

ANDREA ELECTRONICS CORP
Form 10QSB
August 15, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2005

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 1-4324

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 incorporation or organization)	11-0482020 (I.R.S. employer identification no.)
65 Orville Drive, Bohemia, New York (Address of principal executive offices)	11716 (Zip Code)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 No

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 10, 2005, there are 57,883,575 common shares outstanding.

Transitional Small Business Disclosure format (check one) Yes No

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30,	December 31,
	2005	2004
	(unaudited)	(audited)
	<u> </u>	<u> </u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 215,539	\$ 826,910
Accounts receivable, net of allowance for doubtful accounts of \$18,941 and \$23,630, respectively	417,038	689,130
Inventories, net	883,797	915,905
Prepaid expenses and other current assets	110,769	322,367
	<u> </u>	<u> </u>
Total current assets	1,627,143	2,754,312
Property and equipment, net	43,926	114,538
Intangible assets, net	4,115,038	4,345,346
Other assets, net	161,727	187,783
	<u> </u>	<u> </u>
Total assets	<u>\$ 5,947,834</u>	<u>\$ 7,401,979</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current Liabilities:		
Trade accounts payable	\$ 256,536	\$ 235,084
Deferred revenue	56,301	713,284
Short-term portion of capital lease	9,138	
Other current liabilities	409,830	580,220
	<u> </u>	<u> </u>
Total current liabilities	731,805	1,528,588
Capital lease	6,854	
Other liabilities		344,324
	<u> </u>	<u> </u>
Total liabilities	<u>738,659</u>	<u>1,872,912</u>
Commitments and contingencies		
Shareholders' equity		
Preferred stock, \$.01 par value; authorized: 2,497,500 shares; none issued and outstanding		
Series C Convertible Preferred Stock, net, \$.01 par value; authorized: 1,500 shares; issued and outstanding: 105.7 shares; liquidation value: \$2,471,256	1	1
	<u>13,286</u>	<u>13,286</u>

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Series D Convertible Preferred Stock, net, \$.01 par value; authorized: 2,500,000 shares; issued and outstanding: 1,328,572; liquidation value: \$1,328,572		
Common stock, \$.01 par value; authorized: 200,000,000 shares; issued and outstanding: 57,883,575	578,836	578,836
Additional paid-in capital	76,241,536	76,241,536
Deferred stock compensation		(10,000)
Accumulated deficit	(71,624,484)	(71,294,592)
Total shareholders' equity	<u>5,209,175</u>	<u>5,529,067</u>
Total liabilities and shareholders' equity	<u>\$ 5,947,834</u>	<u>\$ 7,401,979</u>

See Notes to Condensed Consolidated Financial Statements.

ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Revenues				
Net Product revenues	\$ 786,479	\$ 872,567	\$ 1,619,645	\$ 1,800,219
License revenues	248,540	416,670	656,983	833,340
Revenues	1,035,019	1,289,237	2,276,628	2,633,559
Sales returns recovery restructuring				215,325
Net revenues	1,035,019	1,289,237	2,276,628	2,848,884
Cost of revenues	411,970	586,458	874,956	1,278,587
Gross margin	623,049	702,779	1,401,672	1,570,297
Research and development expenses	166,879	365,303	371,203	764,770
General, administrative and selling expenses	548,801	787,592	1,309,571	1,867,952
Loss from operations	(92,631)	(450,116)	(279,102)	(1,062,425)
Other (expense) income				
Interest (expense) income, net	(204)	1,138	2,049	2,488
Loss on disposal of property and equipment, net			(52,839)	
Rent and miscellaneous income		33,491		110,963
Other (expense) income	(204)	34,629	(50,790)	113,451
Net loss	\$ (92,835)	\$ (415,487)	\$ (329,892)	\$ (948,974)
Basic and diluted loss per share:				
Numerator for loss per share:				
Net loss	\$ (92,835)	\$ (415,487)	\$ (329,892)	\$ (948,974)
Series C Redeemable Convertible Preferred Stock dividends				45,518
Series C Convertible Preferred Stock deemed dividend				469,465
Series D Convertible Preferred Stock beneficial conversion feature				753,012
Net loss attributable to common shareholders basic and diluted	\$ (92,835)	\$ (415,487)	\$ (329,892)	\$ (2,216,969)
Denominator for loss per share:				
Basic and diluted weighted average shares	57,883,575	48,003,703	57,883,575	41,505,896
Basic and diluted net loss attributable to common shareholders per share	\$ (.00)	\$ (.01)	\$ (.01)	\$ (.05)

See Notes to Condensed Consolidated Financial Statements.

ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2005

(UNAUDITED)

	Series C Convertible Preferred Stock Outstanding	Series C Convertible Preferred Stock	Series D Convertible Preferred Stock Outstanding	Series D Convertible Preferred Stock	Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Deferred Stock Compen- sation	Accumulated Deficit	Total Shareholders Equity
Balance, January 1, 2005	105,701,477	\$ 1	1,328,572	\$ 13,286	57,883,575	\$ 578,836	\$ 76,241,536	\$ (10,000)	\$ (71,294,592)	\$ 5,529,067
Amortization of Deferred Stock compensation								10,000		10,000
Net loss									(329,892)	(329,892)
Balance, June 30, 2005	105,701,477	\$ 1	1,328,572	\$ 13,286	57,883,575	\$ 578,836	\$ 76,241,536	\$	\$ (71,624,484)	\$ 5,209,175

See Notes to Condensed Consolidated Financial Statements.

ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended	
	June 30, 2005	June 30, 2004
Cash flows from operating activities:		
Net loss	\$ (329,892)	\$ (948,974)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	263,752	298,003
Non-cash stock compensation expense	10,000	7,673
Provision for bad debt	(4,689)	(31,908)
Inventory reserve	(192,977)	43,337
Loss on disposal of property and equipment, net	52,839	
Expense related to Common Stock Warrant issued in connection with the Series C Preferred Stock		62,221
Change in:		
Accounts receivable	276,	