation phase, in which Astea's professional services personnel work with the client to develop detailed data mapping, conversions, interfaces and other technical and business processes necessary to integrate Astea's solutions into the customer's computing environment. Ultimately, education plans are developed and executed to provide the customer with the process and system knowledge necessary to effectively utilize the software and fully implement the solution. Professional services are generally charged on an hourly or daily basis.

The last phase of the engagement utilizes Astea's professional services personnel to assist in Go Live planning and the Go Live effort. Astea will assist in the planning for installation, initialization, data preparation, operational procedures, schedules and required resources. The initialization and creation of the production database is planned and prepared for the data history, open orders and all required data for go live processing. During the cutover to the solution, Astea business resources are best utilized to assist new users with functionality/processes while Astea technical resources support customer IT staff.

Following the Go Live, Astea professional services engages the customer in the Assessment Phase. During this effort, the delivered system is assessed to validate benefits, analyze processes to measure key performance indicators, document and understand lessons learned. To perform these assessments, Astea consultants collect and analyze the planned benefits, processes used to capture and report on the key performance indicators, and document the lessons learned from all phases of the implementation. An action plan is then developed from the lessons learned and key performance indicators for use in future phases and/or releases.

Technical Services:

Astea's technical services teams provide services related to installation, data verification, functional design, technical design, system infrastructure setup or changes, customizations, Quality Assurance (QA) activities, testing and Go Live support. Initially, software and database installation resources are available to prepare the environment for the prototyping phase.

Data verification and feedback services can be provided for initial data verification analysis. These efforts are conducted to determine the present state of information as far as type, conversions, data manipulation, location, frequency, method of interface (initial load, ongoing load, data export or data import) and data integrity. Findings are documented and shared with the project team.

During the implementation phase, Astea's technical services team is often engaged to assist with the functional and/or technical design as related to customer desired system personalization, minor customization and interfaces, often referred to as 'gaps'. Gap solutions are assessed and categorized into system, studio, customization or interface. Utilizing the services of the customer project team, Astea professional services and Astea technical services create Business Requirement Documents (BRDs) for all customizations and interfaces. Astea technical services will provide specifications and a quote for the customization. The customer and Astea agree on the outcome of the customization and all expected outputs prior to the actual development customization. Following acceptance of the BRDs, code will be written as per design. QA of the code with test data sets will complete these efforts.

Astea's technical services team will also provide testing and go-live support, as required.

Customer Support

Astea's customer support organization provides customers with telephone and online technical support, as well as product enhancements, updates and new software releases. The Company can provide 24X7 "follow-the-sun" support through its global support network. Local representatives support all regions of Astea's worldwide operations. Astea personnel or a distributor's personnel familiar with local business customs and practices provide support in real-time and usually spoken in native languages. Typically, customer support fees are established as a fixed percentage of license fees and are invoiced to customers on an annual basis. Astea's customer support representatives are located in the United States, Europe, Israel, Japan and Australia. In addition, Astea provides customer support 24X7 with its self-service portal. The maintenance offering provides customers with support and help desk services, as well as software service packs and release upgrades for the modules they have purchased.

Education & Training

Application Training:

Key business owners responsible for the implementation of the core components will receive in-depth training designed to present the features, functionality and terminology of Astea's solutions. The objective of this training is to provide the audience with a working knowledge of these solutions. This exposure to the system will enable project communication and add insight into specific business processes.

End-user training plans and documents are created during the implementation phase. These plans and documentation are utilized to conduct end-user training sessions prior to go-live.

Technical Training:

Software and database installation/creation training is provided, as required and/or recommended.

System Administration training provides the customer IT staff pre-requisite knowledge to manipulate and manage administrative tasks associated with the Astea solutions. Included within these tasks are: Security, Batch Applications, Escalation, Import, etc.

Many customers are interested in performing their own personalization and minor customization to the system. Training sessions are available to enhance customer understanding of available options for personalization and how to perform customizations.

Customers

The Company estimates that it has sold licenses to approximately 650 customers ranging from small, rapidly growing companies to large, multinational corporations with geographically dispersed operations and remote offices. The broad applicability of the Company's products is demonstrated by the wide range of companies across many markets and industries that use one or more of Astea's products, including customers in information technology, medical devices and diagnostic systems, industrial controls and instrumentation, retail/point-of-sale systems equipment, HVAC (heating, ventilation, air conditioning), office automation equipment, imaging systems, fire & security, gaming/leisure equipment, facilities management, telecommunications and other related industries with equipment sales and service. In 2013 and 2012 there was no one customer that accounted for 10% or more of total revenues

Sales and Marketing

The Company markets its products through a worldwide network of direct and indirect sales and services offices with corporate headquarters in the United States and regional headquarters in the United Kingdom (Europe, Middle East and Africa Operations), Japan and Australia (Asia Pacific Operations). Sales partners include distributors (value-added resellers, system integrators and sales agents) and OEM partners. The Company actively seeks to expand its reseller network and establish an international indirect distribution channel targeted at the mid-market tier. See Risk Factors - "Need to Expand Indirect Sales."

Astea's direct sales force employs a consultative approach to selling, working closely with prospective clients to understand and define their needs and determine how such needs can be addressed by the Company's products. These clients typically represent the mid- to high-end of the market. A prospect development organization comprised of telemarketing representatives, who are engaged in outbound telemarketing and inbound inquiry response to a variety of marketing vehicles, develops and qualifies sales leads prior to referral to the direct sales staff. Additional prospects are identified and qualified through the networking of direct sales staff and the Company's management as part of daily business activities.

The modular structure of Astea's software and its ongoing product development efforts provide opportunities for incremental sales of product modules and consulting services to existing accounts. See Risk Factors - "Continued Dependence on Large Contracts May Result in Lengthy Sales and Implementation Cycles and Impact Revenue Recognition and Cash Flow."

Astea's corporate marketing department is responsible for product marketing, lead generation and marketing communications, including the Company's corporate website, dialogue with high tech industry analysts, trade conferences, advertising, e-marketing, online and traditional seminars, direct mail, product collateral and public relations. Based on feedback from customers, analysts, business partners and market data, the marketing department provides input and direction for the Company's ongoing product development efforts and opportunities for professional services. Leads developed from the variety of marketing communications vehicles are routed through the Company's Astea Alliance sales and marketing automation system. The Company also participates in an annual conference for users of Astea Alliance and FieldCentrix products. Conference participants attend training sessions, workshops and presentations, and interact with other Astea product users, Astea management and staff, and technology partners, providing important input for future product direction.

Astea's international sales accounted for 39% of the Company's revenues in 2013 and 40% of the Company's revenues in 2012. See Risk Factors —"Expansion of International Sales."

Product Development

Astea's product development strategy is to provide products that perform with exceptional depth and breadth of functionality and are easy to implement, use and maintain. Products are designed to be flexible, modular and scalable, so that they can be implemented incrementally in phases and expanded to satisfy the evolving information requirements of Astea's clients and their customers.

The Company uses widely accepted commercially available application development tools from Microsoft Corporation. These software tools provide the Company's customers with the flexibility to deploy Astea's products across a variety of hardware platforms, operating systems and relational database management systems. The latest Astea Alliance solution suite are engineered for existing and emerging Microsoft technologies such as Microsoft.NET Framework, Visual Studio 2012, Windows Presentation Framework (WPF), Internet Information Server (IIS), and supports Windows 7, Windows 8, Windows Server 2012, MS SQL 2012, and BizTalk Server. Astea Alliance also supports deployments in both on-premise as well as cloud environments by leveraging a multi-tenant architecture. This multi-tenant architecture supports running the application using one set of hardware/software, serving multiple client organizations (tenants). The computing resources and application code are generally shared between all the tenants on a server. Each tenant has its own set of data that remains logically isolated from data that belongs to all other tenants.

In addition to product development that is conducted at Company facilities in the United States and Israel, Astea may participate in contractual relationships with complementary technology companies to reduce time-to-market with new product capabilities in order to continually increase its value proposition to existing and prospective customers.

The Company's expense for product development for the years ended December 31, 2013 and 2012 was $1,349,000 and $2,075,000, respectively. These expenses amounted to 7% and 8% of total revenues for 2013 and 2012, respectively. The Company's capitalized software development costs were $3,021,000 and $2,704,000 in 2013 and 2012, respectively. Capitalized software development costs increased $317,000 in 2013 compared to an increase of $218,000 in 2012 principally due to the capitalization of the costs related to the development of Alliance Mobile Universal, Astea Alliance Version 11.0, and functionality enhancements to prior released versions of Astea Alliance. The Company anticipates that it will continue to allocate substantial resources to its development effort for the upgrade of its suite of products. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Risk Factors — "Need for Development of New Products."

Manufacturing

The Company's software products are distributed on CD ROMs and electronically via FTP (file transfer protocol). Included with the software products are security keys (a software piracy protection) and documentation available on CD ROM and hard copy. Historically, the Company has purchased media and duplicating and printing services for its product packaging from outside vendors.

Competition

The service management software market is intensely competitive and subject to rapid change. To maintain or increase its position in the industry, the Company will need to continually enhance its current product offerings, introduce new products and features and maintain its professional services capabilities. The Company currently competes on the basis of the depth and breadth of its integrated product features and functions, including the adaptability and scalability of its products to specific customer environments; the ability to deploy complex systems locally, regionally, nationally and internationally; product quality; ease-of-use; reliability and performance; breadth of professional services; integration of Astea's offerings with other enterprise applications; price; and the availability of Astea's products on popular operating systems, relational databases, Internet and communications platforms.

Competitors vary in size, scope and breadth of the products and services offered. The Company encounters competition generally from a number of sources, including other software companies, third-party professional services organizations that develop custom software, and information systems departments of potential customers developing proprietary, custom software. In the service management marketplace, the Company competes against publicly held companies and numerous smaller, privately held companies. Some of the Company's competitors include SAP AG ("SAP"), Oracle Corporation ("Oracle"), Amdocs Limited ("Amdocs"), Viryanet Ltd. ("Viryanet") and a number of smalle privately held companies. See Risk Factors — "Competition in the CRM Software Market is Intense."

Licenses and Intellectual Property

Astea considers its software proprietary and licenses its products to its customers under written license agreements. The Company also employs an encryption system that restricts a user's access to source code to further protect the Company's intellectual property. Because the Company's products allow customers to use the software's built in features to customize their applications without altering the framework source code, the framework source code for the Company's products is typically neither licensed nor provided to customers. The Company does, however, license source code from time to time and maintains certain third-party source code escrow arrangements. See "Customers" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company seeks to protect its products through a combination of copyright, trademark, trade secret and fair business practice laws. The Company also requires employees, consultants and third parties to sign nondisclosure agreements. Despite these precautions, it may be possible for unauthorized parties to copy certain portions of the Company's products or reverse engineer or obtain and use information that the Company regards as proprietary. The Company presently has no patents or patent applications pending. See Risk Factors — "Dependence on Proprietary Technology."

Because the software development industry is characterized by rapid technological change, Astea believes that factors such as the technological and creative skills of its personnel, new product developments, frequent product enhancements, and reliable product maintenance are more important to establishing and maintaining a technology leadership position than current legal protections.

Employees

As of December 31, 2013, the Company, including its subsidiaries, had a total of 156 full-time employees worldwide, 81 in the United States, 13 in the United Kingdom, 4 in the Netherlands, 40 in Israel, 8 in Australia and 10 in Japan. In addition, we have 5 part-time employees, 2 in the United States, and 3 in Israel. The Company's future performance depends, in significant part, upon the continued service of its key technical and management personnel and its continuing ability to attract and retain highly qualified and motivated personnel in all areas of its operations. See Risk Factors — "Dependence on Key Personnel; Competition for Employees." None of the Company's employees is represented by a labor union. The Company has not experienced any work stoppages and considers its relationships with its employees to be good.

Corporate History

The Company was incorporated in Pennsylvania in 1979 under the name Applied System Technologies, Inc. In 1992, the Company changed its name to Astea International Inc. Until 1986, the Company operated principally as a software-consulting firm, providing professional software consulting services on a fee for service and on a project basis. In 1986, the Company introduced its DISPATCH-1 product. In November 1991, the Company's sole stockholder acquired the outstanding stock of The DATA Group Corporation (“Data Group”), a provider of field service software and related professional services for the mainframe-computing environment. Data Group was merged into the Company in January 1994. In February 1995, the Company and its sole stockholder acquired the outstanding stock of Astea Service & Distribution Systems BV (“Astea BV”), the Company’s distributor of DISPATCH-1 and related services in Europe. In May 1995, the Company reincorporated in Delaware. In July 1995, the Company completed its initial public offering of Common Stock. In February 1996, the Company merged with Bendata, Inc. In June 1996, the Company acquired Abalon AB. In September 1998 (effective July 1, 1998), the Company sold Bendata, Inc. In December 1998, the Company sold Abalon AB. In December 1997, the Company introduced ServiceAlliance and in October 1999, SalesAlliance. Both products were subsequently re-engineered into components of the AllianceEnterprise suite which was introduced in 2001. Through 2001 and into 2002, the Company rebuilt its product functionality for Web-based applications and in August 2003 introduced Astea Alliance version 6. The Company released a new system architecture based on Microsoft.NET during the third quarter of 2004. On September 21, 2005, the Company acquired substantially all the assets and certain liabilities of FieldCentrix, Inc. In the first quarter of 2010, the Company delivered Astea Alliance version 10.0. In 2011, Astea launched Alliance Mobile Universal to deliver enterprise functionality optimized for the latest devices such as Android, iPhone and iPad leveraging the latest HTML5 technology. In 2012, Astea launched Astea ServiceVision a comprehensive cloud-based service management and mobility solution tailored for small to midsize businesses. Astea ServiceVision provides powerful functionality at a low-cost, subscription-based price model with implementations measured in weeks instead of months. Astea’s ServiceVision solution meets a major need in the industry: providing complete field service management and mobile functionality in a low-risk, cloud environment, enabling faster return on investment. In 2013, the latest software version, Astea Alliance 11.0 was released. With this release, Astea introduced an abundance of new features and enhancements that were developed based on three primary concepts; optimizing and streamlining processes, enabling proactive service insight and intelligence at every level, and significantly increasing ease of use and customizations without technical skills. Accelerated revenue growth, proactive intelligence, productivity and process optimization, enriched employee interaction experience, and increased customer satisfaction are just a few of the advantages organizations will be able to achieve with this new release. Astea Alliance is available either as an on-premise or cloud application, allowing every company to choose the right offering that aligns with their strategy and IT ecosystem.

Item 1A. Risk Factors.

The following discussion of the Company's risk factors should be read in conjunction with the financial statements and related notes thereto set forth elsewhere in this report. The following factors, among others, could cause actual results to differ materially from those set forth in forward looking statements contained or incorporated by reference in this report and presented by management from time to time. Such factors, among others, may have a material adverse effect upon the Company's business, results of operations and financial condition:

History of Net Losses

The Company has a history of net losses. In 2013, the Company generated a net loss of $3.0 million compared to a net loss of $0.2 million generated in 2012. In 2011, the Company generated net income of $0.7 million. Prior to 2011, the Company generated a net loss of $1.6 million and $0.9 million in 2010 and 2009, respectively. As of December 31, 2013, stockholders' equity is approximately $1.8 million, which is net of an accumulated deficit of approximately $28.9 million. Moreover, the Company expects to continue to incur additional operating expenses for research and development and invest in software development costs to achieve its projected revenue growth. There is no assurance that the Company may be able to achieve the necessary revenue growth or profitability in the future. If the Company does not attain or sustain profitability or raise additional equity or debt in the future, the Company may be unable to continue its operations.

Need for Development of New Products

The Company's future success will depend upon its ability to enhance its current products and develop and introduce new products on a timely basis that keep pace with technological developments, industry standards and the increasingly sophisticated needs of its customers, including developments within the client/server, thin-client and object-oriented computing environments. Such developments may require, from time to time, substantial capital investments by the Company in product development and testing. The Company intends to continue its commitment to research and development and its efforts to develop new products and product enhancements. There can be no assurance that the Company will not experience difficulties that could delay or prevent the successful development, introduction and marketing of new products and product enhancements; that new products and product enhancements will meet the requirements of the marketplace and achieve market acceptance; or that the Company's current or future products will conform to industry requirements. Furthermore, reallocation of resources by the Company, such as the diversion of research and development personnel to development of a particular feature for a potential or existing customer, can delay new products and certain product enhancements. Some of our customers adopted our software on an incremental basis. These customers may not expand usage of our software on an enterprise-wide basis or implement new software products introduced by the Company. The failure of the software to perform to customer expectations or otherwise to be deployed on an enterprise-wide basis could have a material adverse effect on the Company's ability to collect revenues or to increase revenues from new as well as existing customers. If the Company is unable to develop and market new products or enhancements of existing products successfully, the Company's ability to remain competitive in the industry will be materially adversely affected.

Rapid Technological Change

In the software industry there is a continual emergence of new technologies and continual change in customer requirements. Because of the rapid pace of technological change in the application software industry, the Company's current market position could be rapidly eroded by product advancements. In order to remain competitive, the Company must introduce new products or product enhancements that meet customers' requirements in a timely manner. If the Company is unable to do this, it may lose current and prospective customers to competitors.

The Company's application environment relies primarily on software development tools from Microsoft Corporation. If alternative software development tools were to be designed and generally accepted by the marketplace, we could be at a competitive disadvantage relative to companies employing such alternative developmental tools.

While the Company has licensed Astea Alliance to over 300 companies worldwide from 1998 through 2013, and more than 50 companies for the FieldCentrix suite supported by the Company since September 2005, revenues from sales of both Astea Alliance and FieldCentrix may not be sufficient to support the expenses of the Company. The Company's future success will depend mainly on its ability to increase licensed users of both the Astea Alliance suite and FieldCentrix offerings, on developing new products and product enhancements to complement its existing product offerings, on its ability to continue to generate professional services, support and maintenance revenues to Astea Alliance and FieldCentrix customers and on its ability to control its operating expenses. Any failure of the Company's products to achieve or sustain market acceptance, or of the Company to sustain its current position in the CRM software market due to rapid technological changes, would have a material adverse effect on the Company's business and results of operations. There can be no assurance that the Company will be able to increase demand for Astea Alliance and FieldCentrix products, maintain an acceptable level of support and maintenance revenues or to lower its expenses, thereby avoiding future losses.

Burdens of Customization

On rare occasions, the Company's clients may request significant customization of Astea Alliance and FieldCentrix products to address unique characteristics of their businesses or computing environments. In these situations, the Company would apply contract accounting to determine the recognition of license revenues. The Company's commitment to the customization could place a burden on its client support resources or delay the delivery or installation of products, which, in turn, could materially adversely affect its relationship with significant clients or otherwise adversely affect business and results of operations. In addition, the Company could incur penalties or reductions in revenues for failures to develop or timely deliver new products or product enhancements under development agreements and other arrangements with customers. If customers are not able to customize or deploy the Company's products successfully, the customer may not complete expected product deployment, which would prevent recognition of revenues and collection of amounts due, and could result in claims against the Company.

Product Defects; Failure to Meet Performance Criteria

The Company's software is intended for use in enterprise-wide applications that may be critical to its customers' business. As a result, customers and potential customers typically demand strict requirements for installation and deployment. The Company's software products are complex and may contain undetected errors or failures, particularly when software must be customized for a particular customer, when first introduced or when new versions are released. Although the Company conducts extensive product testing during product development, the Company has at times delayed commercial release of software until problems were corrected and, in some cases, has provided enhancements to correct errors in released software. The Company could, in the future, lose revenues or incur additional and unexpected costs as a result of software errors or defects. Despite testing by the Company and by current and potential customers, errors in the software, customizations or releases might not be detected until after initiating commercial shipments, which could result in additional costs, delays, possible damage to the Company's reputation and could cause diminished demand for the Company's products. This could lead to customer dissatisfaction and reduce the opportunity to renew maintenance contracts or sell new licenses.

Our Sales Cycles Can be Long, Unpredictable and Require Considerable Time and Expense, Which May Cause our Operating Results to Fluctuate

The timing of our revenue from sales to customers is difficult to predict. These efforts require us to educate our customers about the use and benefit of our services, including the technical capabilities and potential cost savings to an organization. customers typically undertake a significant evaluation process that has in the past resulted in a lengthy sales cycle, typically between four and twelve months. We spend substantial time, effort and money on our sales efforts without any assurance that our efforts will produce any sales. In addition, service subscriptions are frequently subject to budget constraints and unplanned administrative, processing and other delays. If sales expected from a specific customer for a particular quarter are not realized in that quarter or at all, our results could fall short of public expectations, and our business operating results and financial condition could be adversely affected from quarter to quarter.

Continued Dependence on Large Contracts May Result in Lengthy Sales and Implementation Cycles and Impact Revenue Recognition and Cash Flow

The sale and implementation of the Company's products generally involve a significant commitment of resources by prospective customers. As a result, the Company's sales process is often subject to delays associated with lengthy approval processes attendant to significant capital expenditures, definition of special customer implementation requirements, and extensive contract negotiations with the customer. Therefore, the sales cycle varies substantially from customer to customer and typically lasts between four and twelve months. During this time the Company may devote significant time and resources to a prospective customer, including costs associated with multiple site visits, product demonstrations and feasibility studies. The Company may experience a number of significant delays over which the Company has no control. Because the costs associated with the sale of the product are fixed in current periods, there may be a lag between the time the Company incurs costs with regard to a particular customer or contract and the time the Company begins to receive or recognize revenues from such customer or contract. Moreover, in the event of any downturn in any existing or potential customer's business or the economy in general, purchases of the Company's products may be deferred or canceled.

In addition, the implementation of the Company's products typically takes several months of integration of the product with the customer's other existing systems and customer training requires a close working relationship between the customer and members of the Company's professional service organization. These issues make it difficult to predict the quarter in which expected orders will occur. Delays in implementation of products could cause some or all of the professional services revenues from those projects to be shifted from the expected quarter to a subsequent quarter or quarters.

When the Company has provided consulting services to implement certain larger projects, some customers have delayed payment of a portion of license fees until implementation was complete and in some cases have disputed the consulting fees charged for implementation. There can be no assurance the Company will not experience additional delays or disputes regarding payment in the future, particularly if the Company receives orders for large, complex installations. Additionally, as a result of the application of the revenue recognition rules applicable to the Company's licenses under generally accepted accounting principles, license revenues may be recognized in periods after those in which the respective licenses were signed. The Company believes that period-to-period comparisons of its results of operations should not be relied upon as any indication of future performance.

Fluctuations in Quarterly Operating Results May Be Significant

The Company's quarterly operating results have in the past and may in the future vary significantly depending on factors such as:

- revenue from software sales;
- timing of new product releases;
- market acceptance of new and enhanced versions of the Company's products;
- customer order deferrals in anticipation of enhancements or new products;
- size and timing of significant orders, the recognition of revenue from such orders;
- changes in pricing policies by the Company and its competitors;
- introduction of alternative technologies;
- changes in operating expenses;
- changes in the Company's strategy;
- personnel changes; and
- effect of potential acquisitions by the Company and its competitors.

The Company has limited or no control over many of these factors. Due to all these factors, it is possible that in some future quarter the Company's operating results will be materially adversely affected.

Fluctuations in Quarterly Operating Results Due to Seasonal Factors

The Company expects to experience fluctuations in the sale of licenses for its products due to seasonal factors. The Company has experienced and anticipates that it may experience relatively lower sales in the first fiscal quarter due to patterns in capital budgeting and purchasing cycles of current and prospective customers. The Company also expects that sales may decline during the summer months of its third quarter, particularly in the European markets. Moreover, the Company generally records most of its total quarterly license revenues in the third month of the quarter, with a concentration of these revenues in the last half of that third month. This concentration of license revenues is influenced by customer tendencies to make significant capital expenditures at the end of a fiscal quarter. The Company expects these revenue patterns to continue for the foreseeable future. Thus, its results of operations may vary seasonally in accordance with licensing activity, and will also depend upon recognition of revenue from such licenses from time to time. The Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as an indication of future performance.

Impairment of Intangible Assets

We have significant intangible assets, including goodwill with an indefinite life, which are susceptible to valuation adjustments as a result of changes in various factors or conditions. Our identifiable intangible assets except for goodwill, are amortized on a straight-line basis over their estimated useful lives. We assess the potential impairment of intangible assets on at least an annual basis, as well as whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment of such assets, include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of or use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period;
- changes in our organization or management reporting structure that could result in additional reporting units, which may require alternative methods of estimating fair values or greater disaggregation or aggregation in our analysis by reporting unit; and
- a decline in our market capitalization below net book value.

Future adverse changes in these or other unforeseeable factors could result in an impairment charge that would impact our results of operations and financial position in the reporting period identified.

Competition in the CRM Software Market is Intense

The Company competes in the CRM software market. This market is highly competitive and the Company expects competition in the market to increase. The Company's competitors include large public companies such as Oracle, which owns PeopleSoft and Siebel, as well as traditional ERP software providers such as SAP that are developing CRM capabilities. In addition, a number of smaller privately held companies generally focus only on discrete areas of the CRM software marketplace. Because the barriers to entry in the CRM software market are relatively low, new competitors may emerge with products that are superior to the Company's products or that achieve greater market acceptance. Moreover, the CRM industry is currently experiencing significant consolidation, as larger public companies seek to enter the CRM market through acquisitions or establish other cooperative relationships among themselves, thereby enhancing their ability to compete in this market with their combined resources. Some of the Company's existing and potential competitors have greater financial, technical, marketing and distribution resources than the Company. These and other competitors pose business risks to the Company because:

- they compete for the same customers that the Company tries to attract;
- if the Company loses customers to its competitors, it may be difficult or impossible to win them back;
- lower prices and a smaller market share could limit the Company's revenue generating ability, reduce its gross margins and restrict its ability to become profitable or sustain profitability; and
- competitors may be able to devote greater resources to more quickly respond to emerging technologies and changes in customer requirements or to the development, promotion and sales of their products.

There can be no assurance that the Company will be able to compete successfully against current and future competitors or that competitive pressures faced by the Company will not adversely affect its business and results of operations.

Part of our Business is Dependent on Market Demand for, and Acceptance of, the Cloud-based Model for the Use of Software

We derive, and expect to continue to derive a growing percentage of our revenue from the sale of cloud-based services. As a result, widespread acceptance and use of the cloud-based business model is critical to our future growth and success. Under the perpetual or periodic license model for software procurement, users of the software typically run applications on their hardware. Because companies are generally predisposed to maintaining control of their IT systems and infrastructure, there may be resistance to the concept of accessing the functionality that software provides as a service through a third party. If the market for cloud-based, software solutions ceases to grow or grows more slowly than we currently anticipate, demand for our services could be negatively affected.

Dependence on Proprietary Technology

The Company depends heavily on proprietary technology for its business to succeed. The Company licenses its products to customers under license agreements containing, among other terms, provisions protecting against the unauthorized use, copying and transfer of the licensed program. In addition, the Company relies on a combination of trade secrets, copyright and trademark laws and confidentiality procedures to protect the Company's proprietary rights in its products and technology. The legal protection is limited, however. Unauthorized parties may copy aspects of the Company's products and obtain and use information that the Company believes is proprietary. Other parties may breach confidentiality agreements or other contracts they have made with the Company. Policing unauthorized use of the Company's software is difficult and, while the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. There can be no assurance that any of the measures taken by the Company will be adequate to protect its proprietary technology or that its competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technologies. If the Company fails to successfully enforce its proprietary technology, its competitive position may be harmed.

Other software providers could develop similar technology independently, which may infringe on the Company's proprietary rights. The Company may not be able to detect infringement and may lose a competitive position in the market before it does so. In addition, competitors may design around the Company's technology or develop competing technologies. The laws of some foreign countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States. Litigation may be necessary to enforce the Company's proprietary rights. Such litigation is time-consuming, has an uncertain outcome and could result in substantial costs and diversion of management's attention and resources. However, if the Company fails to successfully enforce its proprietary rights, the Company's competitive position may be harmed.

Limited Number of Data Centers to Deliver our Cloud Services

We host our cloud-based software using several third-party data center facilities. We do not control the operation of these facilities. The owners of our data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, we may be required to transfer to other data center facilities, and we may incur significant costs and possible service interruption in connection with a transfer of this type.

Any changes in third-party service levels at our data centers or any errors, defects, disruptions or other performance problems with our services could harm our reputation and may damage our customers' businesses. Interruptions in our services might reduce our revenue, cause us to issue credits to customers, subject us to potential liability, cause customers to terminate their subscriptions or harm our renewal rates.

Our data centers are vulnerable to damage or interruption from human error, intentional bad acts, pandemics, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures and similar events. The occurrence of a natural disaster or an act of terrorism, or vandalism or other misconduct, a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in our services.

Our Success Depends on Our Customers' Continued High-speed Access to the Internet

Because our cloud services are designed to work over the Internet, our revenue growth depends on our customers' high-speed access to the Internet, as well as the continued maintenance and development of the Internet infrastructure. The future delivery of our cloud services will depend on third-party Internet service providers to expand high-speed Internet access, to maintain a reliable network with the necessary speed, data capacity and security, and to develop complementary products and services, including high-speed modems, for providing reliable and timely Internet access and services. The success of our business directly depends on the continued accessibility, maintenance and improvement of the Internet as a convenient means of customer interaction, as well as an efficient medium for the delivery and distribution of information by businesses to their employees. All of these factors are out of our control.

To the extent that the Internet continues to experience increased numbers of users, frequency of use or bandwidth requirements, the Internet may become congested and be unable to support the demands placed on it, and its performance or reliability may decline. Any future Internet outages or delays could adversely affect our ability to provide cloud services to our customers.

Possible Infringement of Third Party Intellectual Property Rights

Substantial litigation and threats of litigation regarding intellectual property rights are common in this industry. The Company is not aware that its products and technologies employ technology that infringes any valid, existing proprietary rights of third parties. While there currently are no pending lawsuits against the Company regarding infringement of any existing patents or other intellectual property rights or any notices that it is infringing the intellectual property rights of others, third parties may assert such claims in the future. Any claims, with or without merit, could:

- βε τιμε χονσυμινγ το δεφενδ;
- ρεσυλτ ιν χοστλψ λιτιγατιον ορ δαμαγε αωαρδσ;
- διϖερτ μαναγεμεντ σ αττεντιον ανδ ρεσουρχεσ;
- χαυσε προδυχτ σηιπμεντ δελαψσ; ορ
- require the Company to seek to enter into royalty or licensing agreements, which may not be available on terms acceptable to the Company, if at all.

A successful claim of intellectual property infringement against the Company or the Company's failure or inability to license the infringed or similar technology could seriously harm its business because the Company would not be able to sell the impacted product without exposing itself to litigation risk and damages. Furthermore, redevelopment of the product so as to avoid infringement could cause the Company to incur significant additional expense and delay.

Dependence on Technology from Third Parties

The Company integrates various third-party software products as components of its software. The Company's business would be disrupted if this software, or functional equivalents of this software, were either no longer available to the Company or the Company was no longer able to gain access to this software on commercially reasonable terms. In either case, the Company would be required to either redesign its software to function with alternate third-party software or develop these components itself, which would result in increased costs and could result in delays in software shipments. Furthermore, the Company might be forced to limit the features available in its current or future software offerings.

Need to Expand Indirect Sales

The Company has historically sold its products through its direct sales force and a limited number of distributors (value-added resellers, system integrators and sales agents). The Company's ability to achieve significant revenue growth in the future will depend in large part on its success in establishing relationships with distributors and OEM partners. The Company is currently investing, and plans to continue to invest, significant resources to expand its domestic and international direct sales force and develop distribution relationships. The Company's distributors also sell or can potentially sell products offered by the Company's competitors. There can be no assurance that the Company will be able to retain or attract a sufficient number of its existing or future third party distribution partners or that such partners will recommend, or continue to recommend, the Company's products. The inability to establish or maintain successful relationships with distributors and OEM partners or to train its direct sales force could cause its sales to decline.

Future Acquisitions

As part of Astea's growth strategy, it may pursue the acquisition of businesses, technologies or products that are complementary to its business. Acquisitions involve a number of special risks that could harm the Company's business, including the diversion of management's attention, the integration of the operations and personnel of the acquired companies, and the potential loss of key employees. In particular, the failure to maintain adequate operating and financial control systems or unexpected difficulties encountered during expansion could harm the Company's business. Acquisitions may result in potentially dilutive issuances of equity securities, and the incurrence of debt and contingent liabilities, any of which could materially adversely affect the Company's business and results of operations.

Expansion of International Sales

Astea's international sales accounted for 39% of the Company's revenues in 2013 and 40% in 2012. The Company expects that international sales will continue to be a significant component of its business. In the Company's efforts to expand its international presence, it will face certain risks, which it may not be successful in addressing. These risks include:

- difficulties in establishing and managing international distribution channels and in translating products into foreign languages;
- difficulties finding staff to manage foreign operations and collect accounts receivable;
- difficulties enforcing intellectual property rights;
- liabilities and financial exposure under foreign laws and regulatory requirements;
- potential political, economic or military instability in the countries in which the Company operates;
- fluctuations in the value of foreign currencies and currency exchange rates; and
- potentially adverse tax consequences.

Additionally, the current economic difficulties in several European and Asian countries could have an adverse impact on the Company's international operations in future periods. Any of these factors, if not successfully addressed, could harm the Company's operating results.

Subjection to Anti-bribery and Anti-corruption Laws

We are required to comply with anti-bribery and anti-corruption laws in the jurisdictions in which we operate, including the U.S. Foreign Corrupt Practices Act (the "FCPA"). The FCPA generally prohibits covered entities and their intermediaries from engaging in bribery or making other prohibited payments to foreign officials for the purpose of obtaining or keeping business or other benefits. In addition, the FCPA imposes accounting standards and requirements on covered entities which are intended to prevent the diversion of corporate funds to the payment of bribes and other improper payments, and to prevent the establishment of "off-books" slush funds from which such improper payments can be made. Although we believe that we have acted in compliance with applicable anti-corruption laws, there is no assurance that our practices have prevented or will work to prevent anti-corruption violations or that they will protect us against liability under anti-corruption laws for actions taken by our integrators, distributors, agents and other intermediaries with respect to our business or any businesses that we may acquire.

Compliance with the FCPA and other applicable anti-corruption laws is expensive and difficult, particularly in countries in which corruption is a recognized problem. If we or our intermediaries acting on our behalf are found to have failed to comply with the FCPA or other applicable anti-corruption laws, we may be subject to criminal and civil penalties, disgorgement and other remedial measures, any of which could have an adverse impact on our business, results of operations and financial condition. Any investigation of any potential violations of anti-corruption laws also could have an adverse impact on our business, results of operations and financial condition, such as through legal expenses and reputational effects.

Research and Development in Israel; Potential Political, Economic or Military Instability

Astea's principal research and development facilities are located in Israel. Accordingly, political, economic and military conditions in Israel may directly affect its business. Continued political and economic instability or armed conflicts in Israel or in the region could directly harm the Company's business and operations.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility has existed in varying degrees and intensity. This state of hostility has led to security and economic problems for Israel. The future of peace efforts between Israel and its Arab neighbors, particularly in light of the recent violence and political unrest in the Middle East, remains uncertain and several countries still restrict business with Israel and Israeli companies. These restrictive laws and policies may also materially harm the Company's operating results and financial condition. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its trading partners could adversely affect our operations and results of operations. Specifically, in early 2011, riots and uprisings in several countries in the Middle East have led to severe political instability and to a decline in the regional security situation. Such instability may affect the global economy and marketplace and could adversely affect business conditions and therefore affect the Company's operations. The political and security situation in Israel may also result in parties with whom we have agreements involving performance in Israel claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in such agreements.

Dependence on Key Personnel Who Are Required to Perform Military Service

Many of the Company’s employees in Israel are obligated to perform annual military reserve duty in the Israeli army and are subject to being called to active duty at any time, which could adversely affect the Company’s ability to pursue its planned research and development efforts. The Company cannot assess the full impact of these requirements on its workforce or business and the Company cannot predict the effect of any expansion or reduction of these obligations. However, in light of the recent violence and political unrest in Israel, there is an increased risk that a number of the Company’s employees could be called to active military duty without prior notice. The Company’s operations could be disrupted by the absence for a significant period of time of one or more of our key employees or a significant number of other employees due to military service. Any such disruption in the Company’s business could harm its operations.

Inflation and Currency Fluctuations

The Company generates most of its revenues in U.S. dollars but all of its costs associated with the foreign operations located in Europe, the Pacific Rim, Japan, and Israel are denominated in the respective local currency and translated into U.S. dollars for consolidation and reporting. As a result, the Company is exposed to risks to the extent that the rate of inflation in Europe, the Pacific Rim, Japan, or Israel exceeds the rate of devaluation of their related foreign currency in relation to the U.S. dollar or if the timing of such devaluations lags behind inflation in Europe, the Pacific Rim, Japan, or Israel. In that event, the cost of the Company’s operations in Europe, the Pacific Rim, Japan, and Israel measured in terms of U.S. dollars will increase and the U.S. dollar-measured results of operations will suffer. Historically, Israel has experienced periods of high inflation.

Dependence on Key Personnel; Competition for Employees

The continued growth and success largely depends on the managerial and technical skills of key technical, sales and management personnel. In particular, the Company’s business and operations are substantially dependent on the performance of Zack Bergreen, the founder and chief executive officer. If Mr. Bergreen were to leave or become unable to perform services for the Company, the business would likely be harmed. The Company’s success also depends, to a substantial degree, upon its continuing ability to attract, motivate and retain other talented and highly qualified personnel. Competition for key personnel is intense, particularly so in recent years. From time to time the Company has experienced difficulty in recruiting and retaining talented and qualified employees. There can be no assurance that the Company can retain its key technical, sales and managerial employees or that it can attract, assimilate or retain other highly qualified technical, sales and managerial personnel in the future. If the Company fails to attract or retain enough skilled personnel, its product development efforts may be delayed, the quality of its customer service may decline and sales may decline.

Concentration of Ownership

Currently, Zack Bergreen, the Company’s chief executive officer, beneficially owns approximately 45% of the outstanding Common Stock of the Company, which includes 826,000 shares of Series A Convertible Preferred Stock. As a result, Mr. Bergreen exercises significant control over the Company through his ability to influence and control the election of directors and all other matters that require action by the Company’s stockholders. Under certain circumstances, Mr. Bergreen could prevent or delay a change of control of the Company which may be favored by a significant portion of the Company’s other stockholders, or cause a change of control not favored by the majority of the Company’s other stockholders. Mr. Bergreen’s ability under certain circumstances to influence, cause or delay a change in control of the Company also may have an adverse effect on the market price of the Company’s Common Stock.

Possible Volatility of Stock Price

The market price of the Common Stock has in the past been, and may continue to 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, and adverse earnings or other financial announcements of the Company’s customers as well as other factors. In addition, the stock market can experience extreme price and volume fluctuations from time to time, which may bear no meaningful relationship to the Company’s performance. Broad market fluctuations, as well as economic conditions generally and in the software industry specifically, may result in material adverse effects on the market price of the Company’s Common Stock.

Failure to Satisfy a Continued Listing Rule per NASDAQ Requirements

Per NASDAQ listing requirements, the Company must maintain a minimum size audit committee of at least 3 independent members and the majority of the board be comprised of independent directors. In February 2014, one of the independent directors resigned from the board of directors and audit committee. As a result, the Company received notice from NASDAQ that it no longer met these requirements. The Company has until the later of 6 months from the date of resignation of its board member or the next annual meeting of shareholders to satisfy this listing rule. The Company fully intends to satisfy this requirement by the necessary date.

The second potential compliance issue requires a minimum stockholders' equity of $2,500,000 in order to satisfy a continued listing rule per NASDAQ requirements. Based upon the 2013 results, Astea's stockholders' equity fell below the minimum listing requirement threshold. This may trigger a notice of non-compliance from NASDAQ. We would then have to provide an acceptable plan to regain compliance to NASDAQ, which may or may not be granted at their discretion. Astea is evaluating various options to ensure compliance.

We may be required to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by NASDAQ to maintain adequate levels of equity to support our operations. NASDAQ equity rules establish minimum equity requirements. We may at some point need to raise additional capital to support our operations and meet the required NASDAQ requirements. Our ability to raise additional capital will depend, in part, on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we may be unable to raise additional capital, if and when needed, on terms acceptable to us, or at all. If we cannot raise additional capital when needed, we may become subject to adverse regulatory actions or restrictions, and limitations on growth of our operations. In addition, if we decide to raise additional equity capital, our shareholders' ownership interest in the Company could be diluted.

Limitations of the Company Charter Documents

The Company's Certificate of Incorporation and By-Laws contain provisions that could discourage a proxy contest or make more difficult the acquisition of a substantial block of the Company's Common Stock, including provisions that allow the Board of Directors to take into account a number of non-economic factors, such as the social, legal and other effects upon employees, suppliers, customers and creditors, when evaluating offers for the Company's acquisition. Such provisions could limit the price that investors might be willing to pay in the future for the Company's shares of Common Stock. The Board of Directors is authorized to issue, without stockholder approval, up to 5,000,000 shares of preferred stock with voting, conversion and other rights and preferences that may be superior to the Company's Common Stock and that could adversely affect the voting power or other rights of our holders of Common Stock. There are currently 826,000 convertible preferred stock shares outstanding. The issuance of preferred stock or of rights to purchase preferred stock could be used to discourage an unsolicited acquisition proposal.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

The Company's headquarters are located in a leased facility of approximately 23,000 square feet in Horsham, Pennsylvania which runs through April 2017. The Company also leases facilities for operational activities in Irvine, California; Arnhem, Netherlands; and Karmiel, Israel, and for sales and customer support activities in Maidenhead, England; Tokyo, Japan; and North Sydney, Australia. The Company believes that suitable additional or alternative office space will be available in the future on commercially reasonable terms as needed.

Item 3. Legal Proceedings.

None

Item 4. Mine Safety Disclosures.

None

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's Common Stock is traded on Capital Market of The NASDAQ Stock Market, LLC ("NASDAQ") under the symbol "ATEA." The following table sets forth the high and low sale prices for the Common Stock as reported by the NASDAQ for the past two fiscal years:

2013	High	Low
First quarter	$ 4.09	$ 2.42
Second quarter	3.65	2.00
Third quarter	3.20	1.92
Fourth quarter	3.36	2.45

2012	High	Low
First quarter	$ 6.07	3.20
Second quarter	3.84	2.45
Third quarter	4.99	3.12
Fourth quarter	4.71	2.34

As of March 20, 2014, there were approximately 36 holders of record of the Company's Common Stock. On March 20, 2014, the last reported sale price of the Common Stock as reported by NASDAQ was $3.00 per share. The Company currently has outstanding 826,000 shares of convertible preferred stock.

Dividend Policy

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 on common stock is appropriate. No dividends have been declared since June 2000. The Company has no intention at this time to pay dividends on its common stock. Consequently, shareholders will need to sell their shares of our common stock to realize a return on their investment, if any.

In September 2008, the Company issued 826,000 shares of convertible preferred stock. Dividends accrue daily at a rate of 10% and are payable quarterly only when they are declared by the Board of Directors. The first dividend was paid at the end of 2008. The Company has continued to make timely quarterly payments on the preferred dividends.

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants & Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants & Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c)

Equity compensation plans approved by security holders	666,000	$3.92	395,000
Equity compensation plans not approved by security holders	-	-	-
Total	666,000	$3.92	395,000

Stock Performance Graph

The following graph compares the percentage change in cumulative total stockholder return on the Common Stock during the period from December 31, 2008 through December 31, 2013 with cumulative total return on (i) a peer group that includes all organizations in the Company's Standard Industrial Classification (SIC) Code 7372-Prepackaged Software, (ii) the NASDAQ Composite Index, and (iii) the S&P Smallcap 600 Index. The comparison assumes that $100 was invested on December 31, 2008 in the Common Stock and in each of the foregoing indices, and assumes reinvestment of dividends, if any.

Item 6. Selected Financial Data.

Years ended December 31, (in thousands, except per share data)	2013	2012	2011	2010	2009
Consolidated Statement of Income Data					
Revenues:					
Software license fees	$2,809	$4,796	$6,704	$4,961	$2,665
Services and maintenance	17,528	21,594	19,883	16,425	17,438
Total revenues	20,337	26,390	26,587	21,386	20,103
Costs of revenues:					
Cost of software license fees	1,846	1,526	1,830	2,037	1,926
Cost of services and maintenance	12,456	14,048	12,987	11.070	10,496
Total cost of revenues	14,302	15,574	14,817	13,107	12,422
Gross profit	6,035	10,816	11,770	8,279	7,681
Operating expenses:					
Product development	1,349	2,075	2,724	3,041	2,283
Sales and marketing	3,915	4,982	4,558	3,701	3,445
General and administrative	3,391	4,095	3,572	3,166	2,815
Restructuring	226	-	-	-	-
Total operating expenses	8,881	11,152	10,854	9,908	8,543
(Loss) income from operations before interest and taxes	(2,846)	(336)	916	(1,629)	(862)
Interest (expense) income	(67)	14	27	92	38
Loss (income) from operations before income taxes	(2,913)	(322)	943	(1,537)	(824)
Income tax expense (benefit)	83	(84)	270	33	75
Net (loss) income	(2,996)	(238)	673	(1,570)	(899)
Preferred dividend	300	300	300	286	290
Net (loss) income available to common stockholders	$(3,296)	$(538)	$373	$(1,856)	$(1,189)
Basic and diluted net (loss) income per share	$(0.92)	$(0.15)	$0.10	$(0.52)	$(0.33)
Shares used in computing basic (loss) income per share	3,594	3,574	3,562	3,555	3,554
	3,594	3,574	3,720	3,555	3,554

Shares used in computing diluted (loss) income per share					
Consolidated Balance Sheet Data at December 31,					
Working (deficit) capital	$(3,790)	$(1,611)	$(157)	$192	$1,111
Total assets	13,900	14,705	16,728	14,300	14,270
Long-term debt, less current portion	2,000	-	-	-	-
Accumulated deficit	(28,945)	(25,743)	(25,424)	(26,062)	(23,903)
Total stockholders’ equity	1,829	5,149	5,460	4,857	6,486

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company develops, markets and supports service management software solutions, which are licensed to companies that sell and service equipment, or sell and deliver professional services. The Company's principal product offerings, Astea Alliance and FieldCentrix Enterprise suites, integrate and automate sales and service business processes and are designed to assist its users to increase competitive advantages, top-line revenue growth and profitability through better management of information, people, assets and cash flows. We believe that Astea Alliance offers substantially broader and far superior capabilities over the Company's predecessor product, DISPATCH-1, which was designed for only field service and customer support management applications.

The Company's products and services are primarily used in industries such as information technology, medical devices and diagnostic systems, industrial controls and instrumentation, retail systems, office automation, imaging systems, facilities management and telecommunications. An eclectic group of other industries, all with equipment sales and service requirements, are also represented in Astea's customer base. The Company maintains offices in the United States, United Kingdom, Australia, Israel, Japan and The Netherlands.

The Company generates revenues from three sources: software license fees for its software products, subscriptions services from its cloud services, and services and maintenance revenues from professional services, which includes consulting, implementation, training and maintenance related to those products.

Software license fees accounted for 14% of the Company's total revenues in 2013, which was divided between sales of Astea Alliance at 97% and FieldCentrix at 3%. Software license fee revenues also include some fees from the sublicensing of third-party software, primarily knowledge management, mapping and analytical software licenses. Typically, customers pay a license fee for the software based on the number of licensed users. Depending on the contract terms and conditions, software license fees are recognized as revenue upon delivery of the product if no significant vendor obligations remain and collection of the resulting receivable is deemed probable. If significant vendor obligations exist at the time of delivery or if the product is subject to uncertain customer acceptance, revenue is deferred until no significant obligations remain and/or acceptance has occurred.

We provide several Software-as-a-Service ("SaaS") solutions which generate revenue from cloud subscription services. Our SaaS customers typically purchase three year license subscriptions, but occasionally will purchase annual license subscriptions. During 2013, we added subscription based customers. However, we are unable to recognize any revenue from SaaS sales until the customer goes live. Some of the SaaS projects went live in the last quarter of 2013 allowing us to recognize revenue of $153,000. It generally takes several months for the customer to go live.

The remaining component of the Company's revenues consists principally of fees derived from professional services associated with the implementation and deployment of the Company's software products, and maintenance fees for ongoing customer support, primarily external customer technical support services and product enhancements. Professional services (including training) are generally charged on an hourly or daily basis and billed on a regular basis pursuant to customer work orders. Training services may also be charged on a per-attendee basis with a minimum daily charge. Out-of-pocket expenses incurred by Company personnel performing professional services are typically reimbursed by the customer. The Company recognizes revenue from professional services as the services are performed unless the services are under a fixed-price arrangement. Consulting, training and other services that are sold under fixed-price arrangements are 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. Consulting services primarily comprise implementation support related to the installation and configuration of the Company's products and do not typically require significant production, modification or customization of the software. In arrangements that require significant production, modification or customization of the software and where services are not available from third-party suppliers, the consulting and license fees are recognized concurrently. When total cost estimates exceed revenue in a fixed-price arrangement, the estimated losses are recognized immediately in cost of revenue.

Maintenance fees are typically paid to the Company under written agreements entered into at the time of the initial software license sale. Maintenance revenue, which is generally invoiced annually, is recognized ratably over the term of the agreement.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are more fully described in its "Summary of Significant Accounting Policies," Note 2, to the Company's consolidated financial statements. The preparation of financial statements in conformity with accounting principles generally accepted within the United States of America 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.

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 go live, to ensure that the revenue will match the use of services. The implementation period can be anywhere between 2 and 6 months. When upfront 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.

For the twelve months ended December 31, 2013 and 2012, the Company recognized $20,337,000 and $26,390,000, respectively, of revenue related to software license fees and services and maintenance. In addition, included in service revenue in the first twelve months of 2013 is subscription service revenue, of which the Company recognized $153,000.

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.

Cost of Software License Fees

Cost of software license fees includes amortization of the capitalized software development costs and third party licenses sold to customers.

Cost of Services and Maintenance

Cost of services and maintenance includes compensation and benefits provided to our professional service employees, independent consultants, telecommunication cost, unreimbursed travel expenses and allocated facility costs.

Product Development

Product development costs include our research and development expenses which consist primarily of personnel and related costs, including salaries and employee benefits for software engineers. To date, our product development efforts have been devoted to new products and service offerings and increases in features and functionality of our existing products and services.

Sales and Marketing

Sales and marketing costs include compensation, commissions and benefits paid to our sales and marketing teams, telecommunication costs, travel costs, marketing and sales costs, professional fees and facility costs.

General and Administrative Costs

General and administrative costs include salaries, benefits and related costs for the Company's finance, administrative and executive management personnel, external accounting and audit costs, bad-debt expense, professional fees, corporate facility costs, Board of Director expenses and other costs associated with being a public company.

Depreciation and Amortization

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from three to ten years for computers and related equipment, furniture and fixtures, software and office equipment, and the lesser of the lease term or estimated useful life for leasehold improvements. Intangible assets are amortized using the straight-line method over their estimated useful lives, which range from five to ten years.

Deferred Revenue

Deferred revenue includes amounts billed to or received from customers for which revenue has not been recognized. This generally results from post-contract support, software installation, subscription fees for hosting, consulting and training services not yet rendered or license revenue which has been deferred until all revenue recognition requirements have been met or services are performed.

Accounts Receivable and Allowance for Doubtful Accounts

The Company evaluates the adequacy of its allowance for doubtful accounts at the end of each quarter. In performing this evaluation, the Company analyzes the payment history of its customer accounts that are significantly past due, subsequent cash collections on these accounts and comparative accounts receivable aging statistics. Based on this information, along with consideration of the general strength of the economy, the Company develops what it considers to be a reasonable estimate of the uncollectible amounts included in accounts receivable. This estimate involves significant judgment by the management of the Company. Actual uncollectible amounts may differ from the Company's estimate.

Unbilled receivables are established when revenue is deemed to be recognized based on the Company's revenue recognition policy, but due to contractual restraints over the timing of invoicing, the Company does not have the right to invoice the customer by the balance sheet date.

We believe that our estimate of our allowance for doubtful accounts is critical because of the significance of our accounts receivable balance relative to total assets. If the general economy deteriorated, 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 and 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 as they are incurred. 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.

Capitalized 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 December 31, 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 an impairment would be recognized.

Goodwill

Part of the purchase price for the FieldCentrix assets, acquired September 21, 2005, included the acquisition of goodwill. Goodwill represents the excess of the purchase price over the fair value of net assets acquired in connection with business combinations accounted for using the purchase method of accounting. Goodwill is not amortized, but instead goodwill is required to be tested for impairment annually and under certain circumstances. The Company performs such testing of goodwill on October 1 of each year, or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The Company conducts a two-step test for impairment of goodwill. The first step of the test for goodwill impairment compares the fair value of the applicable reporting unit with its carrying value. If the fair value of a reporting unit is less than the reporting unit's carrying value, the Company will perform the second step of the test for impairment of goodwill. During the second step of the test for impairment of goodwill, the Company will compare the implied fair value of the reporting unit's goodwill with the carrying value of that goodwill. If the carrying value of the goodwill exceeds the calculated implied fair value, the excess amount will be recognized as an impairment loss. Based upon the results of the step one testing, the Company concluded that no impairment existed as December 31, 2013.

Acquired Intangible Asset

Acquired intangible asset with a finite life (excluding goodwill) is amortized on a straight-line basis over its estimated useful life and reviewed for impairment if an event or circumstance occurs indicating that the asset may be impaired. The impairment test will consist of comparing the undiscounted cash flows expected to be generated by the acquired intangible asset to its carrying amount. If the asset is considered to be impaired, an impairment loss will be recognized in an amount by which the carrying amount of the asset exceeds its fair value. No impairment of acquired intangible asset has been identified during any of the periods presented.

Stock-Based Compensation – Option Plans

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.

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 80,000 and 105,000 options granted during the year ended December 31, 2013 and 2012, respectively.

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 includes, 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.

As of December 31, 2013, we had approximately $14.3 million of net deferred tax assets, against which we provided a 100% valuation allowance. Our net deferred tax assets were generated primarily by operating losses. Accordingly, it is more likely than not, that we will not realize these assets through future operations.

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.

Convertible 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, and if declared by the Company’s Board of Directors, quarterly in arrears. The Company paid $300,000 in preferred stock dividends for the years ending December 31, 2013 and 2012.

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. Since September 2010, the Company has had certain rights to cause conversion of all of the shares of Series A Preferred Stock outstanding. Since September 2012, 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.

Recently 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 a material impact on our financial statements.

In July 2013, the FASB issued guidance on, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new guidance requires an entity to present unrecognized tax benefits as a reduction of a deferred tax asset, except in certain circumstances. This guidance is effective for fiscal years and interim periods beginning after December 31, 2013, and early adoption is permitted. Based upon a preliminary review of the guidance, the Company does not anticipate that adoption will have a significant impact on our financial statements.

Results of Operations

The following table sets forth for the periods indicated, selected financial data and the percentages of the Company's total revenues by each line item for the periods presented:

Years ended December 31,	2013	2012
Revenues:		
Software license fees	13.8%	18.2%
Services and maintenance	86.2	81.8
Total revenues	100.0%	100.0%
Cost of revenues:		
Cost of software license fees	9.1%	5.8%
Cost of services and maintenance	61.2	53.2
Total cost of revenues	70.3	59.0
Gross profit	29.7	41.0
Operating Expenses:		
Product development	6.6	7.9
Sales and marketing	19.3	18.9
General and administrative	16.7	15.5
Restructuring	1.1	-
Total operating expenses	43.7	42.3
Interest (expense) income	(0.3)	0.1
Income tax expense (benefit)	0.4	(0.3)
Net loss	(14.7%)	(0.9%)

Comparison of Years Ended December 31, 2013 and 2012

Revenues

Total revenues decreased $6,053,000 or 23%, to $20,337,000 for the year ended December 31, 2013 from $26,390,000 for the year ended December 31, 2012. Software license revenues decreased 41% in 2013 compared to 2012. Services and maintenance fees for 2013 amounted to $17,528,000, a 19% decrease from 2012.

Software license fee revenues decreased $1,987,000 or 41% to $2,809,000 in 2013 from $4,796,000 in 2012. Astea Alliance license revenues decreased to $2,725,000 in 2013 from $4,578,000 in 2012, a decrease of 40%. The decrease resulted from a decrease in Astea license sales in the U.S. and Asia Pacific regions as well as certain new customers selecting our SaaS-based solution for which we cannot recognize any revenue until the customer goes live, partially offset by increases in license sales in Europe and Japan. The Company sold $85,000 of FieldCentrix licenses in 2013 compared to $218,000 in 2012, a decrease of 61%. The decrease was the result of selling to existing customers in 2013 compared to a greater distribution of sales to new and existing customers in 2012.

Total services and maintenance revenues decreased $4,066,000 or 19% to $17,528,000 in 2013 from $21,594,000 in 2012. Service and maintenance revenue decreased $3,825,000, or 21% on the Astea Alliance products. The decrease resulted from a reduction in the number of ongoing projects as a result of fewer new license deals in the previous quarters as well as the deferral of professional services revenues on hosted projects, which must be deferred until the customer goes live. At that time, the deferred professional services revenue will be recognized ratably over the remaining life of the initial contract. FieldCentrix service and maintenance revenue decreased $394,000 or 11%. The decrease is due to a reduction in implementation and upgrade projects compared to the same period in 2012. Subscription service revenue for the year ended December 31, 2013 was $153,000. There was no subscription revenue recognized in 2012. Even though the Company signed several new Software as a Service (SaaS) customers in 2013, revenue may not be recognized until the customers go-live.

For the years ended December 31, 2013 and 2012 there were no customers that represented 10% or more of total revenues.

Costs of Revenues

Costs of software license fees increased 21% to $1,846,000 in 2013 from $1,526,000 in 2012. Included in the cost of software license fees is the fixed cost of capitalized software amortization. The principal cause of the increase results from an increase in the amortization of capitalized software costs. Amortization of capitalized software increased 32% to $1,775,000 in 2013 from $1,347,000 in 2012. This increase resulted from the amortization of Version 11 which was released in mid-September 2013. The gross margin percentage on software license sales was 34% in 2013 and 68% in 2012. The decline in license gross margin resulted primarily from the decrease in license sales and increased amortization in 2013.

Costs of services and maintenance decreased 11% to $12,456,000 in 2013 from $14,048,000 in 2012. The decrease in cost of service and maintenance is attributed primarily to decreases in headcount in all regions, reduced travel expenses and a decrease in the use of outside consultants both in the U.S. and European locations. In addition, due to a reduction in new license sales in all regions, service and maintenance revenues decreased $4,066,000 compared to the same quarter in 2012. The service and maintenance gross margin percentage was 29% in 2013 and 35% in 2012.

Gross Profit

Gross profit decreased 44% to $6,035,000 in 2013 from $10,816,000 in 2012. As a percentage of revenue, gross profit was 30% for the year ended December 31, 2013 and 41% for year ended December 31, 2012. The year-over-year decrease in gross profit was largely driven by a decrease in license and service revenue partially offset by an 8% reduction in cost of revenues.

Operating Expenses

Product Development

Product development expenses decreased 35%, or $726,000, to $1,349,000 in 2013 from $2,075,000 in 2012. The decrease resulted from an increase in capitalized product development costs of $318,000 in 2013 compared to 2012 and a reduction in product development personnel. Fluctuations in product development expense from period to period can vary due to the amount of product development expense which is capitalized. Software development costs of $3,021,000 were capitalized in 2013 compared to $2,704,000 during the same period in 2012. In 2013, the Company added significant functionality to Astea Alliance products in Version 11 of its Alliance software, which was released in September 2013. Gross development expense was $4,370,000 in 2013, a 9% decrease over $4,779,000 spent in 2012. The decrease was due to a reduction in headcount. Product development as a percentage of total revenue decreased to 7% in 2013 compared to 8% in 2012. The decrease in product development costs relative to revenues is due to the increase in capitalized software costs and lower headcount in 2013.

Sales and Marketing

Sales and marketing expenses decreased 21%, or $1,067,000, to $3,915,000 in 2013 from $4,982,000 in 2012. The decrease in sales and marketing expense is attributable to a decrease in selling costs from lower sales commissions, reduced recruiting costs, lower headcount and a decrease 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 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. Sales and marketing expense as a percentage of total revenues was 19% in both 2013 and 2012.

General and Administrative

General and administrative expenses consist of salaries, benefits and related costs for the Company's finance, administrative and executive management personnel, legal costs, accounting costs, bad debt expense and various costs associated with the Company's status as a public company. General and administrative expenses decreased 17%, or \$704,000, to \$3,391,000 in 2013 from \$4,095,000 in 2012. The decrease is primarily due to lower recruiting costs, lower outside consulting costs, and no management bonuses. As a percentage of total revenues, general and administrative expenses amounted to 17% in 2013 compared to 16% in 2012.

Restructuring

Restructuring charges of $226,000 were recorded in 2013 compared to $0 in 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 reducing 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 and 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. The restructuring resulted in a $5,000 reduction of the deferred rent liability and the recognition of $106,000 related to employee termination benefits. As a percentage of revenues, restructuring was 1% for the period ended December 31, 2013.

Net Interest (Expense) Income

Net interest expense was $67,000 in in 2013 compared to $14,000 of interest income in 2012. The Company has interest expense related to its line of credit. The Company borrowed $2,000,000 in 2013 resulting in interest expense of $73,000. The Company did not have this line of credit in 2012 therefore only interest income in 2012. The decrease in interest income resulted primarily from a decrease in investments. As of December 31, 2013 and 2012, the Company's investments consisted of mutual funds.

Income Tax Expense (Benefit)

The Company recorded a tax expense of $83,000 in 2013 and a tax benefit of ($84,000) in 2012 for income taxes. The 2013 tax expense was due to U.S. alternative minimum tax, permanent tax difference for goodwill, and the Israel tax expense. The 2012 tax benefit was due to a reduction from a prior year tax provision from our European operations that was deemed to no longer be necessary.

International Operations

Total revenues from the Company's international operations decreased by $2,599,000 or 25% to $7,876,000 in 2013 from $10,475,000 in 2012. The decrease resulted from reduced license sales in the Asia Pacific region, as well decreases in professional services in the Asia Pacific region due to declining demand partially offset by increases in license and services revenues in EMEA. Overall, international operations generated a net loss of $1,417,000 for 2013 compared to net loss of $2,816,000 in 2012.

Net Loss

The Company generated a net loss of $2,996,000 for the year ended December 31, 2013 compared to net loss of $238,000 in 2012. The reduction in net income of $2,758,000 is primarily the result of a 23% decrease in revenues and 21% increase in cost of software license fees partially offset by a 20% decrease in operating expenses and 11 % decrease in cost of services and maintenance. The decrease in revenue was primarily due to decreases in new license sales which lead to a decline in service and maintenance revenue. In addition, the Company is transitioning to a SaaS model which negatively impacts revenue by spreading the revenue over the life of the contract compared to recognizing all license revenue at one time which occurs when selling perpetual licenses. The principal cause for the decrease in operating expenses was due to decreases in both headcount in all regions and travel costs.

Liquidity and Capital Resources

Operating Activities

Net cash provided by operating activities was $431,000 for the year ended December 31, 2013, a decrease of $2,088,000 compared to the year ended December 31, 2012 in which $2,519,000 of cash was provided by operations. The decrease was mainly attributable to a decrease in net income of $2,758,000. In addition, there was a decrease in accounts receivable collections of $1,257,000, and a decrease in prepaid expenses of $28,000. Offsetting the decreases in cash flow were an increase in cash flows from accounts payable and accrued expenses of $1,349,000, an increase in deferred revenues of $291,000 and an increase in cash from other assets of $14,000. In addition, there was an increase of $301,000 related to non-cash activities.

Investing Activities

The Company used $503,000 more for investment activities in 2013 compared to 2012. The increase in cash used for investing activities is attributable to a decrease in sales of short-term investments of $350,000 and an increase of $317,000 in capitalized software development costs partially offset by an increase of $6,000 in restricted cash and a decrease of $158,000 in the purchases of property and equipment.

Financing Activities

The Company generated $1,920,000 more in cash from financing activities in 2013 compared to 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 December 31, 2013, the Company borrowed $2,000,000 under the revolving line of credit. In addition, in 2012 the Company generated $66,000 from the exercise of stock options. There were associated costs with setting up the line of credit for which $14,000 remains to be amortized to interest expense over the life of the loan through May 2015. During 2012, the Company did not have any borrowings. The only other financing expenditures were payments of preferred stock dividends of $300,000 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 $33,000 in 2013 compared to an inflow of $69,000 in 2012.

At December 31, 2013, the Company had a working capital ratio of approximately .61:1 compared to .83:1 at December 31, 2012. The Company had $1,145,000 in cash and investments available for sale at December 31, 2013, compared to $2,175,000 at December 31, 2012.

The Company has projected revenues for 2014 that will generate enough funds to sustain its continuing operations through at least 2014. 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 9) for $2,000,000. As of December 31, 2013 the Company had borrowed $2,000,000 against the line of credit. On March 27, 2014 the original line of credit was extended to $3,000,000 (Note 17). In addition, in order to improve efficiencies and eliminate certain costs 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 10). The Company does not plan any significant capital expenditures in 2014. In addition, it does not anticipate that its operations or financial condition will be affected materially by inflation.

Contractual Obligations and Commercial Commitments

The following tables summarize our contractual and commercial obligations, as of December 31, 2013:

	Payment Due By Period				
	Total	2014	2015-2016	2017-2018	2018 and after
Contractual Cash Obligations:					
Operating Leases	$2,833,000	$1,030,000	$1,600,000	$203,000	$-
Line of Credit	2,000,000	-	2,000,000	-	-

Total	$4,833,000	$1,030,000	$3,600,000	$203,000	$-

Dividends may be paid on common stock, when and if, declared by the Board of Directors. However, no dividend has been paid on common stock since July 2000. Dividends on convertible preferred stock are payable at a rate of 10% on a quarterly basis, as declared by the Board of Directors.

Off-Balance Sheet Transactions

There are no off balance sheet transactions that would require disclosure in the above contractual obligations and commercial commitments table.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in interest rates. We do not hold 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 a result, as of December 31, 2013, the Company's investments consisted of mutual funds. The Company does not expect any material loss with respect to its investment portfolio.

Foreign Currency Risk

All costs associated with the Company's foreign operations in Europe, Asia/Pacific, Japan and Israel are denominated in their respective local currencies and translated into U.S. dollars for financial reporting. As a result, the Company is exposed to risks to the extent that the rate of inflation in any of its foreign operating regions differs from the rate of revaluation of their related currencies in relation to the U.S. dollar or if the timing of such revaluations lags behind inflation in these regions. In such an event, the costs of the Company's operations in these regions, measured in U.S. dollars, will change and the U.S. dollar measured results of operations will be affected.

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. The Company does not expect any material loss with respect to foreign currency risk.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Astea International Inc.

We have audited the accompanying consolidated balance sheets of Astea International Inc. and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Astea International Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Philadelphia, Pennsylvania
March 31, 2014

ASTEA INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$1,111,000	$2,015,000
Investments available for sale	34,000	160,000
Receivables, net of allowance of $112,000 and $138,000	4,239,000	4,988,000
Prepaid expenses and other	558,000	488,000
Total current assets	5,942,000	7,651,000
Property and equipment, net	291,000	480,000
Intangibles, net	232,000	368,000
Capitalized software development costs, net	5,667,000	4,421,000
Goodwill	1,538,000	1,538,000
Restricted cash	125,000	119,000
Other long-term assets	105,000	128,000
Total assets	$13,900,000	$14,705,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$2,951,000	$2,911,000
Deferred revenues	6,781,000	6,351,000
Total current liabilities	9,732,000	9,262,000
Long-term liabilities:		
Line of credit from director/ officer	2,000,000	-
Deferred tax liabilities	339,000	294,000
Total long-term liabilities	2,339,000	294,000
Commitments and Contingencies – Note 10		
Stockholders' equity:		
Convertible preferred stock,$.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 3,629,000; outstanding 3,587,000 and 3,574,000	36,000	36,000
Additional paid-in-capital	30,938,000	31,056,000
Accumulated deficit, including accumulated comprehensive loss of ($3,202,000) and ($319,000)	(28,945,000)	(25,743,000)
Treasury stock at cost, 42,000 shares	(208,000)	(208,000)

Total stockholders’ equity	1,829,000	5,149,000
Total liabilities and stockholders’ equity	$13,900,000	$14,705,000

See accompanying notes to the consolidated financial statements.

ASTEA INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31, 2013	2012
Revenues:		
Software license fees	$2,809,000	$4,796,000
Services and maintenance	17,528,000	21,594,000
Total revenues	20,337,000	26,390,000
Costs of revenues:		
Cost of software license fees	1,846,000	1,526,000
Cost of services and maintenance	12,456,000	14,048,000
Total cost of revenues	14,302,000	15,574,000
Gross profit	6,035,000	10,816,000
Operating expenses:		
Product development	1,349,000	2,075,000
Sales and marketing	3,915,000	4,982,000
General and administrative	3,391,000	4,095,000
Restructuring	226,000	-
Total operating expenses	8,881,000	11,152,000
Loss from operations	(2,846,000)	(336,000)
Interest expense (income)	67,000	(14,000)
Loss before income taxes	(2,913,000)	(322,000)
Income tax expense (benefit)	83,000	(84,000)
Net loss	(2,996,000)	(238,000)
Preferred dividend	300,000	300,000
Net loss available to common stockholders	$(3,296,000)	$(538,000)
Basic and diluted loss per share available to common stockholders	$(0.92)	$(0.15)
Weighted average shares outstanding used in computing basic and diluted loss per share	3,587,000	3,574,000

See accompanying notes to the consolidated financial statements.

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ASTEA INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Years ended December 31, 2013	2012
Net loss	$(2,996,000)	$(238,000)
Other comprehensive loss:		
Foreign currency translation adjustment	(204,000)	(88,000)
Change in unrealized (loss) gain on investments available for sale, net of tax	(2,000)	7,000
Comprehensive loss	$(3,202,000)	$(319,000)

See accompanying notes to the consolidated financial statements.

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

Years ended December 31,	2013	2012
Convertible preferred stock:		
Balance, beginning and end of year	$8,000	$8,000
Common stock:		
Balance, beginning and end of year	36,000	36,000
Additional paid-in-capital:		
Balance, beginning of year	31,056,000	31,048,000
Exercise of stock options	-	66,000
Dividends paid	(300,000)	(300,000)
Stock-based compensation	182,000	242,000
Balance, end of year	30,938,000	31,056,000
Accumulated deficit:		
Balance, beginning of year	(25,743,000)	(25,424,000)
Comprehensive loss	(3,202,000)	(319,000)
Balance, end of year	(28,945,000)	(25,743,000)
Treasury stock, at cost:		
Balance, beginning and end of year	(208,000)	(208,000)
Total stockholders' equity	$1,829,000	$5,149,000

See accompanying notes to the consolidated financial statements.

ASTEA INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,	2013	2012
Cash flows from operating activities:		
Net loss	$(2,996,000)	$(238,000)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,185,000	1,754,000
(Decrease) increase in provision for doubtful accounts	(26,000)	39,000
Stock-based compensation	182,000	242,000
Deferred income taxes	45,000	50,000
Changes in operating assets and liabilities:		
Receivables	1,267,000	2,524,000
Prepaid expenses and other	16,000	44,000
Accounts payable and accrued expenses	(297,000)	(1,646,000)
Deferred revenues	31,000	(260,000)
Other assets	24,000	10,000
Net cash provided by operating activities	431,000	2,519,000
Cash flows from investing activities:		
Capitalized software development costs	(3,021,000)	(2,704,000)
Purchases of property and equipment	(86,000)	(244,000)
Sale of short term investments	124,000	474,000
Change in restricted cash	(6,000)	(11,000)
Net cash used in investing activities	(2,989,000)	(2,485,000)
Cash flows from financing activities:		
Proceeds from line of credit	2,000,000	-
Proceeds from exercise of stock options	-	66,000
Dividends paid on preferred stock	(300,000)	(300,000)
Legal fees for line of credit	(14,000)	-
Net cash provided by (used) in financing activities	1,686,000	(234,000)
Effect of exchange rate changes on cash and cash equivalents	(32,000)	69,000
Net decrease in cash and cash equivalents	(904,000)	(131,000)
Cash and cash equivalents balance, beginning of year	2,015,000	2,146,000
Cash and cash equivalents, end of period	$1,111,000	$2,015,000

Supplemental disclosure of cash flow information:

Cash paid for income tax	$8,000	$16,000
Cash paid for interest	$56,000	$-

See accompanying notes to the consolidated financial statements.

ASTEA INTERNATIONAL INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Company Background

Astea International Inc. and Subsidiaries (collectively the "Company" or "Astea") are 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. The Company's principal products are Astea Alliance, FX Service Center, FX Mobile, and ServiceVision. Astea Alliance supports the complete service lifecycle, from lead generation and project quotation to service and billing through asset retirement. FX Service Center is a service management and dispatch solution system that gives organizations command over their field service operations. FX Mobile offerings include mobile field service automation (FSA) systems, which include the wireless devices and support of mobile field technicians using portable, hand-held computing devices. ServiceVision is exclusively offered as a cloud solution that leverages a multi-tenant architecture. 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. 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. The Company's sales and marketing efforts are primarily focused on new software licensing (on premise and cloud solutions) and support services for its latest generation of Astea Alliance, FieldCentrix, and ServiceVision products.

Operating Matters and Liquidity

The Company has a history of net losses. In 2013, the Company generated a net loss of $3.0 million compared to a net loss of $0.2 million generated in 2012. Further, at December 31, 2013, the Company had a working capital ratio of .67:1, with cash and investments available for sale of $1,145,000. Moreover, the Company expects to continue to incur additional operating expenses for research and development and invest in software development costs to achieve its projected revenue growth. 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. We have projected revenues for 2014 which we believe will provide sufficient funds to sustain our 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 increased the line of credit to $3,000,000 with the CEO during March 2014. As of December 31, 2013, the Company had borrowed $2,000,000 against the line of credit. Although, the Company believes that it has sufficient cash to meet its anticipated operating cash needs for at least the next 12 months, projections of future cash needs are subject to substantial uncertainty. Accordingly, there is no assurance that the Company may be able to achieve the necessary revenue growth or profitability in the future or that the increased line of credit with the CEO will be sufficient to meet the Company's cash flow needs for the next 12 months.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Astea International Inc. and its wholly owned subsidiaries and branches. 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, 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 go live, to ensure that the revenue will match the use of services. The implementation period can usually be anywhere between 2 and 6 months. When upfront implementation, consulting and training services are bundled with the subscription based arrangement, the services are recognized over the life of the initial contract, once the project goes live.

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 revenue 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 enters into a fixed-price arrangement 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.

For the years ended December 31, 2013 and 2012, the Company recognized $20,337,000 and $26,390,000, respectively, of revenue related to software license fees and services and maintenance. In addition, included in service revenue in the first twelve months of 2013 is subscription service revenue of $153,000.

We present taxes assessed by a governmental authority including sales, use, value added and excise taxes on a net basis. 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 included in revenues with the corresponding expense included in cost of services and maintenance. During fiscal years 2013 and 2012, the Company billed $303,000 and $582,000, respectively, of reimbursable expenses to customers.

Cash and Cash Equivalents

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

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 nature 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.

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 allowance may be required. Activity in the allowance for doubtful accounts is as follows:

Year Ended December 31	Balance at beginning of year	Expensed	Write offs	Balance at end of year
2013	$138,000	$ -	$(26,000)	$112,000
2012	$ 99,000	$ 60,000	$ (21,000)	$138,000

The Company reviews accounts receivable on a monthly basis to determine if any receivables will potentially be uncollectible. Based on all information available, the Company believes its allowance for doubtful accounts as of December 31, 2013 is adequate. However, actual write-offs might exceed the recorded allowance.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets or the lease term, whichever is shorter. When property and equipment are sold or otherwise disposed of, the fixed asset account and related accumulated depreciation account are relieved and any gain or loss is included in operations. Expenditures for repairs and maintenance are charged to expense as incurred and significant renewals and betterments are capitalized.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets, including certain identifiable intangible assets, excluding goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of any asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is measured by the amount by which the carrying amount of the asset exceeds the fair value of the assets. As of December 31, 2013, the Company determined that no indicators of impairment have occurred.

Capitalized Software 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 December 31, 2013, management believes that no revisions to the remaining useful lives or write-downs of capitalized software development costs are required.

Research and Development Costs

The Company reports research and development costs as Product Development expense in its consolidated statement of operations. These costs include the costs incurred prior to the establishment of technological feasibility for new product development. In addition, research and development costs also include costs related to improving the quality of the Company's released software products and any costs incurred by third party companies that may be engaged from time to time, to assist the Company in its product development efforts that are not considered to be significant enhancements to the software products.

Goodwill

Part of the purchase price for the FieldCentrix assets, acquired September 21, 2005, included the acquisition of goodwill. Goodwill represents the excess of the purchase price over the fair value of net assets acquired in connection with business combinations accounted for using the purchase method of accounting. Goodwill is not amortized, but instead goodwill is required to be tested for impairment annually and under certain circumstances. The Company performs such testing of goodwill on October 1 of each year, or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The Company conducts a two-step test for impairment of goodwill. The first step of the test for goodwill impairment compares the fair value of the applicable reporting unit with its carrying value. If the fair value of a reporting unit is less than the reporting unit's carrying value, the Company will perform the second step of the test for impairment of goodwill. During the second step of the test for impairment of goodwill, the Company will compare the implied fair value of the reporting unit's goodwill with the carrying value of that goodwill. If the carrying value of the goodwill exceeds the calculated implied fair value, the excess amount will be recognized as an impairment loss. Based upon the results of the step one testing, the Company concluded that no impairment existed as of December 31, 2013.

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 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.

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.

Advertising

Advertising costs are expensed when incurred. Advertising costs for the years ended December 31, 2013 and 2012 were $202,000 and $242,000, respectively, and are included in sales and marketing costs.

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 changes in stockholders' equity. Transaction gains and losses are included in general and administrative expenses in the consolidated statements of operations. General and administrative expenses include exchange losses of $28,000 and $53,000 for the years ended December 31, 2013 and 2012, respectively.

Loss Per Share

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

The Company had net loss allocable to the common stockholders for the year ended December 31, 2013 and 2012. All options outstanding at December 31, 2013 and 2012 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.

Years ended December 31,	2013	2012
Net loss	$(2,996,000)	$(238,000)
Preferred dividend	300,000	300,000
Net loss available to common shareholders	(3,296,000)	(538,000)
Basic and diluted weighted average number of common shares outstanding	3,587,000	3,574,000
Basic and diluted loss per common share	$(0.92)	$(0.15)

Comprehensive Loss

Comprehensive loss consists of net loss, unrealized gains (losses) on investments available for sale and foreign currency translation adjustments. The effects are presented in the accompanying consolidated statements of comprehensive loss.

Stock Compensation

The Company estimates the fair value of stock options granted using the Black-Scholes-Merton (Black-Scholes) option-pricing model 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 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.

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 option pricing formula using the following assumptions as of December 31, 2013 and 2012:

	For the year ended December 31, 2013 Weighted Average		For the year ended December 31, 2012 Weighted Average	
Risk-free interest rate	0.97	%	0.84	%
Expected life (in years)	5.34		5.23	
Volatility	100.9	%	104	%
Expected dividends	-		-	
Annual forfeiture rate	20.83	%	17.56	%

The weighted-average fair value of options granted during the years ended December 31, 2013 and 2012 was estimated as $2.03 and $2.93, respectively.

Recently 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 pronouncement did not have a material impact on our financial statements.

In July 2013, the FASB issued guidance on, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new guidance requires an entity to present unrecognized tax benefits as a reduction of a deferred tax asset, except in certain circumstances. This guidance is effective for fiscal years and interim periods beginning after December 31, 2013, and early adoption is permitted. Based upon a preliminary review of the guidance, the Company does not anticipate that adoption will have a significant impact on our financial statements.

3. Receivables

Billed receivables represent billings for the Company’s products and services to end users and value added resellers. Unbilled receivables represent contractual amounts due within one year under software licenses that have been delivered or statements of work for professional services, for work performed but not yet invoiced. Billed receivables are shown net of reserves for estimated uncollectible amounts. Receivables net of allowance for doubtful accounts consist of the following:

	December 31, 2013	2012
Billed receivables, net	$ 3,636,000	$ 3,567,000
Unbilled receivables	603,000	1,421,000
	$ 4,239,000	$ 4,988,000

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 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 December 31, 2013 and 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 debt securities by major security type and class of security at December 31, 2013 and 2012 were as follows:

	Aggregate cost basis	Gross unrealized holding gains	Gross unrealized holding (losses)	Aggregate fair value
At December 31, 2013				
Available-for-sale:				
Mutual Funds	$ 33,000	$ 1,000	$ -	$ 34,000
	$ 33,000	$ 1,000	$ -	$ 34,000
At December 31, 2012				
Available-for-sale:				
Mutual Funds	$ 158,000	$ 2,000	$ -	$ 160,000
	$ 158,000	$ 2,000	$ -	$ 160,000

The aggregate fair value of mutual funds as of December 31, 2013 was $34,000. 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.

5. Property and Equipment

Property and equipment consist of:

	Useful Life	December 31, 2013	2012
Computers and related equipment	3	$ 4,307,000	$ 4,268,000
Furniture and fixtures	10	604,000	602,000
Leasehold improvements	The lesser of lease term or 10	475,000	460,000
Software	3	1,066,000	1,040,000
Office equipment	3-7	807,000	807,000
		7,259,000	7,177,000
Less: Accumulated depreciation and amortization		(6,968,000)	(6,697,000)
		$ 291,000	$ 480,000

Depreciation and amortization expense for the years ended December 31, 2013 and 2012 was $274,000 and $271,000, respectively. In 2012, the Company wrote-off $5,000 in property and equipment that were fully depreciated with no residual value.

6. Capitalized Software Development Costs

Capitalized software development costs consist of:

	Remaining Weighted Average Life	December 31, 2013	2012
Capitalized software development costs	20.3 months	$21,350,000	$18,329,000
Less: Accumulated amortization		(15,683,000)	(13,908,000)
		$5,667,000	$4,421,000

The Company capitalized software development costs of $3,021,000 and $2,704,000 for the years ended December 31, 2013 and 2012, respectively. Amortization of capitalized software development costs for the years ended December 31, 2013 and 2012 was $1,775,000 and $1,347,000, respectively, and is reflected in cost of software license fees in the consolidated statements of operations. The Company amortizes software developments costs using the greater of the straight-line basis over the estimated useful lives of the product (two years) or the revenue forecast method.

7. Intangible Asset

Customer lists ("intangible asset") acquired as part of the FieldCentrix acquisition are amortized over their estimated annual life or over the period of its expected benefit, which is 10 years. Amortization expense related to this intangible asset was $136,000 for each of the years ended December 31, 2013 and, 2012.

Description	Weighted Avg. Life	Gross Cost	Accumulated Amortization 2013	Accumulated Amortization 2012	Net Carrying Value 2013	Net Carrying Value 2012
Customer List	10 years	$1,360,000	$1,128,000	$992,000	$232,000	$368,000

Estimated amortization expense for each of the next two years is as follows:

	Amortization Expense
2014	$ 136,000
2015	$ 96,000

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

December 31,	2013	2012
Accounts payable	$ 607,000	$ 615,000
Accrued compensation and related benefits	1,291,000	1,704,000
Sales and payroll taxes payable	904,000	241,000
Income tax payable	7,000	11,000
Third party software costs payable	8,000	87,000
Deferred rent	81,000	237,000
Accrued professional services	26,000	11,000
Accrued interest expense	12,000	-
Other accrued liabilities	15,000	5,000
	$ 2,951,000	$ 2,911,000

9. Line of Credit From Director/ Officer- Related Party Transaction

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, with interest 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 from the borrowings will be used by the Company for working capital and general corporate purposes. As of December 31, 2013 the Company borrowed $2,000,000 against the line of credit and incurred $73,000 of interest expense. The Company was in compliance with the covenants of this agreement as of December 31, 2013.

10. 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. In June 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 which would allow the Company to terminate its lease 32 months prior to its scheduled expiration. In conjunction with the lease termination, the Company accelerated the amortization of leasehold improvements and its related deferred rent liability associated with the lease which resulted in a reduction of the deferred rent liability by $5,000 and the recognition of $62,000 related to termination benefits for the elimination of certain redundant positions. Employees were eligible for separation benefits upon their termination. During the third quarter of 2013, the Company announced an additional $44,000 of termination benefits related to the termination of certain positions in Israel. As a result, the Company recorded a total of $226,000 in one-time restructuring charges during 2013. No other costs were incurred, pursuant to the restructuring plan as of December 31, 2013.

11. Income Taxes

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 2008 through 2013, the only periods subject to examination. The Company believes that its income tax positions and deductions will be sustained on a tax authority 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 consolidated statement of operations. For the years ended December 31, 2013 and 2012, there were no interest or penalties related to the settlement of audits.

Deferred tax assets and liabilities represent the future tax consequences of the differences between the financial statement carrying amounts for assets and liabilities versus the tax bases of assets and liabilities. Under this method, deferred tax assets are recognized for deductible temporary differences, operating loss and tax credit carryforwards. Deferred liabilities are recognized for taxable temporary differences. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The impact of tax rate changes on deferred tax assets and liabilities is recognized in the year that the change is enacted.

The provision (benefit) for income taxes is as follows:

Years ended December 31,		2013		2012
Current:				
Federal	$	5,000	$	(84,000)
State		-		(22,000)
Foreign		33,000		(16,000)
		38,000		(122,000)

Deferred:				
Federal	$	32,000	$	33,000
State		10,000		5,000
Foreign		3,000		-
	$	83,000	$	(84,000)

Pre-tax (loss) income for domestic locations for the years ended December 31, 2013 and 2012 was ($2,222,000) and $2,191,000, respectively. Foreign locations had pre-tax loss of ($691,000) and ($2,513,000) in 2013 and 2012, respectively.

The approximate income tax effect of each type of temporary difference is as follows:

December 31,	2013	2012
Deferred tax assets:		
Timing of revenue recognition	$150,000	$187,000
Accruals and reserves not currently deductible for tax	143,000	180,000
Benefit of net operating loss carryforward	12,645,000	11,116,000
Benefit of foreign net operating loss carryforward	3,073,000	3,108,000
Depreciation and amortization	266,000	246,000
Alternative minimum tax	361,000	361,000
Non-qualified stock options	265, 000	236,000
Other	37,000	24,000
Total deferred tax assets	16,940,000	15,458,000
Deferred tax liabilities:		
Capitalized software development costs	(2,264,000)	(1,766,000)
Amortization of deductible goodwill	(324,000)	(282,000)
Israel deferred tax liability	(15,000)	(12,000)
Total deferred tax liabilities	(2,603,000)	(2,060,000)
Net deferred tax asset before valuation allowance	14,337,000	13,398,000
Valuation allowance	(14,676,000)	(13,962,000)
Net deferred tax liabilities	$(339,000)	$(294,000)

Realization of deferred tax assets is primarily dependent on future taxable income, the amount and timing of which is uncertain. The valuation allowance is adjusted on a periodic basis to reflect management's estimate of the realizable value of the net deferred tax assets. Therefore, a valuation allowance has been recorded for the entire net deferred tax asset with the exception of $324,000 related to the deferred tax liability associated with indefinite-lived intangible assets and $15,000 related to the deferred tax liability on Israel's books. Because indefinite-lived intangible assets and goodwill are not amortized for book purposes, the related deferred tax liabilities will not reverse until some indeterminate future period when the assets become impaired, are disposed of, or begin to reverse if they are reclassified as an amortizing intangible asset. The expected timing of future reversals of deferred tax liabilities are to be taken into account when evaluating the realizability of deferred tax assets. Therefore, the Company believes the reversal of deferred tax liabilities related to indefinite-lived intangible assets and goodwill should not be considered a source of future taxable income when assessing the realization of the Company's deferred tax assets and as a result a deferred expense has been recorded.

The Company had a tax holiday in Israel, which expired in 2011. Taxable income (loss) for the Israeli subsidiary was $228,000 and ($161,000) for the years ended December 31, 2013 and 2012, respectively. The Israeli subsidiary has a tax provision of $36,000 and (benefit) of ($16,000) as of December 31, 2013 and 2012, respectively.

As of December 31, 2013, the Company had a net operating loss carryforward for United States federal income tax purposes of approximately $29,875,632. Included in the aggregate net operating loss carryforward is $8,900,000 of tax deductions related to equity transactions, the benefit of which will be credited to stockholders' equity, if and when realized after the other tax deductions in the carryforwards have been realized. The net operating loss carryforwards expire between 2019 through 2033.

The Company does not provide for federal income taxes or tax benefits on the undistributed earnings or losses of its international subsidiaries because earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely. At December 31, 2013, the Company had not provided federal income taxes on cumulative earnings of individual international subsidiaries. Should these earnings be distributed in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes and withholding taxes in various international jurisdictions. Determination of the related amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation. As noted above, the Company has significant net operating loss carryforwards for U.S. federal income taxes purposes, which are available to offset the potential tax liability if the earnings were to be distributed.

The extent to which the loss carryforward can be used to offset future taxable income and tax liabilities, respectively, may be limited, depending on the extent of ownership changes within any three-year period.

The effective tax rate differed from the statutory U.S. federal income tax rate as follows:

	Year ended December 31,			
	2013		2012	
Pre-tax book income	34.0	%	34.0	%
State taxes	(0.2	%)	3.4	%
Permanent differences	(0.2	%)	(10.2	%)
Expiration of NOLs	(34.1	%)	(317.7	%)
Difference between statutory and foreign rates	(3.0	%)	(96.2	%)
Change in foreign tax rate	(4.6	%)	-	%
True-up temporary differences & federal NOLs	33.1	%	-	%
Other	0.6	%	5.2	%
Valuation allowance	(28.5	%)	407.9	%
	(2.8	%)	26.4	%

12. Commitments and Contingencies

Leases

The Company leases facilities and equipment under non-cancelable operating leases which include escalation clauses. Rent expense for facility leases for the years ended December 31, 2013 and 2012 was $1,107,000 and $1,220,000, respectively. Equipment and vehicle lease expense for the years ended December 31, 2013 and 2012 was $232,000 and $267,000, respectively.

Future minimum lease payments under the Company’s leases as of December 31, 2013 are as follows:

	Operating Leases
2014	$1,030,000
2015	844,000
2016	756,000
2017	203,000
2018 and thereafter	-

Litigation

From time to time, the Company may be involved in certain legal actions and customer disputes arising in the ordinary course of business. In the Company’s opinion, the outcome of such actions will not have a material adverse effect on the Company’s financial position or results of operations.

13. Profit Sharing Plan/Savings Plan

The Company maintains a discretionary profit sharing plan, including a voluntary Section 401(k) feature, covering all qualified and eligible employees. Company contributions to the profit sharing plan are determined at the discretion of the Board of Directors. The Company may match 25% of eligible employees' contributions to the 401(k) plan up to a maximum of 1.5% of each employee's compensation. It was determined by the Board of Directors that there would be a match in 2013 and 2012. The Company elected to match 25% of 6.0% of compensation for each eligible employee's contributions to the 401 (k) plans in 2013 and 2012 for a total match of $81,000 and $88,000, respectively.

14. Equity Plans

Share-Based Awards

Compensation costs in 2013 include compensation costs for all share-based payments granted to employees and directors based on the grant date fair value estimated.

As of December 31, 2013, the total unrecognized compensation cost related to non-vested options amounted to $236,000, which is expected to be recognized over the options' remaining vesting periods of 2.31 years. No income tax benefit was realized by the Company in the year ended December 31, 2013 as the Company maintains a full valuation allowance on its net deferred tax asset.

The Company has Stock Option Plans (the “Plans”) under which incentive and non-qualified stock options may be granted to its employees, officers, directors and others. Generally, incentive stock options are granted at fair value, become exercisable over a four-year period, and are subject to the employee’s continued employment. Non-qualified options are granted at exercise prices determined by the Board of Directors and vest over varying periods. A summary of the status of the Company’s stock options as of December 31, 2013 and 2012 and changes during the years then ended are as follows:

	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
	Shares	Wtd. Avg. Exercise Price Per Share	Shares	Wtd. Avg. Exercise Price Per Share
Balance, December 31, 2011	698,000	$4.22	425,000	$4.37
Granted	105,000	3.82	-	-
Cancelled	(53,000)	4.76	-	-
Exercised	(20,000)	3.31	-	-
Expired	(22,000)	4.33	-	-
Balance, December 31, 2012	708,000	$4.12	618,000	$4.23
Granted	80,000	2.69	-	-
Cancelled	(94,000)	4.56	-	-
Exercised	-	-	-	-
Expired	(28,000)	3.26	-	-
Balance, December 31, 2013	666,000	$3.92	482,000	$4.32

During the third quarter of 2010, the 2006 Stock Option Plan was amended to authorize an additional 560,000 shares of Common Stock of the Company. Including other existing plans, there are 395,000 shares available for granting future options as of December 31, 2013. It is the Company’s policy to issue shares from authorized but unissued common stock when stock options are exercised.

The following table summarizes outstanding options that are vested and expected to vest under the Company’s stock option plans as of December 31, 2013:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding Options	666,000	$3.92	5.75	$25,000
Vested and Expected to Vest	611,000	$3.97	5.57	$23,000
Options Exercisable	482,000	$4.32	4.74	$17,000

The total fair value of shares vested for the years ended December 31, 2013 and 2012 was $181,000 and $228,000, respectively.

A summary of the status of the Company’s nonvested share options as of December 31, 2013 is presented below:

Non Vested Shares	Shares		Wtd. Avg. Grant Date Fair Value
Nonvested at December 31, 2012	246,000	$	2.51
Granted	80,000		2.03
Vested	(77,000)		2.29
Forfeited or expired	(65,000)		3.11
Nonvested at December 31, 2013	184,000	$	2.18

The following table shows total share-based compensation expense included in the consolidated statement of operations:

Year Ended	December 31, 2013	December 31, 2012
Cost of services and maintenance	$ 25,000	$ 32,000
Product development	3,000	3,000
Sales and marketing	4,000	5,000
General and administrative	150,000	202,000
Pre-tax share-based compensation	182,000	242,000
Income tax benefit	-	-
Stock-based compensation expense, net	$ 182,000	$ 242,000

Convertible 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 $300,000 in preferred stock dividends for the years ended December 31, 2013 and 2012.

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. Since September 2010, the Company has had the right to cause conversion of all of the shares of Series A Preferred Stock then outstanding. Since September 2012, the Company has been permitted to redeem, subject to board approval, all of the shares of Series A Preferred Stock 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 reports the Series A Preferred Stock on the Company's consolidated balance sheet within stockholders' equity.

15. 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:

Year ended December 31,		2013		2012
Revenues				
Software license fees				
United States				
Domestic	$	1,148,000	$	3,552,000
Total United States software license revenue		1,148,000		3,552,000
Europe		1,103,000		429,000
Asia/Pacific		558,000		815,000
Total foreign software license fees		1,661,000		1,244,000
Total software license fees		2,809,000		4,796,000
Services and maintenance				
United States				
Domestic		11,315,000		12,363,000
Total United States services and maintenance revenue		11,315,000		12,363,000
Europe		3,180,000		3,267,000
Asia/Pacific		3,033,000		5,964,000
Total foreign services and maintenance revenue		6,213,000		9,231,000
Total services and maintenance revenue		17,528,000		21,594,000
Total revenue	$	20,337,000	$	26,390,000
Net (loss) income				
United States	$	(1,579,000)	$	2,578,000
Europe		(539,000)		(1,099,000)
Asia/Pacific		(878,000)		(1,717,000)
Net (loss) income	$	(2,996,000)	$	(238,000)
Long lived assets				
United States	$	7,703,000	$	6,728,000
Europe		167,000		186,000
Asia/Pacific		88,000		140,000

Total long-lived assets	$	7,958,000	$	7,054,000
Total assets				
United States	$	11,174,000	$	11,935,000
Europe		1,655,000		1,243,000
Asia/Pacific		1,071,000		1,527,000
Total assets	$	13,900,000	$	14,705,000

16. Selected Consolidated Quarterly Financial Data (Unaudited)

2013 Quarter Ended	Dec 31,	Sep 30,	Jun 30,	Mar 31,
Revenues	$5,037,000	$5,342,000	$5,295,000	$4,663,000
Gross profit	1,708,000	1,828,000	1,635,000	1,280,000
Net loss	(942,000)	(81,000)	(954,000))	(1,019,000)
Basic net loss per share	$(0.28)	$(0.04)	$(0.29)	(0.31)
Diluted net loss per share	$(0.28)	$(0.04)	$(0.29)	$(0.31)
Shares used in computing basic net loss per share (in thousands)	3,594	3,594	3,591	3,586
Shares used in computing diluted net loss per share (in thousands)	3,594	3,594	3,591	3,586

2012 Quarter Ended	Dec 31,	Sep 30,	Jun 30,	Mar 31,
Revenues	$6,547,000	$5,278,000	$8,101,000	$6,464,000
Gross profit	3,037,000	1,508,000	4,132,000	2,139,000
Net income (loss)	657,000	(1,222,000)	960,000	(633,000)
Basic net income (loss) per share	$0.16	$(0.36)	$0.25	$(0.20)
Diluted net income (loss) per share	$0.15	$(0.36)	$0.22	$(0.20)
Shares used in computing basic net income (loss) per share (in thousands)	3,587	3,575	3,568	3,567
Shares used in computing diluted net income (loss) per share (in thousands)	4,414	3,575	4,411	3,567

17. Subsequent Events

Line of Credit From Director/ Officer- Related Party Transaction

On March 27, 2014 the Company amended its original Loan Documents with Zack Bergreen, the Company's Chief Executive Officer. Pursuant to the amended Loan Documents, Mr. Bergreen will provide an additional $1,000,000 unsecured revolving line of credit to the Company to increase the total available line of credit to $3,000,000. No other terms or conditions to the original agreement have changed.

Failure to Satisfy a Continued NASDAQ Listing Rule or Standard

Adrian Peters, a member of the Board of Directors of Astea International Inc., resigned Thursday, February 20, 2014 with immediate effect. In addition to his resignation as a member of the Board, Mr. Peters also resigned from his membership on the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. As a result of such resignation, the Company's Board of Directors currently consists of four Directors, two of whom are "independent directors". Accordingly, the Company does not currently meet the requirements of the NASDAQ Rules, which require that a majority of the Board of Directors of the Company be comprised of "independent directors" and the Company does not currently meet the requirements of the NASDAQ Rules, which requires that the Audit Committee of the Board of Directors of the Company be comprised of at least three "independent directors."

On February 21, 2014, the Company notified the NASDAQ Stock Market that, due to Mr. Peters' resignation, its Board of Directors does not meet the requirements of the NASDAQ Rules. On February 25, 2014, the Company received a response letter from the NASDAQ Stock Market acknowledging the fact that the Company does not currently meet the requirements of the NASDAQ Rules.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated, as of the end of the period covered by this Form 10-K, the effectiveness of our disclosure controls and procedures. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures as of such date are effective at the reasonable assurance level in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission’s rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures that are designed to reasonably assure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the U.S.

Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that our transactions are recorded as necessary to permit the preparation of our financial statements in accordance with accounting principles generally accepted in the U.S., and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and
- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time. Our system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are found.

Our management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in the 1992 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our system of internal controls over financial reporting was effective as of December 31, 2013.

This Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting as the rules of the Securities and Exchange Commission applicable to the Company do not require such an attestation report and permit us to provide only management's report in this Form 10-K.

Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal control over financial reporting during the fourth quarter ended December 31, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

On March 27, 2014 the Company entered into amendments of the Revolving Loan Agreement with Zack Bergreen, a director of the Company and the Company's Chief Executive Officer (the "Loan Agreement Amendment"). Pursuant to the Loan Agreement Amendment, Mr. Bergreen will provide an additional $1,000,000 unsecured revolving line of credit to the Company to increase the total available line of credit to $3,000,000. The Revolving Promissory Note for $2,000,000 in favor of Mr. Bergreen and dated May 29, 2013 was renewed and substituted with a new Revolving Promissory Note for $3,000,000 in favor of Mr. Bergreen and dated March 27, 2014 (the "Substitute Note" and together with the Loan Agreement Amendment, the "Loan Amendment Documents"). Other than the increase in the amount of the line of credit, no other terms or conditions of the Loan Documents have changed.

Mr. Bergreen is a holder of common and preferred stock of the Company and is a party to a Preferred Stock Purchase Agreement dated September 24, 2008 with the Company. The Loan Amendment Documents were negotiated at arms-length and approved by the Audit Committee of the Company's Board of Directors, and borrowings under the Line of Credit will continue to be 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.

Copies of the Loan Agreement, the Loan Agreement Amendment and the Substitute Note are attached to this Annual Report on Form 10-K as Exhibits 10.15, 10.16 and 10.17, respectively, and are incorporated herein by reference. The description of the terms of the Loan Agreement and the Loan Amendment Documents, is qualified in its entirety to Exhibits 10.15, 10.16 and 10.17.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Certain information required by Part III is omitted from this Report in that the Company will file a definitive proxy statement within 120 days after the end of the Company's fiscal year pursuant to Regulation 14A (the "Proxy Statement") for its 2014 Annual Meeting of Stockholders proposed to be held on June 19, 2014, and the information therein is incorporated herein by reference..

The information in the Proxy Statement set forth under the captions "Election of Directors," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance," "The Board of Directors Leadership Structure and Its Committees—Code of Conduct and Ethics," "The Board of Directors Leadership Structure and Its Committees—Nominating and Corporate Governance Committee" and "The Board of Directors Leadership Structure and Its Committees—Audit Committee" is incorporated herein by reference.

Item 11. Executive Compensation.

Executive Severance Agreements

The information in the Proxy Statement set forth under the captions "Compensation Discussion and Analysis" and "Compensation and Other Information Concerning Directors and Officers" of the Proxy Statement, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" of the Proxy Statement is incorporated herein by reference.

See "Securities Authorized for Issuance Under Equity Compensation Plans" under Part II, Item 5.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated by reference from the Proxy Statement or amendment to the Form 10-K under the captions "Certain Relationships and Related Transactions" and "The Board of Directors Leadership Structure and its Committees."

Item 14. Principal Accountant Fees and Services.

The information required by this Item is incorporated by reference from the Proxy Statement under the heading "Principal Accountant Fees and Services."

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1)(A) Consolidated Financial Statements.

i) Consolidated Balance Sheets at December 31, 2013 and 2012.
ii) Consolidated Statements of Operations for the years ended December 31, 2013 and 2012.
iii) Consolidated Statement of Comprehensive Loss for the years ended December 31, 2013 and 2012.
iv) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2013 and 2012.
v) Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012.
vi) Notes to the Consolidated Financial Statements.

(a)(1)(B) Report of Independent Registered Public Accounting Firm.

(a)(2) Schedules.

a) Schedule II - Valuation and Qualifying Accounts

Schedule listed above has been omitted because the information required to be set forth therein is not applicable or is shown in the accompanying Financial Statements or notes thereto.

(a)(3) List of Exhibits.

The following exhibits are filed as part of and incorporated by reference into this Annual Report on Form 10-K:

Exhibit No.	Description
3.1	Certificate of Incorporation of the Company (Incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, as amended (File No. 33-92778)).
3.2	By-Laws of the Company (Incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, as amended (File No. 33-92778)).
3.3	Certificate of Designation of Series A Convertible Preferred Stock (Incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed September 26, 2008).
4.1	Specimen certificate representing the Common Stock (Incorporated herein by Reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, as amended (File No. 33-92778)).
10.1#	Amended and Restated 1995 Non-Employee Director Stock Option Plan (Incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.2#	Form of Non-Qualified Stock Option Agreement under the 1995 Non-Employee Director Stock Option Plan (Incorporated herein by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-8, filed on September 19, 1995 (File No. 33-97064)).
10.3#	1997 Stock Option Plan (Incorporated herein by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996).
10.4#	Form of Non-Qualified Stock Option Agreement under the 1997 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996).
10.5#	Form of Incentive Stock Option Agreement under the 1997 Stock Option Plan (Incorporated herein by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996).

10.6# 1998 Stock Option Plan (Incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

10.7# Form of Non-Qualified Stock Option Agreement under the 1998 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

10.8# Form of Incentive Stock Option Agreement under the 1998 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

10.9# 2001 Stock Option Plan (Incorporated herein by reference to Exhibit B to the Company's Proxy Statement on Schedule 14A filed July 5, 2001).

10.10# Form of Severance Agreement, dated April 14, 2008, between Astea International Inc. and certain of its officers.

Schedule of Differences

Each Severance Agreement executed with the executive officers listed below is substantially the same as the form of each other:

Officers	Title
Zack Bergreen	Chief Executive Officer
Fredric Etskovitz	Chief Financial Officer and Treasurer
John Tobin	President

10.11 Preferred Stock Purchase Agreement by and between Astea International Inc. and Zack Bergreen, dated September 24, 2008 (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 26, 2008).

10.12# Amended and Restated 2006 Stock Option Plan (Incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 16, 2010).

10.13# Form of Incentive Stock Option under Amended and Restated 2006 Stock Option Plan (Incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K filed June 16, 2010).

10.14# Form of Non-Qualified Stock Options under Amended and Restated 2006 Stock Option Plan Incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K filed June 16, 2010).

10.15# Revolving Loan Agreement (Incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed June 4, 2013)

10.16#* Amendment No.1 To Revolving Loan Agreement

10.17#* Revolving Promissory Note

21.1* Subsidiaries of the Registrant.

23.1* Consent of Grant Thornton, LLP.

24.1* Powers of Attorney (See the Signature Page).

31.1* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 –Chief Executive Officer.

31.2* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Chief Financial Officer.

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.

* Filed herewith.
# Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/Zack Bergreen
Zack Bergreen
Chief Executive Officer

March 31, 2014

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Zack Bergreen and Rick Etskovitz, jointly and severally, his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/Zack Bergreen Zack Bergreen	Chief Executive Officer (Principal Executive Officer)	March 31, 2014
/s/Rick Etskovitz Rick Etskovitz	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 31, 2014
/s/Zack Bergreen Zack Bergreen	Chairman of the Board of Directors	March 31, 2014
/s/Keith Schneck Keith Schneck	Director	March 31, 2014
/s/Eric Siegel Eric Siegel	Director	March 31, 2014
/s/John Tobin John Tobin	Director	March 31, 2014

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EXHIBIT INDEX

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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