ASTEA INTERNATIONAL INC
Form 10-Q
November 13, 2008

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 September 30, 2008

or

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

For the transition period from to

Commission File Number: 0-26330

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

Delaware	23-2119058
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

240 Gibraltar Road, Horsham, PA	19044
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant 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 November 3, 2008, 3,596,185 shares of the registrant's Common Stock, par value $.01 per share, were outstanding.

1

ASTEA INTERNATIONAL INC.

FORM 10-Q
QUARTERLY REPORT
INDEX

		Page No.
Facing Sheet		1
Index		2
PART I - FINANCIAL INFORMATION		
Item 1.	Consolidated Financial Statements	
	Consolidated Balance Sheets	3
	Consolidated Statements of Operations (Unaudited)	4
	Consolidated Statements of Cash Flows (Unaudited)	5
	Notes to Unaudited Consolidated Financial Statements	6
	Consolidated Statement of Stockholders Equity	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	22
Item 4T.	Controls and Procedures	22
PART II - OTHER INFORMATION		
Item 1A	Risk Factors	23
Item 6.	Exhibits	24
	Signatures	25

PART I - FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

ASTEA INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,703,000	$ 1,615,000
Restricted cash	-	150,000
Receivables, net of reserves of $158,000 (unaudited) and $206,000	6,040,000	8,517,000
Prepaid expenses and other	341,000	416,000
Total current assets	10,084,000	10,698,000
Property and equipment, net	365,000	418,000
Intangibles, net	1,229,000	1,439,000
Capitalized software, net	2,776,000	3,238,000
Goodwill	1,538,000	1,540,000
Other long-term restricted cash	163,000	163,000
Other assets	56,000	64,000
	$ 16,211,000	$ 17,560,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,517,000	$ 3,632,000
Deferred revenues	5,963,000	6,743,000
Total current liabilities	9,480,000	10,375,000
Long-term liabilities:		
Deferred tax liability	108,000	77,000
Commitments		
Stockholders' equity:		
Convertible preferred stock, $.01 par value, 5,000,000 shares Authorized; issued and outstanding 826,000 and 0	8,000	-
Common stock $.01 par value, 25,000,000 shares Authorized; issued 3,596,000 (unaudited) and 3,596,000	36,000	36,000
Additional paid-in capital	30,957,000	27,852,000
Cumulative translation adjustment	(765,000)	(703,000)
Accumulated deficit	(23,405,000)	(19,869,000)
Less: treasury stock at cost, 42,000 shares	(208,000)	(208,000)
Total stockholders' equity	6,623,000	7,108,000

Total liabilities and stockholders’ equity	$ 16,211,000	$ 17,560,000

See accompanying notes to the consolidated financial statements.

ASTEA INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues:				
Software license fees	$ 141,000	$ 2,119,000	$ 1,994,000	$ 6,247,000
Services and maintenance	5,301,000	5,034,000	15,945,000	17,300,000
Total revenues	5,442,000	7,153,000	17,939,000	23,547,000
Costs and expenses:				
Cost of software license fees	706,000	861,000	2,166,000	1,967,000
Cost of services and maintenance	3,100,000	3,140,000	9,684,000	8,771,000
Product development	746,000	823,000	3,476,000	3,364,000
Sales and marketing	1,029,000	1,368,000	3,625,000	3,951,000
General and administrative	839,000	791,000	2,539,000	2,736,000
Total costs and expenses	6,420,000	6,983,000	21,490,000	20,789,000
(Loss) income from operations	(978,000)	170,000	(3,551,000)	2,758,000
Interest income, net	13,000	22,000	46,000	87,000
(Loss) income before income taxes	(965,000)	192,000	(3,505,000)	2,845,000
Income tax expense	11,000	-	31,000	-
Net (loss) income	$ (976,000)	$ 192,000	$ (3,536,000)	$ 2,845,000
Comprehensive (loss) income:				
Net (loss) income	$ (976,000)	$ 192,000	$ (3,536,000)	$ 2,845,000
Cumulative translation adjustment	(75,000)	41,000	(62,000)	86,000
Comprehensive (loss) income	$ (1,051,000)	$ 233,000	$ (3,598,000)	$ 2,931,000
Basic (loss) income per share	$ (0.27)	$ 0.05	$ (0.99)	$ 0.80
Diluted (loss) income per share	$ (0.27)	$ 0.05	$ (0.99)	$ 0.80
Shares outstanding used in computing basic (loss) income per share	3,554,000	3,549,000	3,554,000	3,549,000
Shares outstanding used in computing diluted (loss) income per share	3,554,000	3,551,000	3,554,000	3,559,000

See accompanying notes to the consolidated financial statements.

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

	For the Nine Months Ended September 30, 2008	2007
Cash flows from operating activities:		
Net (loss) income	$ (3,536,000)	$ 2,845,000
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	2,504,000	2,149,000
Increase (decrease) in allowance for doubtful accounts	(60,000)	182,000
Stock based compensation	219,000	419,000
Deferred tax expense	31,000	-
Changes in operating assets and liabilities:		
Receivables	2,504,000	(643,000)
Prepaid expenses and other	127,000	-
Accounts payable and accrued expenses	(144,000)	106,000
Deferred revenues	(797,000)	(4,194,000)
Other assets	8,000	5,000
Net cash provided by operating activities	856,000	869,000
Cash flows from investing activities:		
Purchase of short term investments	-	(500,000)
Sale of short term investments	-	500,000
Purchases of property and equipment	(234,000)	(153,000)
Capitalized software development costs	(1,544,000)	(1,450,000)
Earnout payment	-	(287,000)
Net cash used in investing activities	(1,778,000)	(1,890,000)
Cash flows provided by financing activities		
Issuance costs of preferred stock	(106,000)	
Proceeds from preferred stock	3,000,000	-
Release of restricted cash	150,000	75,000
Net cash provided by financing activities	3,044,000	75,000
Effect of exchange rate changes on cash	(34,000)	(74,000)
Net increase (decrease) in cash and cash equivalents	2,088,000	(1,020,000)
Cash and cash equivalents, beginning of period	1,615,000	3,120,000
Cash and cash equivalents, end of period	$ 3,703,000	$ 2,100,000
Supplemental disclosure for non-cash operating and investing activities:		
Adjustment to earnout provision related to previous agreement	$ 2,000	$ -

See accompanying notes to the consolidated financial statements.

5

8

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

Item 1. CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Common Stock	Convertible Preferred Stock	Additional Paid-in Capital	Accumulated Compre-hensive Loss	Accumulated Deficit	Treasury Stock	Total Stock-holders' Equity	Compre-hensive Income (loss)
Balance, December 31, 2006	$ 36,000	$ -	$ 27,532,000	$ (911,000)	$ (22,634,000)	$ (208,000)	$ 3,815,000	
Exercise of stock options			15,000				15,000	
Stock-based compensation			305,000				305,000	
Purchase preferred stock								
Issuance cost of preferred stock								
Currency translation adjustment				208,000			208,000	208,000
Net loss					2,765,000		2,765,000	2,765,000
Balance, December 31, 2007	36,000	-	27,852,000	(703,000)	(19,869,000)	(208,000)	7,108,000	$ 2,973,000
Stock-based compensation			219,000				219,000	
Issue convertible preferred stock		8,000	2,992,000				3,000,000	
Issuance cost of preferred stock			(106,000)				(106,000)	
Currency translation adjustment				(62,000)			(62,000)	(62,000)
Net loss					(3,536,000)		(3,536,000)	(3,536,000)
Balance, September 30, 2008	$ 36,000	$ 8,000	$ 30,957,000	$ (765,000)	$ (23,405,000)	$ (208,000)	$ 6,623,000	$ (3,598,800)

1. BASIS OF PRESENTATION

The consolidated financial statements at September 30, 2008 and for the three and nine month periods ended September 30, 2008 and 2007 of Astea International Inc. and subsidiaries (“Astea” or the "Company") are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The following unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto, included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2007. The interim financial information presented herein is not necessarily indicative of results expected for the entire year ended December 31, 2008.

2. RECENT ACCOUNTING STANDARDS OR ACCOUNTING PRONOUNCEMENTS

In April 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 142-3, "Determination of Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). The intent of this FSP is to improve the consistency between the useful life of an intangible asset determined under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R. FSP 142-3 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently evaluating the impact of adopting FSP 142-3 on the financial statements.

In March 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS No. 161"), Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 ("SFAS No.161"), which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. SFAS No. 161 is effective for us beginning January 1, 2009. We are currently assessing the potential impact, if any, that adoption of SFAS No. 161 may have on our financial statements.

In May 2008, the FASB issued Financial Accounting Standard ("FAS") No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("FAS 162"). FAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. FAS 162 is effective sixty days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". We are currently assessing the potential impact, if any, that the adoption of FAS 162 may have on our financial statements.

3. INCOME TAX

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income taxes – an interpretation of FASB Statement 109" ("FIN 48"), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, "Accounting for Income Taxes," and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim period, disclosure and transition.

The Company has identified its federal tax return and its state returns in Pennsylvania and California as "major" tax jurisdictions, as defined. 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 2002 through 2007, 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. Accordingly, the Company did not record a cumulative effect adjustment related to the adoption of FIN 48.

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 third quarter 2008, there were no interest or penalties related to the settlement of audits.

At September 30, 2008, the Company maintained a 100% valuation allowance for its remaining deferred tax assets, based on the uncertainty of the realization of future taxable income.

4. STOCK BASED COMPENSATION

On January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R), "Share Based Payments," using the modified prospective transition method. Under this method, compensation costs recognized include (a) compensation costs for all share-based payments granted to employees and directors prior to, but not yet vested as of January 1, 2006, based on the grant date value estimated in accordance with the original provisions of FAS 123 and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions

of FAS 123(R).

The Company estimates the fair value of stock options granted using the Black-Scholes-Merton 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

7

regarding similar awards, giving consideration to the contractual terms of the share-based awards and employee termination data and guidance provided by the SEC's Staff Accounting Bulletin 107 ("SAB 107"). Executive level employees who hold a majority of options outstanding, and non-executive level employees were each found to 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 in accordance with the guidance provided by SAB 107 to place exclusive reliance on historical volatilities to estimate our stock volatility over the expected term of its awards. The Company has historically not paid dividends and has no foreseeable plans to issue dividends. The risk-free interest rate is based on the yield from the U.S. Treasury zero-coupon bonds with an equivalent term.

As of September 30, 2008, the total unrecognized compensation cost related to non-vested options amounted to $554,000, which is expected to be recognized over the options' average remaining vesting period of 1.51 years. No income tax benefit was realized by the Company in the three and nine months ended September 30, 2008.

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 estimated on the date of grant using the Black-Scholes option valuation model and the following weighted average assumptions for the quarters and nine month periods ended September 30, 2008 and 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Risk free interest rate	-	4.74%	2.26%	4.67%
Expected life (in years)	-	6.15	3.87	5.91
Volatility	-	101%	87%	103%
Expected dividends	-	-	-	-

The weighted-average fair value of options granted during the nine months ended September 30, 2008 and 2007 is estimated at $4.10 and $4.40 respectively. No options were granted for the three months ended September 30, 2008. For the three months ended September 30, 2007, the weighted-average fair value of options granted is estimated to be $3.60.

Activity under the Company's stock option plans for the nine months ended September 30, 2008 is as follows:

	OPTIONS OUTSTANDING	
	Shares	Wtd. Avg. Exercise Price
Balance, December 31, 2007	484,000	$ 5.91
Authorized	-	-
Granted	25,000	4.10
Cancelled	(35,000)	6.97
Exercised	-	-
Expired	(17,000)	7.63
Balance, September 30, 2008	457,000	$ 5.66

The following table summarizes outstanding options that are vested and expected to vest and options under the Company's stock options plans as of September 30, 2008:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding Options	457,000	$5.66	7.24	$29,000
Ending Vested and Expected to Vest	346,000	$5.82	6.81	$29,000
Options Exercisable	206,000	$6.35	5.55	$29,000

5. EARNINGS PER SHARE

The Company follows SFAS 128 "Earnings Per Share" Under SFAS 128, companies that are publicly held or have complex capital structures are required to present basic and diluted earnings per share on the face of the statement of operations. Earnings per share are based on the weighted average number of shares and common stock equivalents outstanding during the period. In the calculation of diluted earnings per share, shares outstanding are adjusted to assume conversion of the Company's convertible preferred stock and exercise of options as if they were dilutive. In the calculation of basic earnings per share, weighted average numbers of shares outstanding are used as the denominator. The Company had a net loss available to the common shareholders for the three months ended September 30, 2008 and net income for the three months ended September 30, 2007. The Company had a net loss available to the common shareholders for the nine months ended September 30, 2008 and net income for the nine months ended September 30, 2007. (Loss) income per share is computed as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Numerator:				
Net (loss) income available to common shareholders	$ (976,000)	$ 192,000	$ (3,536,000)	$ 2,845,000
Denominator:				
Weighted average shares used to compute net (loss) income available to common shareholders per common share-basic	3,554,000	3,549,000	3,554,000	3,549,000
Effect of dilutive stock options	-	2,000	-	20,000
Weighted average shares used to compute net (loss) income available to common shareholders per common share-dilutive	3,554,000	3,551,000	3,554,000	3,551,000
Basic net (loss) income per share to common Shareholder	$ (.27)	$ .05	$ (0.99)	$ .35

Dilutive net (loss) income per share to common shareholder	$ (.27)	$ .05	$ (0.99)	$ .35

All options outstanding for the three and nine months ended September 30, 2008 to purchase shares of common stock and preferred stock convertible into common stock were excluded from the diluted loss per common share calculation as the inclusion of the options and the convertible preferred stock would have been antidilutive. For the three and nine months ended September 2007, the Company had net income. For the three months ended September 30, 2007 there were 1,906 net additional dilutive shares assumed to be converted at an average exercise price of $3.51 and for the nine months ended September 30, 2007 there were 9,797 net additional dilutive shares assumed to be converted at an average exercise price of $3.97.

6. MAJOR CUSTOMERS

For the three months ended September 30, 2008, one customer accounted for 16% of total revenues. For the three months ended September 30, 2007 one customer accounted for 12% of total revenue. For the first nine months of 2008, one customer accounted for 11% of total revenues, and during the same period of 2007 one customer accounted for 11% of total revenues. At September 30, 2008 two customers each accounted for 10% and 15% of accounts receivables respectively and for the same period in 2007 two customers accounted for more than 17% and 16% of accounts receivables respectively.

8. 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 licensing 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 September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenues:				
Software license fees				
United States				
Domestic	$ 141,000	$ 1,846,000	$ 1,663,000	$ 5,009,000
Export	-	-	-	-
Total United States software license fees	141,000	1,846,000	1,663,000	5,009,000
Europe	-	-	-	711,000
Asia Pacific	-	273,000	331,000	527,000
Total foreign software license fees	-	273,000	331,000	1,238,000
Total software license fees	$ 141,000	$ 2,119,000	$ 1,994,000	$ 6,247,000
Services and maintenance				
United States				
Domestic	$ 3,703,000	$ 3,264,000	$ 11,577,000	$ 10,833,000
Export	-	48,000	155,000	149,000
Total United States service and maintenance revenue	3,703,000	3,312,000	11,732,000	10,982,000
Europe	721,000	1,295,000	2,287,000	5,140,000
Asia Pacific	877,000	427,000	1,926,000	1,178,000
Total foreign service and maintenance revenue	1,598,000	1,722,000	4,213,000	6,318,000
Total service and maintenance revenue	5,301,000	5,034,000	15,945,000	17,300,000
Total revenue	$ 5,442,000	$ 7,153,000	$ 17,939,000	$ 23,547,000
Net (loss) income				
United States	$ (802,000)	$ (153,000)	$ (2,577,000)	$ 173,000
Europe	(445,000)	115,000	(1,315,000)	2,229,000
Asia Pacific	271,000	230,000	356,000	443,000
Net (loss) income	$ (976,000)	$ 192,000	$ (3,536,000)	$ 2,845,000

9. CONVERTIBLE PREFERRED STOCK

On September 24, 2008 the Company sold 826,446 shares of Series-A Convertible Preferred Stock (“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 preferred stock at an initial rate of 6% and shall be payable only when, as and if declared by the Company’s Board of Directors, quarterly in arrears.

The preferred stock may be converted into common stock at the initial rate of one share of common for each share of preferred stock. The holder has the right during the first six months following issuance to convert up to 40% of the shares purchased, except in the event of a change in control of the Company, at which time there is no limit. After six months there is no limit on the number of shares that may be converted.

The Company has the right to redeem, subject to board approval, up to 60% of the shares of preferred stock at its option during the first six months after issuance at a price equal to 110% of the purchase price plus all accrued and

unpaid dividends. The limitations on conversion and the redemption rights during this initial six-month period are not applicable in the event of certain change of control events. Commencing two years after issuance, the Company shall have certain rights to cause conversion of all of the shares of preferred stock then outstanding. Commencing four years after issuance, the Company may redeem, subject to board approval, all of the shares of 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 preferred stock would be entitled to receive had the redeemed preferred stock been converted immediately prior to the redemption.

In accordance with relevant accounting pronouncements, the Company recorded the preferred stock on the Company's consolidated balance sheet within Stockholders' Equity. In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 68, "Increasing Rate Preferred Stock," the preferred stock is recorded on the consolidated balance sheet at the amount of net proceeds received less an imputed dividend cost. The imputed dividend cost of $218,000 was the result of the preferred stock having a dividend rate during the first two years after its issuance (6%) that is lower than the rate that becomes fixed (10%) after the initial two year period. The imputed dividend cost of $218,000 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.

10. RESTRICTED CASH

On September 11, 2002 the Company initially invested $300,000 in a certificate of deposit (CD), which was pledged as collateral on an outstanding letter of credit related to a lease obligation. The CD was classified as restricted cash on the balance sheet. According to the terms of the lease agreement, the letter of credit was reduced by $75,000 per year starting in November of 2005. In the fourth quarter of 2007, the lease agreement was renegotiated voiding the terms of the letter of credit and the need for the CD. During the three months ending September 2008, the letter of credit was terminated and the CD redeemed by the Company.

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, 2007.

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, the Netherlands and Israel. Since its inception in 1979, Astea has licensed applications to companies in a wide range of sectors including information technology, telecommunications, instruments and controls, business systems, and medical devices.

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

that improve profitability, stabilize cash-flows, and reduce operational costs through automating and integrating key service, sales and marketing processes.

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

FieldCentrix

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

Critical Accounting Policies and Estimates

The Company's significant accounting policies are more fully described in its Summary of Accounting Policies, Note 3, in the Company's 2007 Annual Report on Form 10-K for the fiscal year ended December 31, 2007. 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.

Revenue Recognition

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

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

Astea recognizes revenue on its software products in accordance with American Institute of Certified Public Accountants Statement of Position ("SOP") 97-2, Software Revenue Recognition, SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions, AICPA SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts; and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 104, Revenue Recognition.

Astea 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 collectibility 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 is required, revenues are deferred until customer acceptance has occurred.

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

13

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 residual value, after allocation of the fee to the undelivered elements based on vendor-specific objective evidence (“VSOE”) of fair value, is then allocated to the perpetual software license for the software products being sold. The proportion of the revenue recognized upon delivery can vary from quarter-to-quarter depending upon the determination of VSOE of the fair value of undelivered elements.

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.

Revenue from post-contract support is recognized ratably over the term of the contract, which is generally twelve months on a straight-line basis. Consulting and training service revenue is generally unbundled and recognized at the time the service is performed. 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.

For the three months ended September 30, 2008 and 2007, the Company recognized $5,442,000 and $7,153,000, respectively, of revenue related to software license fees and service and maintenance. For the nine months ended September 30, 2008 and 2007, the Company recognized $17,939,000 and $23,547,000, respectively of revenue related to software license fees and service and maintenance. Included in revenue for the nine months ended September 30, 2008 and 2007 was $802,000 and $3,882,000, respectively, for which the Company’s revenue recognition policy was met during this period.

Deferred Revenue

Deferred revenue includes amounts billed to or received from customers for which revenue has not been recognized. This generally results from post-contract support, software installation, consulting and training services not yet rendered or license revenue which has been deferred until all revenue requirements have been met or as services are performed. Unbilled receivables are established when revenue is deemed to be recognized based on the Company’s revenue recognition policy, but due to contractual restraints, the Company does not have the right to invoice the customer.

Accounts Receivable

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

Capitalized Software Research and Development Costs

The Company accounts for its internal software development costs in accordance with Statement of Financial

Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." The Company capitalizes software development costs subsequent to the establishment of technological feasibility through the product's availability for general release. Costs incurred prior to the

14

establishment of technological feasibility and subsequent to general release are charged to product development expense. Product development expense includes payroll, employee benefits, and other headcount-related costs associated with product development.

Software development costs are amortized on a product-by-product basis over the greater of the ratio of current revenues to total anticipated revenues or on a straight-line basis over the estimated useful lives of the products (usually two years), beginning with the initial release to customers. 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.

Goodwill

On September 21, 2005, the Company acquired the assets and certain liabilities of FieldCentrix, Inc. through its wholly-owned subsidiary, FC Acquisition Corp. Included in the allocation of the purchase price was goodwill valued at $1,100,000 at December 31, 2005. The Company tests goodwill for impairment annually during the first day of the fourth quarter of each fiscal year at the reporting unit level using a fair value approach, in accordance with the provision SFAS No. 142, Goodwill and Other Intangible Assets. If an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, goodwill will be evaluated for impairment between annual tests. For the three months ended September 30, 2008, there was no change in goodwill.

Earnings Per Share

The Company follows SFAS 128 “Earnings Per Share” Under SFAS 128, companies that are publicly held or have complex capital structures are required to present basic and diluted earnings per share on the face of the statement of operations. Earnings per share are based on the weighted average number of shares and common stock equivalents outstanding during the period. In the calculation of diluted earnings per share, shares outstanding are adjusted to assume conversion of the Company’s convertible preferred stock and exercise of options as if they were dilutive. In the calculation of basic earnings per share, weighted average numbers of shares outstanding are used as the denominator. The Company had a net loss available to the common shareholders for the three months ended September 30, 2008 and net income for the three months ended September 30, 2007. The Company had a net loss available to the common shareholders for the nine months ended September 30, 2008 and net income for the nine months ended September 30, 2007. (Loss) income per share is computed as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Numerator:				
Net (loss) income available to common shareholders	$ (976,000)	$ 192,000	$ (3,536,000)	$ 2,845,000
Denominator:				
Weighted average shares used to compute net (loss) income available to common shareholders per common share-basic	3,554,000	3,549,000	3,554,000	3,549,000
Effect of dilutive stock options	-	2,000	-	20,000
Weighted average shares used to compute net (loss) income available to common shareholders per	3,554,000	3,551,000	3,554,000	3,551,000

common share-dilutive								
Basic net (loss) income per share to common Shareholder	$	(.27)	$	.05	$	(0.99)	$	.35
Dilutive net (loss) income per share to common shareholder	$	(.27)	$	.05	$	(0.99)	$	.35

15

All options outstanding for the three and nine months ended September 30, 2008 to purchase shares of common stock were excluded from the diluted loss per common share calculation as the inclusion of these options would have been antidilutive. For the three and nine months ended September 2007, the Company had net income. For the three months ended September 30, 2007 there were 1,906 net additional dilutive shares assumed to be converted at an average exercise price of $3.51 and for the nine months ended September 30, 2007 there were 9,797 net additional dilutive shares assumed to be converted at an average exercise price of $3.97.

Convertible Preferred Stock

On September 24, 2008 the Company sold 826,446 shares of Series-A Convertible Preferred Stock ("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 preferred stock at an initial rate of 6% and shall be payable only when, as and if declared by the Company's Board of Directors, quarterly in arrears.

The preferred stock may be converted into common stock at the initial rate of one share of common for each share of preferred stock. The holder has the right during the first six months following issuance to convert up to 40% of the shares purchased, except in the event of a change in control of the Company, at which time there is no limit. After six months there is no limit on the number of shares that may be converted.

The Company has the right to redeem, subject to board approval, up to 60% of the shares of preferred stock at its option during the first six months after issuance at a price equal to 110% of the purchase price plus all accrued and unpaid dividends. The limitations on conversion and the redemption rights during this initial six-month period are not applicable in the event of certain change of control events. Commencing two years after issuance, the Company shall have certain rights to cause conversion of all of the shares of preferred stock then outstanding. Commencing four years after issuance, the Company may redeem, subject to board approval, all of the shares of 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 preferred stock would be entitled to receive had the redeemed preferred stock been converted immediately prior to the redemption.

In accordance with relevant accounting pronouncements, the Company recorded the preferred stock on the Company's consolidated balance sheet within Stockholders' Equity. In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 68, "Increasing Rate Preferred Stock," the preferred stock is recorded on the consolidated balance sheet at the amount of net proceeds received less an imputed dividend cost. The imputed dividend cost of $218,000 was the result of the preferred stock having a dividend rate during the first two years after its issuance (6%) that is lower than the rate that becomes fixed (10%) after the initial two year period. The imputed dividend cost of $218,000 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.

Results of Operations

Comparison of Three Months Ended September 30, 2008 and 2007

Revenues

Revenues decreased $1,711,000 or 24%, to $5,442,000 for the three months ended September 30, 2008 from $7,153,000 for the three months ended September 30, 2007. Software license fee revenues decreased $1,978,000, or 93%, from the same period last year. Services and maintenance fees for the three months ended September 30, 2008 amounted to $5,301,000, a 5% increase from the same quarter in 2007.

The Company's international operations contributed $1,598,000 of revenues in the third quarter of 2008,

which is a 20% decrease compared to revenues generated during the third quarter of 2007. The Company's revenues from international operations amounted to 30% of the total revenue for the third quarter in 2008, compared to 28% of total revenues for the same quarter in 2007.

Software license fee revenues decreased 93% to $141,000 in the third quarter of 2008 from $2,119,000 in the third quarter of 2007. Astea Alliance license revenues decreased $1,839,000 or 98%, to $44,000 in the third quarter of 2008 from $1,883,000 in the third quarter of 2007. The decrease is attributable to a significant decline in license sales in all regions of the world in which the Company operates which is attributable to the economic slowdown affecting the entire world at this time. The Company sold $97,000 of software licenses from its FieldCentrix subsidiary, a decrease of 59% from the same quarter of 2007.

Services and maintenance revenues increased to $5,301,000 from $5,034,000 in the third quarter of 2007, an increase of 5%. Astea Alliance service and maintenance revenues increased by $518,000 or 15% compared to the third quarter of 2007. The increase resulted from increased demand for professional services in the U.S. and Asia Pacific. Service and maintenance revenue generated by FieldCentrix decreased by $188,000 or 14% from $1,352,000 to $1,164,000 during the same period in 2007. The decrease in revenue resulted from a decrease in both headcount as well as utilization in both implementations and pilot projects. In addition, DISPATCH-1 service and maintenance revenues decreased $63,000 to $81,000 from $144,000 in the prior year. The decline in service and maintenance revenue for DISPATCH-1 is expected as the Company discontinued development of DISPATCH-1 at the end of 1999.

Costs of Revenues

Cost of software license fees decreased 18% to $706,000 in the third quarter of 2008 from $861,000 in the third quarter of 2007. Included in the cost of software license fees are the fixed cost of capitalized software amortization, amortization of software acquired from FieldCentrix and any third party software embedded in the Company's software licenses sold to customers. The principal cause of the decrease in cost of revenues is lower third party costs due to a decline in license revenue. Partially offsetting the reduced third party software costs is a slight increase in the amortization of capitalized software development costs related to both Astea Alliance and the FieldCentrix software. Amortization of capitalized software development costs was $664,000 for the quarter ended September 30, 2008 compared to $650,000 for the same quarter in 2007. The software license gross margin percentage was (401%) in the third quarter of 2008 compared to 59% in the third quarter of 2007. The dramatic decline in license margin resulted primarily from the significant decrease in license revenues and the significant amount of amortization of capitalized software costs, which is not impacted by the volume of license sales.

Cost of services and maintenance decreased 1% to $3,100,000 in the third quarter of 2008 from $3,140,000 in the third quarter of 2007 The decrease in cost of service is due to a slight decrease in headcount compared to the same quarter in 2007. The services and maintenance gross margin percentage was 42% in the third quarter of 2008 compared to 38% in the third quarter of 2007. The increase in services and maintenance gross margin was primarily due to the increase in billable projects and decrease in expense.

Product Development

Product development expense decreased 9% to $746,000 in the third quarter of 2008 from $823,000 in the third quarter of 2007. The decrease results from a decrease in headcount of 14% from the same quarter in 2007. The Company excludes the capitalization of software costs from product development. Development costs of $757,000 were capitalized in the third quarter of 2008 compared to $527,000 during the same period in 2007. The increase in capitalized software development costs results from the completion of a new FieldCentrix software release at the end of the quarter and work on a new version of Astea Alliance. Gross product development expense was $1,503,000 in the quarter which is 11% more than the same quarter in 2007. The principal reason for the cost increase is due to the unfavorable exchange rate increase of the Israeli shekel compared to the U.S. Dollar. Israel is the home of the Astea Alliance development staff. Product development expense as a percentage of revenues increased slightly to 14% in the third quarter of 2008 compared with 12% in the third quarter of 2007. The increase in costs relative to revenues is due to the overall decrease in revenues compared to the same quarter in 2007.

Sales and Marketing

Sales and marketing expense decreased 25% to $1,029,000 in the third quarter of 2008 from $1,368,000 in the third quarter of 2007. The decrease in sales and marketing is attributable to a reduction in sales commission due to lower license sales, and costs incurred in 2007 that were not repeated in 2008, consisting of a customer dispute, and higher

recruiting costs. As a percentage of revenues, sales and marketing expenses remained at 19% in 2008 the same as in the third quarter of 2007.

General and Administrative

General and administrative expenses increased 6% to $839,000 during the third quarter of 2008 from $791,000 in the third quarter of 2007. The increase in general and administrative expenses is principally attributable to costs associated with outside consultants. As a percentage of revenue, general and administrative expenses increased to 15% in the third quarter of 2008 from 11% in the third quarter of 2007.

Interest Income, Net

Net interest income decreased $9,000 to $13,000 in the third quarter of 2008 from the third quarter of 2007. The decrease resulted primarily from a decline in interest rates.

Income Tax Expense

The Company recorded a provision of $11,000 for the three months ended September 30, 2008 compared to $0 for the same period in 2007 for income taxes which resulted from a difference between an indefinite-lived asset, goodwill, which is amortized for tax, but not amortized for financial purposes.

International Operations

Total revenue from the Company’s international operations decreased by 20% during the third quarter of 2008 to $1,598,000 compared to $1,995,000 for the third quarter of 2007. The decrease in revenue from international operations was primarily attributable to a decrease in license revenue in Europe. International operations generated a net loss of $167,000 for the third quarter ended September 30, 2008 compared to a net profit of $345,000 in the same period in 2007.

Net (Loss) Income

Net loss for the three months ended September 30, 2008 was $976,000 compared to net income of $192,000 for the three months ended September 30, 2007. The decline results from a decrease in revenues of $1,711,000 partially offset by a decrease in expenses of $563,000 during the three months ended September 30, 2008 compared to the same period in 2007.

Comparison of Nine Months Ended September 30, 2008 and 2007

Revenues

For the nine months ended September 30, 2008, the Company recognized $802,000 in licenses and service and maintenance fees from contracts that previously did not meet the Company’s revenue recognition policy. For the nine months ended September 30, 2007, the Company recognized $3,882,000 in license and service and maintenance revenues from contracts that previously did not meet the Company’s revenue recognition policy. All costs related to generating these revenues were expensed in the periods in which they were incurred. The results from operations for the periods include all of the revenue discussed, but no related costs. Therefore, the gross profit on revenue in these periods may appear higher than other periods. Such operating results are not typical for the Company and are not expect to recur.

Revenues decreased $5,608,000, or 24%, to $17,939,000 for the nine months ended September 30, 2008 from $23,547,000 for the nine months ended September 30, 2007. The decrease in revenues is principally the net result of recognizing $3,882,000 of revenue in the nine months ended September 2007 from sales which had been deferred in 2004, 2005 and 2006 due to undelivered elements contained in the original contract which were delivered in that period. In addition, deteriorating worldwide economic conditions have resulted in a

decrease in license revenue of $3,121,000 excluding the impact of recognizing revenues previously deferred due to undeliverable elements. Partially offsetting this decrease was the recognition of $802,000 in license, service and maintenance revenues in the nine months ended September 30, 2008 that had been deferred from a contract in the third quarter of 2007 due to a

specific upgrade right contained in an implementation agreement. The recognition of previously deferred revenues includes license revenue of $674,000 in the nine months ended September 30, 2008 and $1,806,000 in the nine months ended September 30, 2007. The remainder of the recognized revenue that had previously been deferred consists of service and maintenance revenue. Also contributing to the reduction in revenues is the impact of worldwide economic conditions on reducing demand for making buying decisions.

Software license fee revenues decreased $4,253,000, or 68%, from the same period last year. Services and maintenance revenues for the nine months ended September 30, 2008 amounted to $15,945,000, an 8% decrease from the same period in 2007. Excluding the recognition of $2,076,000 of previously deferred service and maintenance revenue in the first nine months of 2007, service and maintenance revenue increased 4%.

The Company's international operations contributed $4,544,000 of revenues in the first nine months of 2008 compared to $7,556,000 in the first nine months of 2007. This represents a 40% decrease from the same period last year and 25% of total Company revenues in the first nine months of 2008.

Software license revenues decreased 68% to $1,994,000 in the first nine months of 2008 from $6,247,000 in the first nine months of 2007. Astea Alliance license revenues decreased $3,593,000 to $1,476,000 or 71% in the first nine months of 2008 from $5,069,000 in the first nine months of 2007. The decrease in Astea Alliance license revenue includes the recognition of $1,806,000 offset by $674,000 of license revenue recognized in 2008 that had previously been deferred. The majority of the reduction in license sales in 2008 compared to 2007 results from reduced demand from customers for new software which is reflected in most businesses' results over this year. In addition revenue from the FieldCentrix subsidiary decreased by $583,000 or 53% to $518,000. The decline in revenue is due to a large sale in 2007 to one customer that was not repeated in 2008. There were no sales of DISPATCH-1during the first nine months of 2008 compared to sales of $77,000 of DISPATCH-1 licenses to existing customers during the first nine months of 2007.

Services and maintenance revenues decreased 8% to $15,945,000 in the first nine months of 2008 from $17,300,000 in the first nine months of 2007. Astea Alliance service and maintenance revenue was $11,913,000, a decrease of 8%, or $979,000 over the nine months ended September 30, 2007. The decrease in Astea Alliance service and maintenance revenues is the result of recognizing $2,076,000 in service and maintenance revenue in the first nine months of 2007 that had been deferred from the years 2006, 2005 and 2004 offset by $128,000 of revenue recognized in 2007 which had been deferred from previous years. Excluding that revenue, service and maintenance revenue from Astea Alliance increased by $969,000 or 9%. There was a decrease of 4% or $143,000 of service and maintenance revenue from FieldCentrix in the first nine months of 2008 compared to $3,887,000 in the first nine months of 2007. DISPATCH-1 service and maintenance revenue decreased by $233,000 to $288,000 from $521,000 in the prior year. The decline in service and maintenance revenue for DISPATCH-1 was expected as the Company discontinued development of DISPATCH-1 at the end of 1999.

Costs of Revenues

Cost of software license fees increased 10% to $2,166,000 in the first nine months of 2008 from $1,967,000 in the first nine months of 2007. Included in the cost of software license fees is the fixed cost of capitalized software amortization. The principal cause of the increase is the additional amortization of capitalized software in 2008 is due to the release of version 8.0 in the first quarter of 2007 which was only amortized for two quarters in 2007 compared to three quarters in 2008. The software licenses gross margin percentage was (9%) in the first nine months of 2008 compared to 69% in the first nine months of 2007. The decrease in gross margin was attributable to a decrease in license sales and an increase in a cost of sales.

Cost of services and maintenance increased 10% to $9,684,000 in the first nine months of 2008 from $8,771,000 in the first nine months of 2007. The increase in cost of services and maintenance is principally due to the increase in foreign currency costs of professional services in other parts of the world resulting from a weakening U.S. dollar. The services and maintenance gross margin percentage was 39% in the first nine

months of 2008 compared to 49% in the first nine months of 2007. Included in 2007 service and maintenance is $2,076,000 which was all recognized in 2007 resulting from a restatement with all related costs reported in the year incurred. This resulted in disproportionately high margins in the 2007 period and are not expected to reoccur.

Product Development

Product development expense increased 3% to $3,476,000 in the first nine months of 2008 from $3,364,000 in the first nine months of 2007. The increase results from the decrease in the value of the U.S. dollar compared to the Israeli shekel, which costs 16% more than the same period last year. Israel is the primary site for the Company's development. The Company excludes the capitalization of software costs in product development. Software development costs of $1,544,000 were capitalized in the first nine months of 2008 compared to $1,450,000 during the same period in 2007. The increase results from the continued effort of the Company for ongoing development of the next generation of Astea and FieldCentrix products. Gross development expense was $5,020,000 during the first nine months of 2008 compared to $4,814,000 during the same period in 2007. Product development as a percentage of revenues was 19% in the first nine months of 2008 compared with 14% in the first nine months of 2007. The increase in percentage of revenues is the result of decreased revenues in 2008.

Sales and Marketing

Sales and marketing expense decreased 8% to $3,625,000 in the first nine months of 2008 from $3,951,000 in the first nine months of 2007. The decrease in sales and marketing expense is primarily attributable to cost associated with a customer settlement in 2007. In addition, reduced license revenue for the first nine months of 2008 resulted in lower commission expense in 2008. As a percentage of revenues, sales and marketing expenses increased to 20% from 17% in the first nine months of 2007.

General and Administrative

General and administrative expenses decreased 7% to $2,539,000 in the first nine months of 2008 from $2,736,000 in the first nine months of 2007. The decrease in general and administrative expenses is principally attributable to a reimbursement of $112,000 in legal fees received from a settlement between the Company and a third party. As a percentage of revenues, general and administrative expenses increased to 14% from 12% in the first nine months of 2007. In addition, exchange gains of $119,000 which are included in general and administrative costs, were recognized during the first nine months of 2008 compared to a loss of $33,000 in 2007.

Interest Income, Net

Net interest income decreased $41,000 to $46,000 from $87,000 in the first nine months of 2008. The decrease resulted primarily from a decline in interest rates.

Income Tax Expense

The Company recorded a tax provision of $31,000 for the nine months ended September 30, 2008 compared to $0 for the same period in 2007 for income taxes which resulted from a difference between an indefinite-lived asset, goodwill, which is amortized for tax, but not amortized for financial purposes.

International Operations

Total revenue from the Company's international operations decreased by $3,002,000, or 40%, to $4,544,000 in the first nine months of 2008 compared to $7,556,000 in the first nine months in 2007. This represents 25% of total Company revenues in the first nine months of 2008. Total international revenues decreased 23% with the exclusion of the revenue recognized in 2007 from the U.K. customer that had been deferred from previous years. The decrease in revenues is due to the decrease in license and professional services in Europe and Asia Pacific. International operations generated a net loss of $959,000 for the first nine months ended September 30, 2008 compared to net profit of $2,672,000 in the same period in 2007.

Net (Loss) Income

Net loss for the nine months ended September 30, 2008 was $3,536,000 compared to net income of $2,845,000 for the nine months ended September 30, 2007. The decline in income of $6,381,000 is the direct result of a decrease in revenues of $5,608,000 or 24% of which $802,000 of previously deferred revenue was recognized in the first nine

months of 2008 and $3,882,000 was previously deferred and recognized in the first nine months of 2007 with no related costs and an increase in operating costs of 3%.

Liquidity and Capital Resources

Operating Activities

Net cash provided by operating activities was $856,000 for the nine months ended September 30, 2008 compared to cash provided by operations of $869,000 for the nine months ended September 30, 2007, a decline of $13,000. The decline results from a loss in 2008 which was $6,381,000 less than the income of 2007, a decrease in accounts payable and accrued expenses which used $250,000 more cash than in 2007, offset by increased collections of accounts receivable of $3,147,000, a decrease of $127,000 in prepaid expenses and a reduction in deferred revenue that was $3,397,000 less than the same time last year.

Investing Activities

The Company used $1,778,000 for investing activities in the first nine months of 2008 compared to using $1,890,000 in the first nine months of 2007, a decrease of cash used of $112,000. The decrease in cash used for investing activities is primarily attributable to completion of earnout payments to sellers of FieldCentrix in 2007. Partially offsetting these decreases were increases of $81,000 for the purchase of property and equipment and an additional $94,000 in capitalized software development costs in 2008 compared to the same period of 2007.

Financing Activities

The Company generated $3,044,000 from financing activities in the first nine months of 2008 compared to no cash in the same period of 2007. In September 2008, the Company issued $3,000,000 of no par cumulative convertible preferred stock against which there was $106,000 of related costs. In addition it borrowed funds on its revolving line of credit which was fully repaid during the quarter.

On May 23, 2007 the Company renewed its secured revolving line of credit with a bank to borrow up to $2.0 million. The line of credit is secured by accounts receivable. Interest is payable monthly based on the prime rate of interest charged by the bank. At September 30, 2008 the total outstanding loan under the line of credit agreement was $0. The maturity date on the line of credit is June 30, 2009.

At September 30, 2008, the Company had a working capital ratio of 1.06:1, with cash, cash equivalents and restricted cash of $3,703,000. The Company believes that it has adequate cash resources to make the investments necessary to maintain or improve its current position and to sustain its continuing operations for the next twelve months. The Board of Directors from time to time reviews the Company’s forecasted operations and financial condition to determine whether and when payment of a dividend or dividends is appropriate. The Company does not anticipate that its operations or financial condition will be affected materially by inflation.

Off Balance Sheet Arrangements

The Company is not involved in an any 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, 2007. Risks which are peculiar to the Company on a quarterly basis, and which may vary from

quarter to quarter, include but are not limited to the following:

- The Company's quarterly operating results have in the past varied and may in the future vary significantly depending on factors such as the size, timing and recognition of revenue from significant orders, the timing of

21

new product releases and product enhancements, and market acceptance of these new releases and enhancements, increases in operating expenses, and seasonality of its business.

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Interest Rate Risk. The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio. The Company does not have any derivative financial instruments in its portfolio. The Company places its investments in instruments that meet high credit quality standards. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. As of September 30, 2008, the Company's investments consisted of U.S. money market funds. The Company does not expect any material loss with respect to its investment portfolio. In addition, the Company does not believe that a 10% change in interest rates would have a significant effect on its interest income. The Company is also exposed to market risk for changes in interest rates as it affects the revolving line of credit. Interest is charged at the prime rate, which is subject to change. However, the Company has used the revolving line of credit sparingly.

Foreign Currency Risk. The Company does not use foreign currency forward exchange contracts or purchased currency options to hedge local currency cash flows or for trading purposes. All sales arrangements with international customers are denominated in foreign currency. For the three month period ended September 30, 2008, approximately 24% 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 4T. CONTROLS AND PROCEDURES

The Company's management team, under the supervision and with the participation of the Company's principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 ("Exchange Act"), as of the last day of the period covered by this report, September 30, 2008. The term disclosure controls and procedures means the Company's controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including the Company's principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that, because of the material weaknesses in the Company's internal control over financial reporting described below [need to describe material weaknesses below – nothing is described], the Company's disclosure controls and procedures were not effective as of September 30, 2008. To address the material

weaknesses in the Company's internal control over financial reporting described below, we performed additional manual procedures and analysis and other post-closing procedures in order to prepare the consolidated financial statements included in this report. As a result of these expanded procedures, the Company believes that the condensed consolidated financial statements contained in this report present fairly, in all material respects, our

financial condition, results of operations and cash flows for the periods covered thereby in conformity with generally accepted accounting principles in the United States ("GAAP").

Changes in Internal Control Over Financial Reporting

During the third quarter of 2008, the Company strengthened its internal controls over revenue recognition by engaging an independent consultant with significant experience in revenue recognition accounting for software, to review the Company's accounting for revenue recognition for the quarter.

Although our remediation efforts are underway, material weaknesses identified as of December 31, 2007 will not be considered remediated until new internal controls over financial reporting are fully implemented and operational for a period of time and are operating effectively.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect the Company's business, financial condition or future results. The risks described in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 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.

We will not pay any dividends on our common stock in the foreseeable future and may not be able to pay cash dividends on the Series A Convertible Preferred Stock.

We do not anticipate that we will pay any dividends on our common stock in the foreseeable future. We intend to retain any future earnings to fund operations and other corporate needs, and to fund required dividend payments on our Series A Convertible Preferred Stock.

We are required to pay approximately $45,000 in regular cash dividends on the 826,446 shares of currently outstanding preferred stock each quarter. However, the terms of the preferred stock permit us to defer dividend payments, which will accrue at a higher rate, to the extent that we do not have cash or financing available to us to cover the full quarterly dividend amount.

In addition, under Delaware law, cash dividends on capital stock may only be paid from "surplus" or, if there is no surplus, from the corporation's net profits for the then current or preceding fiscal year. Unless we operate profitably, our ability to pay cash dividends on the preferred stock would require the availability of adequate surplus, which is defined as the excess, if any, of our net assets (total assets less total liabilities) over our capital. Further, even if adequate surplus is available to pay cash dividends on the preferred stock, we may not have sufficient cash to pay such dividends.

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: November 13, 2008	/s/Zack Bergreen Zack Bergreen Chief Executive Officer (Principal Executive Officer)
Date: November 13, 2008	/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