ASTEA INTERNATIONAL INC
Form 10-Q
August 14, 2014

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014
or

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

For the transition period from to

Commission File Number: 0-26330

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes X No

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

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

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

As of August 12, 2014, 3,587,299 shares of the registrant's Common Stock, par value $.01 per share, were outstanding.

ASTEA INTERNATIONAL INC. AND SUBSIDIARIES

FORM 10-Q
QUARTERLY REPORT

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PART I - FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

ASTEA INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$1,245,000	$1,111,000
Investments available for sale	29,000	34,000
Receivables, net of allowance of $74,000 (unaudited) and $112,000, respectively	3,997,000	4,239,000
Prepaid expenses and other	545,000	558,000
Total current assets	5,816,000	5,942,000
Property and equipment, net	193,000	291,000
Intangibles, net	164,000	232,000
Capitalized software, net	5,351,000	5,667,000
Goodwill	1,538,000	1,538,000
Restricted cash	124,000	125,000
Other assets	107,000	105,000
Total assets	$13,293,000	$13,900,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit from director/officer, current	$150,000	$-
Line of credit from Silicon Valley Bank, current	690,000	-
Accounts payable and accrued expenses	2,658,000	2,951,000
Deferred revenues	7,800,000	6,781,000
Total current liabilities	11,298,000	9,732,000
Long-term liabilities:		
Line of credit from director/officer, long term	-	2,000,000
Deferred tax liability	344,000	339,000
Total long-term liabilities	344,000	2, 339,000
Commitments and contingencies		
Stockholders' equity:		
Convertible redeemable preferred stock, $.01 par value, shares authorized 5,000,000:		

Series A issued and outstanding 826,000	8,000	8,000
Series B issued and outstanding 797,000	8,000	-
Common stock $.01 par value, 25,000,000 shares authorized; issued 3,629,000; outstanding 3,587,000	36,000	36,000
Additional paid-in-capital	32,869,000	30,938,000
Accumulated deficit, including accumulated comprehensive loss of $2,117,000 and $3,202,000	(31,062,000)	(28,945,000)
Less: treasury stock at cost, 42,000 shares	(208,000)	(208,000)
Total stockholders' equity	1,651,000	1,829,000
Total liabilities and stockholders' equity	$13,293,000	$13,900,000

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Software license fees	$1,187,000	$898,000	$1,650,000	$1,372,000
Services and maintenance	4,110,000	4,397,000	8,486,000	8,586,000
Total revenues	5,297,000	5,295,000	10,136,000	9,958,000
Costs of revenues:				
Cost of software license fees	811,000	379,000	1,667,000	753,000
Cost of services and maintenance	2,825,000	3,281,000	5,822,000	6,290,000
Total cost of revenues	3,636,000	3,660,000	7,489,000	7,043,000
Gross profit	1,661,000	1,635,000	2,647,000	2,915,000
Operating Expenses:				
Product development	348,000	329,000	721,000	600,000
Sales and marketing	1,067,000	1,154,000	2,085,000	2,232,000
General and administrative	944,000	892,000	1,755,000	1,826,000
Restructuring	-	182,000	-	182,000
Total operating expenses	2,359,000	2,557,000	4,561,000	4,840,000
Loss from operations	(698,000)	(922,000)	(1,914,000)	(1,925,000)
Interest expense, net	(38,000)	(5,000)	(75,000)	(3,000)
Loss before income taxes	(736,000)	(927,000)	(1,989,000)	(1,928,000)
Income tax expense	16,000	27,000	23,000	45,000
Net loss	(752,000)	(954,000)	(2,012,000)	(1,973,000)
Preferred dividend, (Series A)	75,000	75,000	150,000	150,000
Net loss available to common stockholders	$(827,000)	$(1,029,000)	$(2,162,000)	$(2,123,000)
Basic and diluted loss per share available to common stockholders	$(0.23)	$(0.29)	$(0.60)	$(0.59)
Weighted average shares outstanding used in computing basic and diluted loss per common share	3,587,000	3,591,000	3,587,000	3,591,000

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$ (752,000)	$ (954,000)	$ (2,012,000)	$ (1,973,000)
Other comprehensive loss:				
Foreign currency translation adjustment	(80,000)	39,000	(105,000)	(27,000)
Change in unrealized (loss) gain on available for sale investments	-	(1,000)	-	1,000
Comprehensive loss	$ (832,000)	$ (916,000)	$ (2,117,000)	$ (1,999,000)

See accompanying notes to the unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2014 (Unaudited)	Year Ended December 31, 2013
Convertible redeemable preferred stock		
Balance, beginning of period	$8,000	$8,000
Series B preferred stock issued	8,000	-
Balance, end of period	16,000	8,000
Common stock		
Balance, beginning and end of period	36,000	36,000
Additional paid-in-capital		
Balance, beginning of period	30,938,000	31,056,000
Series A preferred stock dividends paid	(150,000)	(300,000)
Stock based compensation	89,000	182,000
Series B preferred stock issued, net	1,992,000	-
Balance, end of period	32,869,000	30,938,000
Accumulated deficit		
Balance, beginning of period	(28,945,000)	(25,743,000)
Comprehensive loss	(2,117,000)	(3,202,000)
Balance, end of period	(31,062,000)	(28,945,000)
Treasury stock, at cost		
Balance, beginning and end of period	(208,000)	(208,000)
Total stockholders' equity	$1,651,000	$1,829,000

See accompanying notes to the unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net loss	$ (2,012,000)	$ (1,973,000)
Adjustments to reconcile net loss to net cash Provided by (used in) operating activities:		
Depreciation and amortization	1,809,000	869,000
Decrease in allowance for doubtful accounts	(38,000)	-
Stock-based compensation	89,000	76,000
Deferred income tax	5,000	24,000
Changes in operating assets and liabilities:		
Receivables	254,000	1,449,000
Prepaid expenses and other	92,000	65,000
Accounts payable and accrued expenses	(287,000)	246,000
Deferred revenues	979,000	(781,000)
Other assets	(2,000)	(18,000)
Net cash provided by (used in) operating activities	889,000	(43,000)
Cash flows from investing activities:		
Proceeds from sale of short term investments	5,000	-
Purchases of property and equipment	(37,000)	(4,000)
Capitalized software development costs	(1,289,000)	(1,822,000)
Decrease in restricted cash	-	6,000
Net cash used in investing activities	(1,321,000)	(1,820,000)
Cash flows from financing activities:		
Dividend payments on preferred stock (Series A)	(150,000)	(150,000)
Repayment on line of credit from director/officer	(250,000)	-
Proceeds from line of credit from director/officer	400,000	1,600,000
Proceeds from line of credit from Silicon Valley Bank	690,000	-
Deferred financing costs	(126,000)	(18,000)
Net cash provided by financing activities	564,000	1,432,000
Effect of exchange rate changes on cash	2,000	(245,000)
Net increase (decrease) in cash and cash equivalents	134,000	(676,000)
Cash and cash equivalents, beginning of period	1,111,000	2,015,000
Cash and cash equivalents, end of period	$ 1,245,000	$ 1,339,000

Supplemental schedule of non-cash activities:		
Issuance of preferred stock (Series B)	$ 2,000,000	$ -
Cancellation of line of credit from director/officer	$ (2,000,000)	$ -

See accompanying notes to the unaudited consolidated financial statements.

Item 1. CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. BASIS OF PRESENTATION

The consolidated financial statements at June 30, 2014 and for the six month periods ended June 30, 2014 and 2013 of Astea International Inc. and subsidiaries (“Astea” or the "Company") are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The following unaudited financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the rules and regulations of the SEC for quarterly reports on Form 10-Q. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto, included in the Company’s latest annual report (Form 10-K) and our Form 10-Q’s for the quarters ended March 31, 2013, June 30, 2013, September 30, 2013, and March 31, 2014. The interim financial information presented is not necessarily indicative of results expected for the entire year ending December 31, 2014.

Operating Matters and Liquidity

At June 30, 2014, the Company had a working capital ratio of .52:1, with cash and investments available for sale of $1,274,000. The Company believes that it has sufficient cash to meet its anticipated operating cash needs for at least the next 12 months. However, projections of future cash needs and cash flows are subject to substantial uncertainty. We continually evaluate our operating cash flows which can vary subject to the actual timing of expected new sales compared to our expectations of those sales and are sensitive to many factors, including changes in working capital and our net (loss) income. The Company has projected revenues for the remainder of 2014 that management believes will provide sufficient funds to sustain its continuing operations. However, due to unanticipated delays in the signing of certain license agreements and the cash flow timing impact of the Company’s planned conversion to a subscription-based software delivery model it was determined that the Company needed additional liquidity in the near term. Accordingly, the Company entered into a new line of credit agreement, and has an existing line of credit from its Chief Executive Officer, both of which are described in Note 6. As of June 30, 2014 the Company owed $150,000 against the line of credit from its Chief Executive Officer and $690,000 against the new line of credit from Silicon Valley Bank (“SVB”). The Company was not in compliance with the earnings covenants of the SVB loan agreement as of June 30, 2014, based on the operating results for the quarter ended June 30, 2014. However, SVB provided a forbearance agreement which defers its right to exercise the default provisions of the line of credit until October 1, 2014. During the forbearance period, the Company has agreed to a reduction in the maximum revolving line of credit amount, which may not exceed $1,000,000. SVB shall have no further obligation to make any additional borrowings available to the Company or to provide any other extensions of credit during the forbearance period. However, the Company covenants and agrees that, if in the sole and absolute discretion of SVB, they make any discretionary financial accommodation during the forbearance period, such act shall not constitute (i) a waiver of any of the existing default covenants, which may now exist or which may occur after the date of the forbearance agreement, or (ii) an agreement on the part of SVB to make any further extensions of credit of any kind to the Company at a later date. In addition, in August 2014, the line of credit capacity from the Company’s Chief Executive Officer was reduced from $3,000,000 to $1,000,000. The $1,000,000 line of credit is available in the future if the Company fails to meet any future bank covenants under its line of credit with SVB.

The Company is currently working with SVB to re-define the financial covenants in the existing loan agreement which do not consider the revenue recognition and cash flow impact of the Company's hosting arrangements under which revenue cannot be recognized before the projects go live but which do provide current cash flows. Continued compliance with its covenants is dependent on the Company achieving certain earnings as of September 30 2014 and throughout the remaining term of the loan agreement. In the event the Company does not meet its financial covenants after October 1, 2014 and SVB does not extend a waiver or forbearance agreement, and the Company believes that it does not have adequate liquidity to operate, it will implement a cost cutting plan that reduces its expenditures to the appropriate level to be in line with its operating cash flows.

The Company does not plan any significant capital expenditures in 2014 other than to replace its existing capital equipment as it becomes obsolete.

2. RECENT ACCOUNTING GUIDANCE NOT YET ADOPTED

In July 2013, the Financial Accounting Standards Board ("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.

In May 2014, as part of its ongoing efforts to assist in the convergence of U.S. GAAP and International Financial Reporting Standards, the FASB issued a new standard related to revenue recognition. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard will be effective for us beginning January 1, 2017 and early adoption is not permitted. We anticipate this standard may have a material impact on our consolidated financial statements, and we are currently evaluating its impact.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. Fair value is calculated based on publicly available market information or other estimates determined by management. We employ a systematic methodology on a quarterly basis that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality, the duration and extent to which the fair value is less

than cost, and for equity securities, our intent and ability to hold, or plans to sell, the investment. For fixed income securities, we also evaluate whether we have plans to sell the security or it is more likely than not that we will be required to sell the security before recovery. We also consider specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to other income (expense) and a new cost basis in the investment is established.

4. CONCENTRATION OF CREDIT RISK

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

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

5. INVESTMENTS AVAILABLE FOR SALE

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

On June 30, 2014 and December 31, 2013 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 (losses), and fair value of available-for-sale securities by major security type and class of security at June 30, 2014 and December 31, 2013 were as follows:

	Aggregate cost basis	Gross unrealized holding gains	Gross unrealized holding (losses)	Aggregate fair value
At June 30, 2014				
Available-for-sale:				
Mutual Funds	$29,000	$—	$—	$29,000
At December 31, 2013				
Available-for-sale:				
Mutual Funds	$33,000	$1,000	$—	$34,000

The aggregate fair value of mutual funds as of June 30, 2014 was $29,000. As of June 30, 2014 and December 31, 2013 there were no mutual funds that had unrealized losses. The mutual funds contain investments that seek a high level of current income. The funds normally invest at least 80% of net assets, plus the amount of any borrowings for investment purposes, in floating or adjustable rate senior loans of any maturity or credit quality, including those rated below investment grade or determined by the fund's advisor to be of comparable quality.

6. LINE OF CREDIT

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 provided 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. On March 27, 2014 the Company amended its original Loan Documents with Mr. Bergreen. Pursuant to the amended Loan Documents, Mr. Bergreen provided 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. On June 20, 2014, the Company canceled $2,000,000 of outstanding principal owed to Mr.

Bergreen under the Loan Documents in exchange for 797,000 shares of Series B Preferred Stock (see Note 10). In addition during the second quarter of 2014 as noted below, the Company repaid $250,000 of principal against the line of credit owed to Mr. Bergreen. As of June 30, 2014, the Company owed $150,000 against the line of credit and classified it as current on the balance sheet due to the date of maturity. In addition, the Company incurred $75,000 of interest expense for the six months ended June 30, 2014. As of December 31, 2013 the Company had borrowed $2,000,000 against the line of credit and classified it as long term on the balance sheet due to the maturity date. The Company was in compliance with the covenants of this agreement as of June 30, 2014 and December 31, 2013.

Line of Credit from Silicon Valley Bank ("SVB")

On June 13, 2014, the Company entered into a Loan and Security Agreement with SVB. The Loan Agreement established a revolving credit facility for the Company in the principal amount of up to $3,000,000. Availability under the Revolving Facility is tied to a borrowing base formula that is based on 80% of the Company's' eligible accounts receivable. Advances under the Revolving Facility may be repaid and reborrowed in accordance with the Loan Agreement. No advances were made at closing of the loan, however as of June 30, 2014 the Company borrowed $690,000 of which $250,000 was used to pay down the line of credit from its Chief Executive Officer. Pursuant to the Loan Agreement, the Company agreed to pay to SVB the outstanding principal amount of all borrowings, the unpaid interest thereon, and all other obligations incurred with respect to the Loan Agreement on June 13, 2016. Interest will accrue on the unpaid principal balance of the borrowing at a floating per annum rate equal to the greater of: (i) 2.00% above the prime rate or (ii) 5.25%; provided, that, after the first anniversary of the effective date of the Loan Agreement and following the initial borrowing, the minimum interest amount due per month shall not be less than $4,500. During an event of default, the rate of interest may increase 3% above the otherwise applicable rate, until such event of default is cured or waived. All accrued and unpaid interest is payable monthly on the last calendar day of each month.

Subject to certain exceptions, the Loan Agreement contains covenants prohibiting the Company from, among other things: (a) conveying, selling, leasing, transferring or otherwise disposing of their properties or assets; (b) liquidating or dissolving; (c) engaging in any business other than the business currently engaged in or reasonably related thereto; (d) entering into any merger or consolidation, or acquiring all or substantially all of the capital stock or property of another entity; (e) becoming liable for any indebtedness; (f) allowing any lien or encumbrance on any of their property; and (g) paying any dividends; and (i) making payment on subordinated debt. Further, the Company must (i) achieve certain minimum positive net income targets through December 31, 2015; and (ii) maintain a minimum "adjusted quick ratio," tested as of the last day of each month, of at least 1.25:1.00. The adjusted quick ratio is the ratio of (a) the Company's consolidated, unrestricted cash plus net booked accounts receivable to (b) the Company's liabilities to SVB plus, without duplication, the aggregate amount of the Company's liabilities that mature within 1 year, minus the current portion of deferred revenue.

The Loan is secured by a first priority perfected security interest in substantially all of the assets of the Company, excluding the intellectual property of the Company. The Loan Agreement contains a negative covenant prohibiting the Company from granting a security interest in their intellectual property to any party.

As of June 30, 2014 the Company borrowed $690,000 against the line of credit and classified it as a current liability on the balance sheet as the Company was in default of certain covenants under the arrangement. The Company was not in compliance with the earnings covenants of this agreement as of June 30, 2014, based on the operating results for the quarter ended June 30, 2014. However, SVB provided a forbearance agreement which defers its right to exercise the default provisions of the line of credit until October 1, 2014. During the forbearance period, the Company has agreed to a reduction in the maximum amount of the revolving line of credit not to exceed $1,000,000. Due to the default, per the agreement SVB may increase the interest rate by an additional 3%. However, SVB has elected not to increase the interest rate during this default period. The Company will pay a forbearance fee of $3,500. SVB shall have no further obligation to make any additional borrowings to the Company or to provide any other extensions of credit during the forbearance period. However, the Company covenants and agrees that if, in the sole and absolute discretion of SVB, they make any discretionary financial accommodation during the forbearance period, such act shall not constitute (i) a waiver of any of the existing default covenants, which may now exist or which may occur after the date of the forbearance agreement, or (ii) an agreement on the part of SVB to make any further extensions of credit of any kind to the Company at a later date. The Company expects to be in compliance with the SVB covenants by the next quarter, ending September 30, 2014.

7. INCOME TAX

The Company has identified its federal tax return and its state returns in Pennsylvania and California as “major” tax jurisdictions. Based on the Company’s evaluation, it has been concluded that there are no significant uncertain tax positions requiring recognition in the Company’s financial statements. The Company’s evaluation was performed for tax years ended 2008 through 2013, the only periods subject to examination. The Company believes that its income tax positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position.

The Company’s policy for recording interest and penalties associated with audits is to record such items as a component of income before income taxes. Penalties are recorded in general and administrative expenses and interest paid or received is recorded in interest expense or interest income, respectively, in the statement of operations. For the first six months of 2014, there was no interest or penalties related to the settlement of any audits.

At June 30, 2014, the Company maintained a 100% valuation allowance for its remaining deferred tax assets, based on the uncertainty of the realization of future taxable income.

8. STOCK-BASED COMPENSATION

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

As of June 30, 2014, the total unrecognized compensation cost related to non-vested options amounted to $280,000, which is expected to be recognized over the options' average remaining vesting period of 2.62 years. No income tax benefit was realized by the Company in the six months ended June 30, 2014.

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

There were 100,000 and 65,000 options granted during the first six months of 2014 and 2013, respectively.

Activity under the Company's stock option plans for the six months ended June 30, 2014 is as follows:

	OPTIONS OUTSTANDING	
	Shares	Weighted Average Exercise Price Per Share
Balance, December 31, 2013	666,000	$ 3.92
Granted	100,000	2.74
Canceled	(71,000)	3.43
Balance, June 30, 2014	695,000	$ 3.80

The following table summarizes outstanding options under the Company's stock option plans as of June 30, 2014:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding Options	695,000	$ 3.80	5.67	$ 25,000

Ending Vested and Exercisable	477,000	$	4.28	4.34	$	8,000
Options Expected to Vest	218,000	$	2.76	7.62		-

9. 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 loss per share, shares outstanding are adjusted to assume conversion of the Company's non-interest bearing convertible stock and exercise of options as if they were dilutive. In the calculation of basic loss per share, weighted average numbers of shares outstanding are used as the denominator.

The Company had net loss allocable to common stockholders for the three and six months ended June 30, 2014 and 2013. Loss per share is computed as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator:				
Net loss available to common shareholders-basic and diluted	$ (827,000)	$ (1,029,000)	$ (2,162,000)	$ (2,123,000)
Denominator:				
Weighted average shares used to compute net loss available to common shareholders per common share-basic and diluted	3,587,000	3,591,000	3,587,000	3,591,000
Basic and diluted net loss per share to common shareholder	$ (0.23)	$ (0.29)	$ (0.60)	$ (0.59)

All options outstanding to purchase shares of common stock and shares of common stock issued on the assumed conversion of the eligible preferred stock were excluded from the diluted loss per common share calculation for the three and six months ended June 30, 2014 and 2013, as the inclusion of these options would have been antidilutive.

10. STOCKHOLDERS' EQUITY

Convertible Redeemable Preferred Stock

Series A

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 $150,000 in preferred stock dividends for the six months ended June 30, 2014 and 2013.

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 reports the Series A Preferred Stock on the Company's consolidated balance sheet within stockholders' equity.

Series B

On June 20, 2014, as part of a plan to regain compliance with The Nasdaq Capital Market's (" Nasdaq ") continued listing requirements that a listed company have not less than $2.5 million in shareholders' equity, the Company issued 797,000 of Series-B Convertible Preferred Stock ("Series B Preferred Stock) to its Chief Executive Officer at a price of $2.51 per share in exchange for the cancellation of $2,000,000 of outstanding principal owed to its Chief Executive Officer under a certain Revolving Promissory Note dated March 26, 2014. The audit committee of the board of directors of the Company negotiated and unanimously approved the transaction.

The per share price was determined as the greater of (i) the average closing bid price of a share of the Company's common stock reported by Nasdaq for the 30 trading days ending two trading days prior to the date of the Series B Preferred Stock agreement and (ii) 10% above the closing bid price of the Company's common stock on the date of the Series B Preferred Stock agreement. Accordingly, the per share price was set at $2.51 ("Purchase Price"), corresponding to 10% above the closing bid price on June 20, 2014. Pursuant to the terms of the Series B Preferred Stock agreement, the Company also granted its Chief Executive Officer certain registration rights in the event the Company elects to file a registration statement with the Securities and Exchange Commission relating to an offering of its equity securities under the Securities Act of 1933, as amended.

The Series B Preferred Stock may be converted into shares of common stock on a one-to-one ratio, subject to customary anti-dilution provisions. The Series B Preferred Stock will pay a quarterly dividend, which will accrue at an annual rate of 7%, subject to certain rate adjustments as provided for under the agreement, until June 20, 2016 and at an annual rate of 10% thereafter. The Company's Chief Executive Officer may convert up to 50% of the Series B shares into shares of common stock at any time until June 20, 2015, and thereafter may convert 100% of his shares of the Series B Preferred Stock into shares of common stock. Following June 20, 2016, each and every then outstanding share of Series B Preferred Stock is subject to mandatory and automatic conversion into shares of common stock if the closing price of the common stock as reported by the principal exchange or quotation system on which such Common Stock is traded or reported exceeds 300% of the then current conversion price for 30 consecutive trading days. The Company may redeem up to 50% of the shares of the outstanding Series B Preferred Stock at any time on or prior to December 17, 2014 at a price equal to 110% of the Purchase Price, plus an amount equal to any unpaid and accrued dividends. At any time after December 17, 2014 and prior to June 20, 2015, the Company may redeem up to 50% of the shares of the outstanding Series B Preferred Stock minus the number of shares redeemed in any First Partial Redemption, at a price equal to 130% of the Purchase Price, plus an amount equal to any unpaid and accrued dividends. Additionally, after June 20, 2015, the Company may redeem all of the outstanding shares of the Series B Preferred Stock issued at a price per share equal to 300% of the purchase price. The Series B Preferred Stock ranks senior to the Common Stock and on parity with the Company's Series A Convertible Preferred Stock.

The Company reports the Series B Preferred Stock on the Company's consolidated balance sheet within stockholders' equity at the amount of net proceeds received less an imputed dividend cost. The imputed dividend cost of $110,000 was the result of the preferred stock having a dividend rate during the first two years after its issuance (7%) that is lower than the rate that becomes fixed (10%) after the initial two year period. The imputed dividend cost of $110,000 will be amortized over the first two years from the date of issuance and is based upon the present value of the dividend discount using a 10% yield.

11. GEOGRAPHIC SEGMENT DATA

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Software license fees				
United States	$ 847,000	$ 383,000	$ 867,000	$ 746,000
Total United States software license fees	847,000	383,000	867,000	746,000
Europe	35,000	136,000	478,000	237,000
Asia Pacific	305,000	379,000	305,000	389,000
Total foreign software license fees	340,000	515,000	783,000	626,000
Total software license fees	1,187,000	898,000	1,650,000	1,372,000
Services and maintenance				
United States	2,580,000	3,032,000	5,350,000	5,825,000
Total United States services and maintenance revenue	2,580,000	3,032,000	5,350,000	5,825,000
Europe	788,000	676,000	1,714,000	1,197,000
Asia Pacific	742,000	689,000	1,422,000	1,564,000
Total foreign services and maintenance revenue	1,530,000	1,365,000	3,136,000	2,761,000
Total services and maintenance revenue	4,110,000	4,397,000	8,486,000	8,586,000
Total revenue	$ 5,297,000	$ 5,295,000	$ 10,136,000	$ 9,958,000
Net loss				
United States	$ (183,000)	$ (582,000)	$ (1,201,000)	$ (879,000)
Europe	(212,000)	(272,000)	(73,000)	(650,000)
Asia Pacific	(357,000)	(100,000)	(738,000)	(444,000)
Net loss	$ (752,000)	$ (954,000)	$ (2,012,000)	$ (1,973,000)

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11. SUBSEQUENT EVENTS

Failure to Satisfy a Continued NASDAQ Listing Rule or Standard

On April 7, 2014 the Company received a notification letter from the NASDAQ Stock Market advising the Company of its failure to comply with the required minimum of $2,500,000 in stockholders' equity for continued listing on the NASDAQ Capital Market, pursuant to NASDAQ listing rule 5550(b)(1). The Company fell below the minimum requirement with reported stockholders' equity of $1,829,000 in its Form 10-K for the year ended December 31, 2013. The Company's loss in the first three months of 2014 further reduced the reported stockholders' equity to $516,000.

The Company presented its plan to NASDAQ on May 22, 2014, which included the conversion of outstanding debt into equity, and improved operating results. On May 29, 2014 NASDAQ granted the Company an extension of time in which to regain compliance. The extension was based upon both the completion of the debt to equity conversion by June 30, 2014 (which was accomplished on June 20, 2014 by converting $2,000,000 of borrowings by its Chief Executive Officer to 797,000 shares of Series B Preferred Stock), and the filing of results by August 14, 2014 that would evidence compliance with the minimum equity standard. As reported on the balance sheet of this Form 10-Q, stockholders' equity at June 30, 2014 is $1,651,000. Since the Company is not in compliance with the minimum equity requirement, it has proactively engaged in a discussion with NASDAQ requesting an extension of time to evidence compliance. If this proposal is not accepted by NASDAQ, then NASDAQ will provide written notification of its intent to delist the Company's' securities, and the Company will have the opportunity to appeal that decision to a Hearings Panel.

The prior NASDAQ compliance issue regarding lacking the required third independent director was remedied on July 28, 2014 by the appointment of a new independent director to the Board of Directors of the Company and Audit Committee.

Line of Credit from Director/ Officer- Related Party Transaction

On August 12, 2014, the Board of Directors approved a reduction in the Line of Credit from Mr. Bergreen from $3,000,000 to $1,000,000. As stated previously, in June 2014, $2,000,000 which had been outstanding under the line of credit was canceled in exchange for 797,000 shares of Series B convertible preferred stock.

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

Overview

This document contains various forward-looking statements and information that are based on management's beliefs, assumptions made by management and information currently available to management. Such statements are subject to various risks and uncertainties, which could cause actual results to vary materially from those contained in such forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected or projected. Certain of these, as well as other risks and uncertainties are described in more detail herein and in Astea International Inc.'s ("Astea" or "the Company") Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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

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

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

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

The Company's sales and marketing efforts are primarily focused on new software licensing and support services for its latest generation of Astea Alliance, ServiceVision, and FieldCentrix products as well as software as a service (SaaS) arrangements accounted for as subscription services .

Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in its Summary of Accounting Policies, Note 2, in the Company's 2013 Annual Report on Form 10-K. The preparation of financial statements in conformity with accounting principles generally accepted within the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying financial statements and related notes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below; however, application of these accounting policies involves the exercise of judgments and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Principles of Consolidation

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

Use of Estimates

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

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 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 8 months. When up-front implementation, consulting and training services are bundled with the subscription based arrangement the services are recognized over the life of the initial contract.

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

Consulting and training service revenue are generally unbundled and recognized at the time the services are performed, except as noted above, when these services are bundled with subscription revenues. If the Company has any fixed-price arrangements for services, the revenue is recognized using the proportional performance method based on direct labor hours incurred to date as a percentage of total estimated direct labor hours required to complete the project. Fees from licenses sold together with consulting services are generally recognized upon shipment, provided that the contract has been executed, delivery of the software has occurred, fees are fixed and determinable and collection is probable. The Company offers a variety of consulting services that include project management, implementation, data conversion, integration, custom report writing and training. Our professional services are generally billed on a time and materials basis using hourly rates together with reimbursement for travel and accommodation expenses. We recognize revenue as these professional services are performed. On rare occasions these consulting service arrangements involve acceptance criteria. In these cases, revenue is recognized upon acceptance.

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

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

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

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

For the six months ended June 30, 2014 and 2013, the Company recognized $10,136,000 and $9,958,000, respectively, of revenue related to software license fees, and services and maintenance. In addition, included in service revenue in the first six months ended June 30, 2014 and 2013 is subscription service revenue, of which the Company recognized $267,000 and $38,000, respectively.

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

Reimbursable Expenses

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

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

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

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

Capitalized Software Research and Development Costs

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

Software development costs are amortized on a product-by-product basis over the greater of the ratio of current revenues to total anticipated revenues (current and future revenues) or on a straight-line basis over the estimated useful lives of the products beginning with the initial release to customers. The Company's estimated life for its capitalized software products is two years based on current sales trends and the rate of product release. The Company continually evaluates whether events or circumstances had occurred that indicate that the remaining useful life of the capitalized software development costs should be revised or that the remaining balance of such assets may not be recoverable. The Company
evaluates the recoverability of capitalized software based on the estimated future revenues of each product. As of June 30, 2014, management believes that no revisions to the remaining useful lives or write-downs of capitalized software development costs are required.

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

Goodwill

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 more frequently if impairment indicators are present. 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.

During the fourth quarter of 2013, the Company completed the step one testing for goodwill impairment. In addition, the Company evaluated other business factors, including analysis of macroeconomic conditions, the current business environment and changes in the operations of the business unit. Based upon the results of the step one testing, the Company concluded that no impairment existed as of December 31, 2013. The Company determined there was no triggering event at June 30, 2014 which would require an impairment analysis.

Accounting for Income Taxes

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

The Company prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Estimated interest is recorded as a component of interest expense and penalties are recorded as a component of general and administrative expenses. Such amounts were not material for the first six months of 2014 and 2013 and did not have a material impact on our financial position.

Currency Translation

Our international subsidiaries and branch operations translate the assets and liabilities of our international operations by using the exchange rate in effect at the balance sheet date. The results of operations are translated at average exchange rates during the period. The effects of exchange rate fluctuations in translating assets and liabilities of our international operations into U.S. dollars are accumulated and reflected as a currency translation adjustment and reported in other comprehensive loss in the accompanying consolidated statements of stockholders' equity. Transaction exchange gains and losses are included in general and administrative expenses which include transaction (losses) gains of ($25,000) and $1,000 for the six months ended June 30, 2014 and 2013, respectively.

Comprehensive Loss

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

Results of Operations

Comparison of Three Months Ended June 30, 2014 and 2013

Revenues

Total revenues increased by $2,000 or less than 1%, to $5,297,000 for the three months ended June 30, 2014 from $5,295,000 for the three months ended June 30, 2013. Software license fee revenues increased $289,000, or 32%, from the same period last year. Services and maintenance revenue for the three months ended June 30, 2014 decreased $287,000 or 7% from the same quarter in 2013.

Software license fee revenues increased 32% to $1,187,000 in the second quarter of 2014 from $898,000 in the second quarter of 2013. Astea Alliance license revenues increased $294,000 or 34%, to $1,167,000 in the second quarter of 2014 from $873,000 in the second quarter of 2013. The increase was primarily due to several license sales in the U.S. FieldCentrix license fee revenue decreased $5,000 or 20% in the second quarter of 2014 compared to $25,000 in

the second quarter of 2013. There were no new customers in 2014 or 2013 for FieldCentrix as license revenues consisted of sales of additional licenses to existing customers.

Services and maintenance revenues decreased by 7% to $4,110,000 in the second quarter of 2014 compared to $4,397,000 in the second quarter of 2013. Astea Alliance service and maintenance revenues decreased by $348,000 or 10% compared to the second quarter of 2013. The decrease is due to the delay in recognizing service revenue related to certain SaaS projects that have not been completed, partially offset by an increase in maintenance revenue in Europe due to new license sales from prior quarters. Service and maintenance revenues generated by FieldCentrix decreased by $120,000 or 15% to $705,000 in the second quarter of 2014 compared to $825,000 during the same period in 2013. The decrease is due to no new implementation projects or upgrades. Subscription service revenue in the second quarter of 2014 was $194,000 compared to $13,000 in the same period in 2013. The increase was due to completion of the implementation process for customers going live on the SaaS solution and therefore being able to recognize the related hosting revenue over the remaining life of the contract. Revenue for subscription services may not be recognized until the customers go-live. The implementation period is generally expected to range between 3 to 8 months. Once the customer goes live on the SaaS solution, the revenue will then be recognized ratably over the remaining initial contractual period.

Costs of Revenues

Cost of software license fees increased 114% to $811,000 in the second quarter of 2014 from $379,000 in the second quarter of 2013. Included in the cost of software license fees are the costs of capitalized software amortization and amortization of software acquired from FieldCentrix. It also includes the cost of all third party software embedded in the Company's software licenses which are sold to customers. Amortization of capitalized software development costs was $786,000 for the quarter ended June 30, 2014 compared to $365,000 for the same quarter in 2013. This increase resulted from the amortization of Version 11 that was released late in 2013. The gross margin percentage on software license sales was 32% in the second quarter of 2014 compared to 58% in the first quarter of 2013. The decrease in the license margin resulted primarily from the increase in software amortization cost in 2014.

Cost of services and maintenance decreased 14% to $2,825,000 in the second quarter of 2014 from $3,281,000 in the second quarter of 2013. The decrease in cost of service and maintenance is mainly attributed to reduced headcount in all regions, reduced travel expenses and a decrease in the use of outside consultants both in the U.S. and European locations. The gross margin percentage was 31% in the second quarter of 2014 compared to 25% in the second quarter of 2013. The increase in services and maintenance gross margin was primarily due to the decrease in service and maintenance costs offset by a decrease in service and maintenance revenue.

Gross Profit

Gross profit increased 2% to $1,661,000 in the second quarter of 2014 from $1,635,000 in the second quarter of 2013 due to a slight increase in revenue and a decrease in service and maintenance cost offset by an increase in amortization of capitalized software. Gross profit as a percentage of revenue both in the second quarter of 2014 and 2013 was 31%. Gross profit was level for the quarter due to revenues that were relatively flat and the increase of $421,000 in software amortization that was offset by a decrease in the cost of professional services and maintenance.

Operating Expenses

Product Development

Product development expenses increased 6%, or $19,000, to $348,000 in the second quarter of 2014 from $329,000 in the second quarter of 2013. The increase was mainly due to a reduction in capitalized software development costs in the second quarter of 2014 compared to the second quarter of 2013 due to the completion of Version 11 in September 2013 of its Alliance software, partially offset by a reduction in headcount in Israel due to the restructuring which enabled the Company to keep its development costs more in line with the size and needs of the Company. Fluctuations in product development expense from period to period result from the amount of product development expense that is capitalized. Development costs of $605,000 were capitalized in the second quarter of 2014 compared to $868,000 during the same period in 2013. Gross product development expense was $953,000 in the quarter ended June 30, 2014 which is 20% lower than $1,197,000 during the same quarter in 2013. The decrease is the result of cost cutting measures previously explained. Product development expense as a percentage of revenues was 7% for the quarter ended June 30, 2014 and 6% for the quarter ended June 30, 2013.

Sales and Marketing

Sales and marketing expense decreased 8% to $1,067,000 in the second quarter of 2014 from $1,154,000 in the second quarter of 2013. The decrease in sales and marketing expense is attributable to a decrease in costs related to reduced recruiting costs in sales, reduced costs related to outside consultants and lower headcount and lower travel costs in sales and marketing. The Company remains diligent on controlling its marketing expenses, but strategically

continues to focus on expanding its market presence through intensified marketing efforts to increase awareness of the Company's products. This occurs through the use of Webinars on topics relevant to the vertical industries in which the Company operates, attendance at selected trade shows, and increased efforts in lead generation for its sales force. As a percentage of revenues, sales and marketing expense was 20% in the quarter ended June 30, 2014 compared to 22% in the same period of 2013, due to the decrease in sales and marketing expenses.

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 increased 6% to $944,000 during the second quarter of 2014 from $892,000 in the second quarter of 2013. The increase is primarily due to the use of outside consultants and legal fees to help with the NASDAQ listing requirements and the conversion of the line of credit payable to Mr. Bergreen to Series B Preferred Stock, partially offset by a decrease in bad debt and rent expense. The Company remains focused on reducing its overall operating costs to be more in line with the needs of the Company. As a percentage of revenue, general and administrative expenses increased to 18% in the second quarter of 2014 compared to 17% in the second quarter of 2013.

Restructuring

No restructuring charges were recorded in the second quarter of 2014 compared to $182,000 for the same period in 2013. In June 2013, in order to reduce operating costs, the Company adopted a restructuring plan 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, in the second quarter of 2013, the Company paid a one-time lease termination fee of $125,000, which allowed the Company to terminate its lease obligation and save future rent expense by leasing less space. This resulted in a $5,000 reduction of the liability and the recognition of $62,000 related to termination benefits. As a percentage of revenues, restructuring was 3% for the second quarter of 2013.

Interest Expense, net

Net interest expense was $38,000 in the second quarter of 2014 compared to $5,000 in the second quarter of 2013. The Company entered into a line of credit with its CEO in late May 2013and incurred one full month of interest expense in the second quarter of 2013 compared to three full months of interest expense in the second quarter of 2014. The decrease in interest income resulted primarily from a decrease in investments. As of June 30, 2014 and 2013, the Company's investments consisted of mutual funds.

Income Tax Expense

The Company recorded income tax expense of $16,000 during the second quarter of 2014 compared to $27,000 during the same quarter in 2013. The reduction in tax expense resulted from a decrease in Israel's deferred taxes.

International Operations

The Company's international operations contributed revenues of $1,871,000 in the second quarter of 2014 compared to $1,880,000 the second quarter of 2013. The Company's revenues from international operations amounted to 36% of total Company revenue for the second quarter in both 2014 and 2013. The slight decrease in international revenues compared to the same period in 2013 is due to increase in service and maintenance revenues in the European and Asia Pacific regions partially offset by a decrease in license revenue in Europe and Japan.

Net Loss

Net loss in the second quarter of 2014 was $752,000 compared to a net loss of $954,000 in the second quarter of 2013. The decrease in net loss was primarily related to a decrease in operating costs of 8% or $198,000.

Comparison of Six Months Ended June 30, 2014 and 2013

Revenues

Revenues increased $178,000, or 2%, to $10,136,000 for the six months ended June 30, 2014 from $9,958,000 for the six months ended June 30, 2013. Software license revenues increased 20% from the same period last year. Service and maintenance fees for the six months ended June 30, 2014 amounted to $8,486,000, a 1% decrease from the same period in 2013.

Software license fees revenue increased 20% to $1,650,000 in the first six months of 2014 from $1,372,000 in the first six months of 2013. Astea Alliance license revenues increased $312,000 to $1,627,000 or 24% in the first six months

of 2014 from $1,315,000 in the first six months of 2013. The increase resulted from an increase in Astea license sales in the U.S., Europe and Asia Pacific region, partially offset by a decrease in license sales in Japan.

Services and maintenance revenues decreased 1% to $8,486,000 in the first six months of 2014 from $8,586,000 in the first six months of 2013. Astea Alliance service and maintenance revenues were $6,736,000 for the first six months of 2014 a decrease of 1%, from $6,822,000 in Alliance service and maintenance revenue for the six months ended June 30, 2013. The decrease was mainly attributable to a shift in subscription based services which may not be recognized until the customer goes live offset by an increase in European implementation revenues from license sales. There was a decrease of 14% or $243,000 of service and maintenance revenues from FieldCentrix in the first six months of 2014 compared to the same period last year. The decrease is due to a reduction in implementation projects compared to the same period in 2013. Subscription revenue increased 603% to $267,000 in the first six months of 2014 from $38,000 in the first six months of 2013. The increase was due to completion of the implementation process for customers going live on the SaaS solution and therefore being able to recognize the related hosting revenue over the remaining life of the contract. Revenue for subscription services may not be recognized until the customers go-live. The implementation period is generally expected to range between 3 to 8 months. Once the customer goes live on the SaaS solution, the revenue will then be recognized ratably over the remaining initial contractual period.

Costs of Revenues

Cost of software license fees increased 121% to $1,667,000 in the first six months of 2014 from $753,000 in the first six months of 2013. Included in the cost of software license fees are the costs of capitalized software amortization and amortization of software acquired from FieldCentrix. It also includes the cost of all third party software embedded in the Company's software licenses which are sold to customers. Amortization of capitalized software development costs was $1,606,000 for the six months ended June 30, 2014 compared to $715,000, an increase of 125% over the same period in 2013. This increase resulted from the amortization of Version 11 that was released late in 2013. The gross margin percentage on software licenses was (1%) in the first six months of 2014 and 45% in the first six months of 2013. The decrease in gross margin is a reflection of the increased amortization, partially offset by an increase in license revenue.

Cost of services and maintenance decreased 7% to $5,822,000 in the first six months of 2014 from $6,290,000 in the first six months of 2013. The decrease in cost of service and maintenance is attributed primarily to decreases in headcount in all regions, travel expenses and a decrease in the use of outside consultants in the U.S. and European locations. The services and maintenance gross margin percentage increased to 31% in the first six months of 2014 compared to 27% in the first six months of 2013. This is mainly due to reduction in headcount.

Gross Profit

Gross profit decreased 9% to $2,647,000 in the first six months of 2014 from $2,915,000 in the first six months of 2013. As a percentage of revenue, gross profit was 26% in the first six months of 2014 compared to 29% in the first six months of 2013. The year-over-year decrease in gross profit was largely driven by amortization of Version 11.0, which is included in the cost of license fees. In addition, while significant services were provided for the implementation of new hosted customers, all related revenue was deferred until go-live. However, the underlying costs are reported as expense when incurred.

Operating Expenses

Product Development

Product development expense increased 20% to $721,000 in the first six months of 2014 from $600,000 in the first six months of 2013. The increase was mainly attributable to a decrease in development costs which were capitalized in the first six months of 2014 compared to the same quarter in 2013. In 2013, the Company focused on completing Version 11 of its Alliance software which was released in late 2013. This effort took significant time and effort and the costs attributable to this effort where capitalized which lowered the product development cost in 2013. Fluctuations in product development expense from period to period can vary due to the amount of development expense which is capitalized. Software development costs of $1,275,000 were capitalized in the first six months of 2014 compared to $1,822,000 during the same period in 2013, a reduction of $547,000. Gross development expense was $1,996,000 during the first six months of 2014, a reduction of 18%, compared to $2,422,000 for the same period in 2013. The decrease was due to lower headcount to be more in line with the size and needs of the Company. Product development as a percentage of revenues was 7% in the first six months of 2014 compared with 6% in the first six months of 2013. The increase in costs relative to revenues is due to the increase in product development expense offset by a slight increase in revenues.

Sales and Marketing

Sales and marketing expense decreased 7% to $2,085,000 in the first six months of 2014 from $2,232,000 in the first six months of 2013. The decrease in sales and marketing expense is attributable to reduced recruiting costs and lower headcount offset by a slight increase in marketing costs. The Company continues to focus on expanding its market presence through intensified marketing efforts to increase awareness of the Company's products, including its newest product, SaaS and its subscription services. This occurs through the use of Webinars focused in the vertical industries in which the Company operates, attendance at selected trade shows, and increased efforts in lead generation for its sales force. As a percentage of revenues, sales and marketing expenses was 21% in the first six months of 2014 compared with 22% in the first six months of 2013. The decrease in costs relative to revenues is due to higher revenues in the first six months of 2014 and decrease in sales costs.

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 4% to $1,755,000 in the first six months of 2014 from $1,826,000 in the first six months of 2013. The decrease is primarily due to lower accounting fees due to timing, decreased rent expense and decreased bad debt expense, offset by an increase in the use of outside consultants and legal fees to help with the NASDAQ listing requirement and the conversion of Mr. Bergreen's line of credit to Series B Preferred Stock. As a percentage of revenues, general and administrative expenses were 17% for the six months ended June 30, 2014 and 18% in the first six months of 2013. The decrease in costs relative to revenues is due to higher revenues in the first six months of 2014 and decreased costs. The Company remains focused on reducing its operating costs to be more in line with the needs of the Company.

Restructuring

No restructuring charges were recorded in the first six months of 2014 compared to $182,000 for the same period in 2013. In June 2013, in order to reduce operating costs, the Company adopted a restructuring plan 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 in the first six months of 2013, the Company paid a one-time lease termination fee of $125,000, which allowed the Company to leave its lease obligation and save future rent expense by leasing less space. This resulted in a $5,000 reduction of the liability and the recognition of $62,000 related to termination benefits. As a percentage of revenues, restructuring was 2% for the six months ended June 30, 2013.

Interest Expense, net

Interest expense was $75,000 in the first six months of 2014 compared to $5,000 of interest expense in the first six months of 2013, offset by $2,000 of interest income. The Company has interest expense resulting from its line of credit with the CEO. The decrease in interest income resulted primarily from a decrease in investments. As of June 30, 2014 and 2013, the Company's investments consisted of mutual funds.

Income Tax Expense

The Company recorded income tax expense of $23,000 for the six months ended June 30, 2014 compared to $45,000 for the six months ended June 30, 2013. The reduction in tax expense resulted from a decrease in Israel's deferred taxes.

Net Loss

Net loss for the six months ended June 30, 2014 was $2,012,000 compared to a net loss of $1,973,000 for the six months ended June 30, 2013. The increase in the net loss of $39,000 is mainly related to the increase in amortization of capitalized software and decrease in FieldCentrix service and maintenance revenue partially offset by a decrease in operating costs of 6%.

Liquidity and Capital Resources

Operating Activities

The Company generated $889,000 of cash from operating activities in the first six months of 2014 compared to the use of $43,000 in cash for the first six months of 2013. The increase in operating cash flows of $932,000 was due to an increase in deferred revenue of $1,760,000, an increase in non-cash expenses of $896,000, an increase in prepaid expenses of $27,000 and an increase in other long-term assets of $16,000 offset by a decrease in accounts payable of $533,000, an increase in net loss of $39,000 and a decrease of $1,195,000 in accounts receivable.

Investing Activities

The Company used $1,321,000 for investing activities in the first six months of 2014 compared to using $1,820,000 in the first six months of 2013. The decrease in cash used for investing activities of $499,000 is principally attributable to decrease of $533,000 in capitalized software development costs, an increase in the sale of short term investments of $5,000 offset by an increase in capital expenditures of $33,000 and an increase in restricted cash of $6,000 compared to the first six months of 2013.

Financing Activities

The Company generated $564,000 in cash from financing activities in the first six months of 2014 compared to generating $1,432,000 in cash from financing activities in the first six months of 2013. Payments of preferred stock dividends of $150,000 occurred in both 2014 and 2013. In addition, the Company paid $126,000 in the first six months of 2014 compared to $18,000 in the first six months for deferred financing costs which will be amortized over the term of the line of credit. The Company drew down $400,000 from the line of credit from Mr. Bergreen during the first six months of 2014. In addition, the Company entered into a new line of credit with SVB, on which the Company drew down $690,000 in the first six months of 2014. A portion of the SVB borrowings was used to repay $250,000 outstanding under the line of credit from Mr. Bergreen.

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 inflow of $2,000 in 2014 compared to an outflow of $245,000 in the first six months of 2013.

At June 30, 2014, the Company had a working capital ratio of approximately .52:1 compared to .61:1 at December 31, 2013. The Company had $1,274,000 in cash and investments available for sale at June 30, 2014, compared to $1,145,000 at December 31, 2013.

The Company has projected revenues for 2014 that will generate enough funds to sustain its continuing operations. However, due to unanticipated delays in the signing of certain license agreements and the cash flow timing impact of the Company's planned conversion to a subscription-based business model, it was determined that the Company needed additional liquidity in the near term and as a result in June 2013 the Company entered into a line of credit with the CEO (Note 6) for a total of $3,000,000 and in June 2014 entered into a line of credit with Silicon Valley Bank for $3,000,000. As of June 30, 2014 the Company had borrowed $840,000 against the line of credit from its CEO and SVB. The Company was not in compliance with the earnings covenants of the SVB loan agreement as of June 30, 2014, based on the operating results for the quarter ended June 30, 2014. However, SVB provided a forbearance agreement which defers its right to exercise the default provisions of the line of credit until October 1, 2014. During the forbearance period, the Company has agreed to a reduction in the maximum revolving line of credit amount, which may not exceed $1,000,000. SVB shall have no further obligation to make any additional borrowings available to the Company or to provide any other extensions of credit during the forbearance period. However, the Company covenants and agrees that, if in the sole and absolute discretion of SVB, they make any Discretionary Financial Accommodation during the forbearance period, such act shall not constitute (i) a waiver of any of the existing covenant default, which may now exist or which may occur after the date of the forbearance agreement, or (ii) an agreement on the part of SVB to make any further extensions of credit of any kind to the Company at a later date. In addition, in August 2014, the line of credit capacity from the Company's Chief Executive Officer was reduced from $3,000,000 to $1,000,000. The $1,000,000 line of credit is available in the future if the Company fails to meet any future bank covenants under its line of credit with SVB.

The Company is currently working with SVB to re-define the financial covenants in the existing loan agreement which do not consider the revenue recognition and cash flow impact of the Company's hosting arrangements under which revenue cannot be recognized before the projects go live but which do provide current cash flows. Continued compliance with its covenants is dependent on the Company achieving certain earnings as of September 30 2014 and throughout the remaining term of the loan agreement. In the event the Company does not meet its financial covenants after October 1, 2014 and SVB does not extend a waiver or forbearance agreement, and the Company believes that it does not have adequate liquidity to operate, it will implement a cost cutting plan that reduces its expenditures to the appropriate level to be in line with its operating cash flows.

The Company does not plan any significant capital expenditures in 2014 other than to replace its existing capital equipment as it becomes obsolete.

Off-Balance Sheet Arrangements

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

Variability of Quarterly Results and Potential Risks Inherent in the Business

The Company's operations are subject to a number of risks, which are described in more detail in the Company's prior SEC filings, including in its Annual Report on Form 10-K for the fiscal year ended December 31, 2013. Risks which are peculiar to the Company on a quarterly basis, and which may vary from quarter to quarter, include but are not limited to the following:

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Interest Rate Risk. At June 30, 2014, the Company's debt consists of a line of credit with our Chief Executive Officer and Silicon Valley Bank ("SVB") . At December 31, 2013, we had no outstanding debt related to our credit facility with SVB, but the Company did have borrowings of $2,000,000 with our Chief Executive Officer under an existing revolving credit facility. Our new credit facility with SVB has a variable interest rate, which exposes us to interest rate risk.

Foreign Currency Risk. The Company does not use foreign currency forward exchange contracts or purchased currency options to hedge local currency cash flows or for trading purposes. All sales arrangements with international customers are denominated in foreign currency. For the six months ended June 30, 2014, approximately 35% of the Company's overall revenue resulted from sales to customers outside the United States. A 10% change in the value of the U.S. dollar relative to each of the currencies of the Company's non-U.S.-generated sales would not have resulted in a material change to its results of operations. The Company does not expect any material loss with respect to foreign currency risk.

Item 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15 as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. RISK FACTORS

Other than with respect to the risk factor below, there have been no material changes from the risk factors disclosed in the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the period ended December 31, 2013. The risk factor below was not disclosed on the Form 10-K and has been added to provide updated information as of June 30, 2014. In addition, the risk factors described in this report and in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company’s business, financial condition and/or operating results.

Under our loan agreement with Silicon Valley Bank ("SVB"), if we fail to meet certain earnings covenants, SVB may increase our interest rate, lower our borrowing base, refuse to grant us any additional borrowings in the future under the loan agreement or call the debt.

On June 13, 2014, the Company entered into a Loan and Security Agreement with SVB. The Loan Agreement established a revolving credit facility for the Company in the principal amount of up to $3,000,000. Availability under the Revolving Facility is tied to a borrowing base formula that is based on 80% of the Company's' eligible accounts receivable. Advances under the Revolving Facility may be repaid and reborrowed in accordance with the Loan Agreement. Interest will accrue on the unpaid principal balance of the borrowing at a floating per annum rate equal to the greater of: (i) 2.00% above the prime rate or (ii) 5.25%; provided, that, after the first anniversary of the effective date of the Loan Agreement and following the initial borrowing, the minimum interest amount due per month shall not be less than $4,500. During an event of default, the rate of interest may increase 3% above the otherwise applicable rate, until such event of default is cured or waived. All accrued and unpaid interest is payable monthly on the last calendar day of each month.

Subject to certain exceptions, the Loan Agreement contains covenants prohibiting the Company from, among other things: (a) conveying, selling, leasing, transferring or otherwise disposing of their properties or assets; (b) liquidating or dissolving; (c) engaging in any business other than the business currently engaged in or reasonably related thereto; (d) entering into any merger or consolidation, or acquiring all or substantially all of the capital stock or property of another entity; (e) becoming liable for any indebtedness; (f) allowing any lien or encumbrance on any of their property; and (g) paying any dividends; and (i) making payment on subordinated debt. Further, the Company must (i) achieve certain minimum positive net income targets through December 31, 2015; and (ii) maintain a minimum "adjusted quick ratio," tested as of the last day of each month, of at least 1.25:1.00. The adjusted quick ratio is the ratio of (a) the Company's consolidated, unrestricted cash plus net booked accounts receivable to (b) the Company's liabilities to SVB plus, without duplication, the aggregate amount of the Company's liabilities that mature within 1 year, minus the current portion of deferred revenue.

The Company did not meet one covenant as of June 30, 2014. Subsequent to June 30, 2014, the Company entered into a forbearance agreement with SVB, under which it would forebear from enforcing its remedies against the Company until October 1, 2014. There is no assurance that in the future that SVB will agree to grant a waiver or enter into a forbearance agreement with the Company. Continued compliance with its covenants is dependent on the Company achieving certain earnings as of September 30, 2014 and throughout the remaining term of the loan agreement. Market conditions have been difficult to predict and there is no assurance that in future periods the Company will achieve minimum positive net income targets in order to attain certain earnings covenants as currently defined in the loan agreement.

Item 6. EXHIBITS

31.1 Certification Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Executive Officer

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Financial Officer

SIGNATURES

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

ASTEA INTERNATIONAL INC.

Date: August 14, 2014

/s/Zack Bergreen
Zack Bergreen
Chief Executive Officer
(Principal Executive Officer)

Date: August 14, 2014

/s/Rick Etskovitz
Rick Etskovitz
Chief Financial Officer
(Principal Financial and Chief Accounting Officer)

EXHIBIT INDEX

No.	Description
31.1	Certification Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Executive Officer
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase