

ANDREA ELECTRONICS CORP  
Form 10QSB  
May 14, 2004

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

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**FORM 10-QSB**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the quarterly period ended March 31, 2004

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-4324

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**ANDREA ELECTRONICS CORPORATION**

(Exact name of small business issuer as specified in its charter)

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**New York**  
(State or other jurisdiction of

**11-0482020**  
(I.R.S. employer

incorporation or organization)

identification no.)

**45 Melville Park Road, Melville, New York**  
(Address of principal executive offices)

**11747**  
(Zip Code)

**Issuer's telephone number, including area code: 631-719-1800**

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Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 10, 2004, there are 47,929,616 common shares outstanding.

Transitional Small Business Disclosure format (check one) Yes  No

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**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES**

## CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2004  (unaudited)	December 31, 2003  (audited)
<b><u>ASSETS</u></b>		
Current Assets		
Cash and cash equivalents	\$ 1,788,196	\$ 1,725,041
Accounts receivable, net of allowance for doubtful accounts of \$41,404 and \$56,697, respectively	491,228	611,422
Note receivable		354,986
Inventories, net	1,133,501	1,301,791
Prepaid expenses and other current assets	249,601	181,018
	<hr/>	<hr/>
Total current assets	3,662,526	4,174,258
Property and equipment, net	186,748	219,182
Intangible assets, net	4,690,357	4,805,630
Other assets, net	265,135	268,090
	<hr/>	<hr/>
Total assets	\$ 8,804,766	\$ 9,467,160
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<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</u></b>		
Current Liabilities:		
Trade accounts payable	\$ 350,729	\$ 731,092
Current portion of long-term debt	11,405	16,527
Accrued restructuring charges		238,391
Deferred revenue	1,658,453	1,666,680
Other current liabilities	902,556	1,714,439
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Total current liabilities	2,923,143	4,367,129
Deferred revenue	304,841	713,284
Other liabilities	225,751	238,671
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Total liabilities	3,453,735	5,319,084
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Series C Redeemable Convertible Preferred Stock, net, \$.01 par value; authorized: 1,500 shares; issued and outstanding: 0 and 677 shares, respectively; liquidation value: \$0 and \$6,771,876, respectively		6,692,603
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Commitments and contingencies		
Shareholders' equity (deficiency):		

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Preferred stock, \$.01 par value; authorized: 3,747,500 and 4,997,500 shares, respectively; none issued and outstanding		
Series C Convertible Preferred Stock, net, \$.01 par value; authorized: 1,500 shares; issued and outstanding: 247 and 0 shares, respectively; liquidation value: \$2,471,256 and \$0, respectively		2
Series D Convertible Preferred Stock, net, \$.01 par value; authorized: 1,250,000 shares; issued and outstanding: 1,250,000 and 0 shares, respectively; liquidation value: \$1,250,000 and \$0 respectively		12,500
Common stock, \$.01 par value and \$.01 par value, respectively; authorized: 200,000,000 shares; issued and outstanding: 46,269,763 and 27,245,932 shares, respectively	462,697	272,459
Additional paid-in capital	75,024,762	65,578,653
Deferred stock compensation		(2,673)
Accumulated deficit	(70,148,930)	(68,392,966)
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Total shareholders' equity (deficiency)	5,351,031	(2,544,527)
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Total liabilities and shareholders' equity (deficiency)	\$ 8,804,766	\$ 9,467,160
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See Notes to Condensed Consolidated Financial Statements

## ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended	
	March 31, 2004	March 31, 2003
Revenues		
Product revenues	\$ 927,652	\$ 864,405
License revenues	416,670	416,670
	<u>1,344,322</u>	<u>1,281,075</u>
Sales returns recovery restructuring	215,325	
	<u>1,559,647</u>	<u>1,281,075</u>
Net revenues		
Cost of revenues	692,129	571,478
	<u>867,518</u>	<u>709,597</u>
Gross margin		
Research and development expenses	399,467	780,720
General, administrative and selling expenses	1,080,360	1,011,748
	<u>(612,309)</u>	<u>(1,082,871)</u>
Loss from operations		
Other income		
Interest income, net	1,350	27,997
Rent and miscellaneous income	77,472	5,117
	<u>78,822</u>	<u>33,114</u>
Other income		
Loss from continuing operations	(533,487)	(1,049,757)
Income from discontinued operations, net of \$0 tax		292,251
	<u>(533,487)</u>	<u>(757,506)</u>
Net loss		
Basic and diluted (loss) income per share:		
Numerator for (loss) income per share:		
Loss from continuing operations	\$ (533,487)	\$ (1,049,757)
Series C Redeemable Convertible Preferred Stock dividends	45,518	110,519
Series C Convertible Preferred Stock deemed dividend	469,465	
Series D Convertible Preferred Stock beneficial conversion feature	753,012	
	<u>(1,801,482)</u>	<u>(1,160,276)</u>
Loss from continuing operations attributable to common shareholders basic and diluted		
Income from discontinued operations, net of \$0 tax		292,251
	<u>\$ (1,801,482)</u>	<u>\$ (868,025)</u>
Net loss attributable to common shareholders basic and diluted		

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Denominator for (loss) income per share:

Basic and diluted weighted average shares	35,008,088	21,320,935
	<u>                    </u>	<u>                    </u>
Basic and diluted loss from continuing operations per share	\$ (.05)	\$ (.05)
Basic and diluted income from discontinued operations per share	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>
Basic and diluted net loss attributable to common shareholders per share	\$ (.05)	\$ (.04)
	<u>                    </u>	<u>                    </u>

See Notes to Condensed Consolidated Financial Statements.

## ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIENCY)

FOR THE THREE MONTHS ENDED MARCH 31, 2004

(UNAUDITED)

	Common									Total Shareholders (Deficiency) Equity
	Stock Shares Outstanding	Common Stock	Series C Convertible Preferred Stock Outstanding	Series C Convertible Preferred Stock	Series D Convertible Preferred Stock Outstanding	Series D Convertible Preferred Stock	Additional Paid-In Capital	Deferred Stock Compensation	Accumulated Deficit	
Balance, January 1, 2004	27,245,932	\$ 272,459		\$		\$	\$ 65,578,653	\$ (2,673)	\$ (68,392,966)	\$ (2,544,527)
Conversions of Series C Redeemable Convertible Preferred Stock by previous holders	1,862,086	18,621					540,005			558,626
Conversion of Series C Convertible Preferred Stock from temporary equity to permanent equity			629,187,593	6			6,219,639			6,219,645
Exchange of Series C Redeemable Convertible Preferred Stock	1,800,000	18,000	(46,300,000)	(1)			59,379			77,378
Conversions of Series C Convertible Preferred Stock after the change in ownership	15,361,645	153,616	(335,761,979)	(3)			407,523			561,136
Issuance of Series D Convertible Preferred Stock					1,250,000	12,500	1,237,500			1,250,000
Transaction costs in connection with the issuance of Series D Convertible Preferred Stock							(257,141)			(257,141)
Common Stock Warrants issued							62,221			62,221

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in connection with the conversion of the Series C Convertible Preferred Stock				
Amortization of Deferred Stock Compensation			2,673	2,673
Series C Redeemable Convertible Preferred Stock dividends			(45,518)	(45,518)
Non-cash Series C Convertible Preferred Stock deemed dividend			469,465	(469,465)
Non-cash charge attributable to Series D Convertible Preferred Stock Beneficial conversion			753,012	(753,012)
Issuance of Common Stock	100	1	24	25
Net loss				(533,487)
				(533,487)