

ANDREA ELECTRONICS CORP  
Form 10-Q  
August 14, 2018  
**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

## FORM 10-Q

(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, 2018

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 Registrant as Specified in its Charter)

New York  
State or other jurisdiction of  
incorporation or organization

11-0482020  
I.R.S. Employer Identification No.

620 Johnson Avenue Suite 1-B, Bohemia, NY  
(Address of Principal Executive Offices)

11716  
Zip Code

631-719-1800

\_\_\_\_\_  
Registrant's Telephone Number, Including Area Code

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). 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 9, 2018, there were 68,104,957 common shares outstanding.

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

|  | June 30,<br>2018<br><br>(unaudited) | December 31,<br>2017 |
|--|-------------------------------------|----------------------|
| <b><u>ASSETS</u></b>   |                                     |                      |
| Current assets:  |                                     |                      |
| Cash   | \$ 842,725                          | \$ 1,164,057         |
| Accounts receivable, net of allowance for doubtful accounts of \$4,793 and \$5,092, respectively   | 107,522                             | 260,946              |
| Inventories, net   | 125,497                             | 136,449              |
| Prepaid expenses and other current assets  | 206,791                             | 44,474               |
| Total current assets   | 1,282,535                           | 1,605,926            |
| Property and equipment, net  | 44,054                              | 60,333               |
| Intangible assets, net   | 279,779                             | 284,408              |
| Other assets, net  | 5,250                               | 5,250                |
| Total assets   | \$ 1,611,618                        | \$ 1,955,917         |
| <b><u>LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY</u></b>   |                                     |                      |
| Current liabilities:   |                                     |                      |
| Trade accounts payable and other current liabilities   | \$ 357,996                          | \$ 367,326           |
| Accrued Series C Preferred Stock Dividends   | 55,697                              | 55,697               |
| Total current liabilities  | 413,693                             | 423,023              |
| Long-term debt   | 1,419,022                           | 1,189,964            |
| Total liabilities  | 1,832,715                           | 1,612,987            |
| Series B Redeemable Convertible Preferred Stock, \$.01 par value; authorized: 1,000 shares; issued and outstanding: 0 shares                                   | -                                   | -                    |
| Commitments and contingencies  |                                     |                      |
| Shareholders' (deficit) 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: 33.3 shares; liquidation value: \$333,269        | 1                                   | 1                    |
| Series D Convertible Preferred Stock, net, \$.01 par value; authorized: 2,500,000 shares; issued and outstanding: 907,144 shares; liquidation value: \$907,144 | 9,072                               | 9,072                |
| Common stock, \$.01 par value; authorized: 200,000,000 shares; issued and outstanding: 64,964,935 and 64,914,935 shares, respectively                          | 649,649                             | 649,149              |
| Additional paid-in capital   | 77,959,221                          | 77,931,051           |
| Accumulated deficit  | (78,839,040)                        | (78,246,343)         |
| Total shareholders' (deficit) equity   | (221,097)                           | 342,930              |
| Total liabilities and shareholders' (deficit) equity   | \$ 1,611,618                        | \$ 1,955,917         |
| See Notes to unaudited condensed consolidated interim 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,<br>2018           | June 30,<br>2017 | June 30,<br>2018         | June 30,<br>2017 |
| Revenues   |                            |                  |                          |                  |
| Net product revenues                                   | \$ 228,824                 | \$ 70,097        | \$ 483,214               | \$ 183,799       |
| License and service related revenues                   | 12,285                     | 22,697           | 34,440                   | 42,774           |
| Total revenues   | 241,109                    | 92,794           | 517,654                  | 226,573          |
| Cost of product revenues                               | 38,289                     | 25,936           | 116,167                  | 62,654           |
| Gross margin   | 202,820                    | 66,858           | 401,487                  | 163,919          |
| Patent Monetization expenses                           | 55,832                     | 3,610,023        | 95,879                   | 5,175,461        |
| Research and development expenses                      | 143,290                    | 203,062          | 296,668                  | 428,292          |
| General, administrative and selling expenses           | 253,963                    | 300,185          | 574,795                  | 655,685          |
| Operating loss   | (250,265)                  | (4,046,412)      | (565,855)                | (6,095,519)      |
| Interest expense, net                                  | (9,068)                    | (22,715)         | (24,979)                 | (29,910)         |
| Loss from operations before provision for income taxes | (259,333)                  | (4,069,127)      | (590,834)                | (6,125,429)      |
| Provision for income taxes                             | 729                        | 3,080            | 1,863                    | 6,780            |
| Net loss   | \$ (260,062)               | \$ (4,072,207)   | \$ (592,697)             | \$ (6,132,209)   |
| Basic and diluted weighted average shares              | 64,931,968                 | 64,914,935       | 64,923,499               | 64,914,935       |
| Basic and diluted net loss per share                   | \$ (.00)                   | \$ (.06)         | \$ (.01)                 | \$ (.09)         |

See Notes to unaudited condensed consolidated interim financial statements.

**ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' (DEFICIT) EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2018  
(UNAUDITED)**

|  | Series C<br>Convertible<br>Preferred<br>Stock<br>Outstanding | Series C<br>Convertible<br>Preferred<br>Stock | Series D<br>Convertible<br>Preferred<br>Stock<br>Outstanding | Series D<br>Convertible<br>Preferred<br>Stock | Common<br>Stock<br>Outstanding | Common<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Total<br>Shareholders'<br>(Deficit) Equity |
|--|--|---|--|---|--------------------------------|-----------------|----------------------------------|------------------------|--|
| Balance, January 1, 2018   | 33,326,899   | \$ 1  | 907,144  | \$ 9,072                                      | 64,914,935                     | \$ 649,149      | \$ 77,931,051                    | \$ (78,246,343)        | \$ 342,930                                 |
| Stock-based<br>Compensation Expense<br>related to Stock Option<br>Grants | -  | -   | -  | -   | -                              | -               | 26,670                           | -                      | 26,670                                     |
| Stock option exercises   | -  | -   | -  | -   | 50,000                         | 500             | 1,500                            | -                      | 2,000                                      |
| Net loss   | -  | -   | -  | -   | -                              | -               | -                                | (592,697)              | (592,697)                                  |
| Balance, June 30, 2018   | 33,326,899   | \$ 1  | 907,144  | \$ 9,072                                      | 64,964,935                     | \$ 649,649      | \$ 77,959,221                    | \$ (78,839,040)        | \$ (221,097)                               |

See Notes to unaudited condensed consolidated interim financial statements.

## ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

|   | For the Six Months Ended |                |
|---|--------------------------|----------------|
|   | June 30, 2018            | June 30, 2017  |
| Cash flows from operating activities:                                       |                          |                |
| Net loss  | \$ (592,697)             | \$ (6,132,209) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                          |                |
| Depreciation and amortization   | 46,658                   | 35,440         |
| Stock based compensation expense  | 26,670                   | 68,157         |
| Reserve for inventory obsolescence  | (6,635)                  | (66,985)       |
| Provision for income tax withholding  | 1,863                    | 6,780          |
| PIK interest, net   | 29,058                   | 35,984         |
| Change in:  |                          |                |
| Accounts receivable   | 151,561                  | 36,507         |
| Inventories   | 17,587                   | 88,610         |
| Prepaid expenses, other current assets and other assets                     | (162,317)                | (37,916)       |
| Trade accounts payable and other current liabilities                        | (9,330)                  | 2,738,422      |
| Net cash used in operating activities                                       | (497,582)                | (3,227,210)    |
| Cash flows from investing activities:                                       |                          |                |
| Purchases of property and equipment   | -                        | (10,330)       |
| Proceeds from repayments of note receivable                                 | -                        | 103,709        |
| Purchases of patents and trademarks   | (25,750)                 | (8,814)        |
| Net cash (used in) provided by investing activities                         | (25,750)                 | 84,565         |
| Cash flows from financing activities:                                       |                          |                |
| Proceeds from exercise of stock options                                     | 2,000                    | -              |
| Proceeds from long-term notes   | 200,000                  | 4,600,000      |
| Net cash provided by financing activities                                   | 202,000                  | 4,600,000      |
| Net (decrease) increase in cash   | (321,332)                | 1,457,355      |
| Cash, beginning of year   | 1,164,057                | 2,955,129      |
| Cash, end of period   | \$ 842,725               | \$ 4,412,484   |
| Supplemental disclosures of cash flow information:                          |                          |                |
| Cash paid for:  |                          |                |
| Income Taxes  | \$ 2,747                 | \$ 3,876       |
| See Notes to unaudited condensed consolidated interim financial statements. |                          |                |

**Note 1. Basis of Presentation**

**Basis of Presentation** - The accompanying unaudited condensed consolidated interim financial statements include the accounts of Andrea Electronics Corporation and its subsidiaries (“Andrea” or the “Company”). All intercompany balances and transactions have been eliminated in consolidation.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the December 31, 2017 balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for any other interim period or for the fiscal year.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2017 included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the Securities and Exchange Commission (the “SEC”) on March 26, 2018. The accounting policies used in preparing these unaudited condensed consolidated interim financial statements are consistent with those described in the December 31, 2017 audited consolidated financial statements.

**Liquidity** - The Company’s loss before income taxes was \$590,834 for the six months ended June 30, 2018, of which \$73,328 represents non-cash stock based compensation, depreciation and amortization expenses. Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-15, “Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (“ASU No. 2014-15”). ASU No. 2014-15 requires that management evaluate whether there are relevant conditions and events that, in the aggregate, raise substantial doubt about the entity’s ability to continue as a going concern and to meet its obligations as they become due within one year after the date that the financial statements are issued. Based upon the evaluation, management believes that there is not substantial doubt about the Company’s ability to continue as a going concern and to meet its obligations as they become due within the next twelve months from the date of the financial statement issuance. As part of the evaluation, management considered the Company’s cash balance of \$842,725 and its positive working capital of \$868,842 as of June 30, 2018 as well as the Company’s projected revenues and expenses for the next twelve months.

**Note 2. Summary of Significant Accounting Policies**

**Loss Per Share** - Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted loss adjusts basic loss earnings per share for the effects of convertible securities, stock options and other potentially dilutive financial instruments, only in the periods in which such effect is dilutive. Diluted loss per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method for the outstanding options, and the if-converted method for the outstanding convertible instruments. Under the treasury stock method, options are assumed to be exercised at the beginning of the period (or at the time of issuance, if later) and as if funds obtained thereby were used to purchase common stock at the average market price during the period. Under the if-converted method, outstanding convertible instruments are assumed to be converted into common stock at the beginning of the period (or at the time of issuance, if later). Securities that could potentially dilute basic earnings per share (“EPS”) in the future that were not included in the computation of the diluted EPS because to do so would have been anti-dilutive for the periods presented, consist of the following:

|   | For the Three Months Ended |               | For the Six Months Ended |               |
|---|----------------------------|---------------|--------------------------|---------------|
|   | June 30, 2018              | June 30, 2017 | June 30, 2018            | June 30, 2017 |
| Total potentially dilutive common shares as of:                             |                            |               |                          |               |
| Stock options to purchase common stock (Note 7)                             | 15,013,001                 | 17,329,820    | 15,013,001               | 17,329,820    |
| Series C Convertible Preferred Stock and related accrued dividends (Note 4) | 1,524,758                  | 1,524,758     | 1,524,758                | 1,524,758     |
| Series D Convertible Preferred Stock (Note 5)                               | 3,628,576                  | 3,628,576     | 3,628,576                | 3,628,576     |