ANDREA ELECTRONICS CORP
Form 10-K
March 29, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 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	**11-0482020**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**
620 Johnson Avenue Suite 1B, Bohemia, New York	**11716**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, par value $.01 per share

Title of class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one)

Large accelerated Filer	Accelerated filer	Emerging growth company
Non-accelerated Filer (Do not check if a smaller reporting company)	Smaller reporting 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

The aggregate market value of the voting and non-voting common equity held by non-affiliates was $3,738,100 based upon the closing price of $0.07 per share as quoted on the OTC Bulletin Board on June 29, 2018.

The number of shares outstanding of the registrant s Common Stock as of March 21, 2019, was 68,104,957.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

ITEM 1. BUSINESS

Overview

Andrea Electronics Corporation ("Andrea," "us," "we," "our") designs, develops and manufactures state-of-the-art digital microphone products and noise reduction software that facilitate natural language, human/machine interfaces. Our technologies eliminate unwanted background noise to enable the optimum performance of various speech-based and audio applications. We are incorporated under the laws of the State of New York and have been engaged in the electronic communications industry since 1934.

Andrea's products and technologies optimize the performance of speech-based applications and audio applications primarily in the following markets:

- Speech recognition applications;
- Communications; and
- Audio and video recording.

Andrea Digital Signal Processing ("DSP") Microphone and Audio Software Business – Our patented and patent-pending digital noise canceling technologies enable a speaker to be at a distance from the microphone (we refer to this capability as "far-field" microphone use) and free the speaker from having to use a close talking microphone. Our Digital Super Directional Array ("DSDA") and PureAudio microphone products convert sound received by an array of microphones into digital signals that are then processed to cancel background noise from the signal to be transmitted. These two adaptive technologies represent the core technologies within our portfolio of far-field technologies. In addition to DSDA and PureAudio, Andrea has developed and commercialized several other digital, far-field noise canceling technologies, including, among others, Andrea EchoStop, a high-quality acoustic echo canceller which enables speaker phone functionality with technology for canceling speaker feedback.

All of our digital, far-field microphone technologies are software-based and operate using either a dedicated DSP or a general purpose processor (for example, the Intel Pentium). The software, which may encompass one or all of our far-field noise canceling technologies, can be applied to improve the performance of a single microphone or multiple microphones. In addition, our digital, far-field, noise canceling technologies can be tailored to be used individually or combined depending on particular customer requirements.

We are currently marketing our far-field technologies at Original Equipment Manufacturers ("OEMs") that have new sophisticated voice applications that require new digital microphone performance. Our far-field, digital noise canceling technologies and related products comprise our Andrea DSP Microphone and Audio Software line of business. Net revenues from such technologies and products during the years ended December 31, 2018 and 2017 were approximately 100% and 14%, respectively, of our total revenues. We dedicate a significant amount of our marketing and research and development resources to this business segment, as we believe that voice interface products will increasingly require high performance, untethered (hands-free and headset-free) microphone technology.

Patent Monetization, Intellectual Property and Licensing – Our products and technologies are developed in part using our proprietary intellectual property, and we believe that the strength of our intellectual property rights will be important to the success of our business. We utilize patent and trade secret protection, confidentiality agreements with customers and partners, disclosure and invention assignment agreements with employees and consultants and other contractual provisions to protect our intellectual property and other proprietary information. We plan to license specific, custom designs to our customers, charging royalties at a fixed amount per product or a percentage of sales. More generally, we intend to vigorously defend and monetize our intellectual property through licensing arrangements and, where necessary, enforcement actions against those entities using our patented solutions in their products. Royalties resulting from these patent monetization efforts can be structured in a variety of ways, including but not limited to one-time paid up licenses or on-going royalty arrangements. We expect to generate a portion of our revenues with these types of licensing arrangements. As part of our plan to aggressively pursue patent monetization, we entered into a Revenue Sharing and Note Purchase Agreement with AND34 Funding LLC ("AND34"), and on December 24, 2014, the Company entered into an Amended and Restated Revenue Sharing and Note Purchase Agreement (the "Revenue Sharing Agreement") with AND34, which was retroactively effective as of February 14, 2014. Under the Revenue Sharing Agreement, the Company granted AND34 a perpetual predetermined share in the rights of the Company's specified future revenues from currently owned patents. Under the terms of the Revenue Sharing Agreement with AND34, Andrea issued and sold to AND34 Notes of $10,800,000 which were repaid as of December 31, 2016. On August 10, 2016, Andrea and AND34 executed a Rider to the Revenue Sharing Agreement ("Rider") pursuant to which the parties agreed that Andrea would issue and sell to AND34 additional Notes up to an aggregate amount of $7,000,000. The Rider was subsequently amended to issue $500,000 of additional Notes, collectively an aggregate amount of $7,500,000 (the "Additional Notes"), or such greater amount as AND34 may agree to in its sole discretion, during the four-year period beginning on the date of execution of the Rider. The Additional Notes have a maturity date of August 31, 2020. The proceeds of the Additional Notes will be used to pay patent monetization expenses. As of December 31, 2018, there was $1,484,422 in Additional Notes outstanding. Total revenues from this segment during the years ended December 31, 2018 and 2017 was approximately 0% and 86%, respectively, of our total revenues.

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For more financial information regarding our operating segments, see Note 13 of the accompanying consolidated financial statements.

Industry Background

Our primary mission is to provide the emerging "voice interface" markets with state-of-the-art digital microphone solutions. The idea underlying these markets is that natural language spoken by the human voice will become an important means by which to communicate and control many types of computing devices and other appliances and equipment that contain microprocessors. We are designing and marketing our products and technologies so they can be used for "natural language, human/machine" interfaces including:

- Siri®
- Amazon Alexa™
- Google Now™
- Microsoft Cortana™
- IBM Watson®

End users of these applications and interfaces will require high quality microphone and speakerphone products that enhance voice transmission, particularly in noisy office and mobile environments. We also believe that these applications will increasingly require microphones that are located at a distance from the person speaking, or far-field microphone technology. We believe that there will be significant growth in this marketplace during the next several years.

Our Strategy

Our strategy is to:

- maintain and advance our market position with our Andrea DSP Microphone and Audio Software technologies and products;
- develop relationships with companies that have significant distribution capabilities for our Andrea DSP Microphone and Audio Software technologies and products;
- broaden our Andrea DSP Microphone and Audio Software product lines through a healthy level of internal research and development;
- design our products to satisfy specific end-user requirements identified by our collaborative partners;
- outsource manufacturing of our products in order to reduce fixed overhead and achieve economies of scale; and
- vigorously defend and monetize our intellectual property through licensing arrangements and, where necessary, enforcement actions against those entities using our patented solutions in their products.

An important element of our strategy for expanding the channels of distribution and broadening the base of users for our products is our collaborative arrangements with manufacturers of computing and communications equipment and software publishers that are actively engaged in the various markets in which our products have application. In addition, we have been increasing our own direct marketing efforts to original equipment manufacturers for incorporation into, or for use with their products.

The success of our strategy will depend on our ability to, among other things:

- increase total revenues of Andrea DSP Microphone and Audio Software products;

continue to contain costs;

introduce additional Andrea DSP Microphone and Audio Software products;

maintain the competitiveness of our technologies through focused and targeted research and development;

achieve widespread adoption of our products and technologies through ongoing marketing efforts; and

defend and monetize our intellectual property.

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Our Technologies

We design our Andrea DSP Microphone and Audio Software to transmit voice signals with the high level of quality, intelligibility and reliability required by the broad range of voice-based applications in computing and telecommunications. We achieve this through the use of several audio technologies that employ software processes that are proprietary to us. Software processes of this type are commonly referred to as algorithms.

Andrea DSP Microphone and Audio Software Technology

This set of technologies is generally based on the use of an array of microphones from which the analog signals are converted to digital form and then processed using digital electronic circuitry and software to eliminate unwanted noise in the speaker's environment. Our Andrea DSP Microphone and Audio Software Products provide clear acoustic and audio input performance where the desired audio signal is at a distance from the microphone. Our technology is portable and can be embedded into new platforms such as micro DSP's, mobile OS and wireless chipsets. We believe that our Andrea DSP Microphone and Audio Software technology achieve far-field microphone performance previously unattainable through microphones based on mechanical acoustic designs and microphones based on analog signal processing.

Our Andrea DSP Microphone and Audio Software Products include the use of the following technologies, among other technologies and techniques:

Digital Super Directional Array ("DSDA"®). Andrea's patented DSDA adaptive beam forming system enables more intelligible audio by forming a beam toward the speaker and eliminating background noises that are outside of the beam. DSDA microphone technology enables high quality far-field communications by centering microphone sensitivity on a user's voice and canceling noise outside of that signal. DSDA continuously samples the ever changing acoustic parameters within an environment and adaptively identifies interfering noises that are extraneous to the voice signal, resulting in increased intelligibility of the array microphone's output.

PureAudio®. Andrea's patented PureAudio and award winning noise reduction speech enhancement algorithm significantly improves intelligibility of voice audio and accuracy in speech driven applications used in noisy environments. PureAudio is a noise canceling algorithm that enhances speech by sampling the ambient noise in an environment and attenuating the noise from sources near or around the desired speech signals, thus delivering a clear audio signal. Designed specifically to improve the signal-to-noise ratio, PureAudio is effective in canceling stationary noises such as computer and ventilation fans, tires and engines.

EchoStop®. Andrea's patented full duplex acoustic echo cancellation algorithm enables both loudspeakers to broadcast and microphones to transmit simultaneously providing a high quality speakerphone function. EchoStop is an advanced acoustic echo canceller (stereo version available) developed for use with conferencing systems such as group audio and videoconferencing systems and cellular car phone kits. EchoStop allows true two-way communication (often referred to as full duplex) over a conferencing system, even when the system is used in large spatial environments that may be vulnerable to extensive reverberation. EchoStop incorporates noise reduction to reduce the background noise of both the microphone input and the loudspeaker output, thus preventing the accumulation of interfering noise over conferencing systems that facilitate communication among multiple sites.

Direction Finding and Tracking Array ("DFTA"®). Andrea's patented DFTA technology utilizes an array of microphones and a unique algorithm to detect the presence of a user's voice, determine the direction of the voice and follow and track it when it moves. In a videoconferencing setting, this unique technology can provide direction to a videoconferencing camera and allow the system to steer and concentrate on the speaker, thus providing a "video-follow-audio" capability.

Our Products and their Markets and Applications

Our Andrea DSP Microphone and Audio Software Products have been designed for applications that are controlled by or depend on speech across a broad range of hardware and software platforms. These products incorporate our DSP microphone technologies and are designed to cancel background noise in a range of noisy environments, such as homes, offices, factories and automobiles. We also manufacture a line of accessories for these products. For commercial markets, we have designed our Andrea DSP Microphone and Audio Software Products for the following applications:

Mass transit and automotive communication systems;

Automated teller machines;

Information kiosks;

Home automation;

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- Internet of Things ("IoT") digital assistants;
- TV set top box;
- Audio and Video recording;
- Robotics; and
- Video surveillance.

Andrea DSP Microphone and Audio Noise Reduction Software Products

We develop our Andrea DSP Microphone and Audio Noise Reduction Software Products primarily through customer-specific integration efforts, and we either license our related algorithms, sell a product incorporating our related algorithms, or both. In addition, we have developed stand-alone products for specific customers who then sell such products to end users. As a result, such products are not available from us directly. However, as part of our strategy to increase sales to prospective customers desiring high-quality microphone performance for certain customer-specific environments, we have developed the following products that may be purchased directly from Andrea:

DA-350 Auto Array Microphone ("DA-350"). The DA-350 is a linear four element array microphone with Digital Signal Processing ("DSP") circuitry contained within a single microphone housing. The product also has integrated adaptive beam forming and noise reduction digital filtering software. A model with Acoustic Echo Cancellation is also available. The DA-350 is ideal for achieving superior far-field voice intelligibility and accuracy of Automatic Speech Recognition ("ASR") in high noise environments.

DA-250 OEM Array Microphone ("DA-250"). The DA-250 is a small compact Stereo Array Microphone and DSP circuit board platform that can easily be integrated into many different OEM devices that would greatly benefit from directional noise canceling microphone performance, but in the past has been unattainable with an embedded microphone configuration. Requiring only two tiny holes in the faceplate of a device, the DA-250 Stereo Array Microphone can deliver directional microphone sensitivity without the need for acoustic baffling, as found in large parabolic waveguides or long shotgun tube type microphones.

USB-SA Array Microphone. The USB-SA Array Microphone provides a USB digital audio adapter to bypass a computer's standard integrated sound system, providing a high fidelity/low noise digital audio platform that is isolated from the computer's motherboard. This external digital audio system utilizes the computer's central processor to run Andrea's AudioCommander™ adaptive beam forming directional microphone and noise reduction software.

PureAudio™ VST3 Plug-in ("PureAudio"). A Noise Reduction & Center Channel Focus VST3 Plug-in for Audio/Video Editing Post-Processing. PureAudio's Adaptive Digital Noise Reduction Filter reduces up to -40dB of repetitive noises, while supporting wide frequency bandwidth sample rates of up to 48Khz. The variable control allows the user to select the level of noise cancellation for the desired amount to be applied to the embedded noisy segment. Center Channel Focus is a new feature for the broadcast industry. This is an adaptive audio algorithm that cancels the stereo ambient sound mixed into the broadcast main audio stream. This feature focuses and highlights the center channel voice audio for better intelligibility and listening to the speech content of the recording. The software functions are perfect for editing mobile journalism interviews that take place in real world noisy environments.

Andrea AudioCommander™ Andrea's PC Audio Control Panel, AudioCommander, includes a speaker volume adjustment with received PureAudio noise reduction control and a 10-band graphic equalizer with 18 built-in presets to customize sound for a user's listening preference. It also includes a microphone volume adjustment with noise reduction, beam forming, and acoustic echo cancellation controls. The software also includes an audio wizard that sets microphone levels to optimize PC audio for speech-enabled applications including speech recognition, internet telephony and command and speech control functions.

Andrea Audio Software for Mac. Andrea Audio Software for Mac provides an intuitive graphic user interface to control stereo array microphone beam forming, noise cancellation on the input and EQ filters for the output of Andrea's USB-SA audio devices running on the Apple Mac OS.

Andrea PureAudio Live Recorder. PureAudio™ Live Recorder is a full function digital voice and audio recording application for use with Apple™ iOS devices. The PureAudio™ Live Recorder is enhanced with Andrea's patented digital noise reduction microphone technology. PureAudio™ digitally reduces background noise, while enhancing the recorded sound quality and intelligibility when making recordings in real-world noisy mobile environments.

Andrea PureAudio Pro Recorder. In addition to the features offered in PureAudio Live Recorder, PureAudio Pro Recorder offers unlimited bookmarks for easy navigation of large recordings, 10-band graphic equalizer to customize your listening experience, aggressive PureAudio for recording in noisy environments, stereo recording for capturing surround sound recordings and beam forming noise cancellation to reduce sounds coming from the sides. PureAudio Pro Recorder is an easy to use, intuitive stereo recorder for capturing music and offers background noise reduction for crystal clear recordings of voice notes, lectures and interviews with almost unlimited recording time.

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Our Collaborative Arrangements

An important element of our strategy is to promote widespread adoption of our products and technologies by collaborating with large enterprises and market and technology leaders in security systems and services, industrial system integrators, voice activated services, communications, computer manufacturing, and software publishing. In addition to the arrangements we are involved in, we are currently discussing additional arrangements with other companies, but we cannot assure you that any of these discussions will result in any definitive agreements.

Patents, Trademarks, and Other Intellectual Property Rights

Our products and technologies are developed in part using our proprietary intellectual property, and we believe that the strength of our intellectual property rights will be important to the success of our business. We utilize patent and trade secret protection, confidentiality agreements with customers and partners, disclosure and invention assignment agreements with employees and consultants and other contractual provisions to protect our intellectual property and other proprietary information. We plan to license specific, custom designs to our customers, charging royalties at a fixed amount per product or a percentage of sales. More generally, we intend to vigorously defend and monetize our intellectual property through licensing arrangements and, where necessary, enforcement actions against those entities using our patented solutions in their products. Royalties resulting from these patent monetization efforts can be structured in a variety of ways, including but not limited to one-time paid up licenses or on-going royalty arrangements. We expect to generate a portion of our revenues with these types of licensing arrangements.

Andrea maintains a number of patents in the United States covering claims to certain of its products and technology, which expire at various dates ranging from 2019 to 2033. We also have other patent applications currently pending; however, we cannot assure you that patents will be issued with respect to these currently pending or future applications which we may file, nor can we assure you that the strength or scope of our existing patents, or any new patents, will be of sufficient scope or strength or provide meaningful protection or commercial advantage to us.

Research and Development

We consider our technology to be of substantial importance to our competitiveness. To maintain this competitiveness, we have organized our research and development efforts using a “market and applications” approach for meeting the requirements of new and existing customers. Consistent with this approach, our engineering staff interacts closely with our sales and marketing personnel and directly with customers. The engineering staff is responsible for the research and development of new products and the improvement and support of existing products. For the years ended December 31, 2018 and 2017, total research and development expenses were $601,349 and $813,051, respectively. For fiscal 2019, we currently expect research and development expenses to remain at approximately the same level when compared to 2018. However, no assurance can be given that our research and development efforts will succeed. See Part II “*Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations*” of this Form 10-K.

Sales and Marketing

We employ a sales staff as well as outside sales representatives and sales organizations to market our Andrea DSP Microphone and Audio Software Products. Andrea DSP Microphone and Audio Software Products are marketed to computer OEMs, distributors of personal computers and communications equipment, software publishers, and industrial system integrators. Under our existing collaborative agreements, our collaborators have various marketing and sales rights to our Andrea DSP Microphone and Audio Software. We are seeking to enter into additional collaborative arrangements for the marketing and sale of our Andrea DSP Microphone and Audio Software Products, but we cannot assure you that we will be successful in these efforts. Market acceptance of the Andrea DSP Microphone and Audio Software Products and achievement of patent monetization is critical to our success.

Production Operations

In 2018 and 2017, all of our assembly operations were performed with subcontractors in Asia or in the United States. Most of the components for the Andrea DSP Microphone and Audio Software Products are available from several sources and are not characteristically in short supply. However, certain specialized components, such as microphones and DSP boards, are available from a limited number of suppliers and subject to long lead times. To date, we have been able to obtain sufficient supplies of these more specialized components, but we cannot assure you that we will continue to be able to do so. Shortages of, or interruptions in, the supply of these more specialized components could have a material adverse effect on our sales of Andrea DSP Microphone Products.

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Competition

The markets for our Andrea DSP Microphone and Audio Software Products are highly competitive. Competition in these markets is based on varying combinations of product features, quality and reliability of performance, price, sales, marketing and technical support, ease of use, compatibility with evolving industry standards and other systems and equipment, name recognition, and development of new products and enhancements. Most of our current and potential competitors in these markets have significantly greater financial, marketing, technical, and other resources than us. Consequently, these competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, marketing, and sale of their products than we can.

We believe that our ability to compete successfully will depend upon our ability to develop and maintain advanced technology, develop proprietary products, attract and retain qualified personnel, obtain patent or other proprietary protection for our products and technologies and manufacture, assemble and market products, either alone or through third parties, in a profitable manner.

Employees

At December 31, 2018, we had eight employees, of whom one was engaged in production and related operations, three were engaged in research and development, and five were engaged in management, administration, sales and customer support duties. None of our employees are unionized or covered by a collective bargaining agreement. We believe that we generally enjoy good relations with our employees. In addition to our regular employees, we utilize eleven independent consultants (three are sales representatives, two are engaged for administration purposes and six are engaged in research and development activities).

Available Information

We file reports with the Securities and Exchange Commission (the “SEC”). The SEC maintains an Internet site that contains reports, proxy, and information statements and other information regarding issuers at http://www.sec.gov. Our website is not part of this annual report on Form 10-K.

ITEM 1A. RISK FACTORS

Andrea is a party to the Revenue Sharing Agreement under which a perpetual predetermined share of its Monetization Revenues will be allocated to AND34 and under which a default could cause a material adverse effect on its financial position.

Under the Revenue Sharing Agreement that we entered into with AND34, Monetization Revenues will first be applied 100% to the payment of accrued and unpaid interest on, and then will be allocated to AND34 and the Company in accordance with certain predetermined percentages. During the years ended December 31, 2018 and 2017, $300,000 and $5,700,000, respectively, of notes payable were issued to AND34. At December 31, 2018, there was $1,551,284 of accrued and unpaid interest and related outstanding principal notes issued to AND34. The Revenue Sharing Agreement contains many stipulations between the parties regarding the handling of various matters related to the monetization of our patents. Following an Event of Default, under the Revenue Sharing Agreement and the Rider, AND34 may proceed to protect and enforce their rights by suit or other appropriate proceeding, either for specific performance or in aid of the exercise of any power granted under the Revenue Sharing Agreement, the Rider or ancillary documents including the notes.

Andrea is limited in its ability to get traditional funding.

The terms of the Revenue Sharing Agreement expressly prohibit the Company from incurring any other indebtedness in connection with the patents covered by the Revenue Sharing Agreement and collateral outside of the patents covered by the Revenue Sharing Agreement prior to June 30, 2020, barring certain exceptions. One such exception is that the Company may incur indebtedness not secured by the Revenue Sharing Agreement patents if both (i) the new holder of such indebtedness acknowledges in writing the rights of the purchasers in the Revenue Sharing Agreement and (ii) the purchasers in the Revenue Sharing Agreement are granted a right of first refusal to provide such indebtedness. Further, in order to incur third party indebtedness, the Company would need to offer some form of collateral and currently much of the Company’s intellectual property is serving as collateral in connection with the Revenue Sharing Agreement. In addition, the conversion price adjustment provisions of the Company’s Series C and Series D Convertible Preferred Stock, and the current low quotation price of the Company’s common stock on the OTCQB limit our ability to get traditional funding.

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Our operating results are subject to significant fluctuation; period-to-period comparisons of our operating results may not necessarily be meaningful and you should not rely on them as indications of our future performance.

Our results of operations have historically been and are subject to continued substantial annual and quarterly fluctuations. The causes of these fluctuations include, among other things:

- the volume of sales of our products under our collaborative marketing arrangements;
- the cost of development of our products;
- the mix of products we sell;
- the mix of distribution channels we use;
- the timing of our new product releases and those of our competitors;
- fluctuations in the computer and communications hardware and software marketplace; and
- general economic conditions.

We cannot assure you that the level of revenues and gross profit, if any, that we achieve in any particular fiscal period will not be significantly lower than in other fiscal periods. Our total revenues for the years ended December 31, 2018 and 2017 were approximately $1.5 million and $6.9 million, respectively. Net loss for the year ended December 31, 2018 was approximately $945,000, or $0.01 net loss per share on a basic and diluted basis, versus net loss of approximately $1.2 million, or $0.02 net loss per share on a basic and diluted basis, for the year ended December 31, 2017. We continue to explore opportunities to grow sales in other business areas and vigorously defend and monetize our intellectual property.

Shares Eligible For Future Sale May Have An Adverse Effect On Market Price; Andrea Shareholders May Experience Substantial Dilution.

Sales of a substantial number of shares of our common stock in the public market could have the effect of depressing the prevailing market price of our common stock. Of the 200,000,000 shares of common stock presently authorized, 68,104,957 were outstanding as of March 21, 2019. The number of shares outstanding does not include an aggregate of 14,161,313 shares of common stock that are issuable. This number of issuable common shares is equal to approximately 21% of the 68,104,957 outstanding shares. These issuable common shares are comprised of: a) 10,008,001 shares of our common stock reserved for issuance upon exercise of outstanding awards granted under our 2006 Stock Plan; b) 524,736 shares of common stock that are issuable upon conversion of the Series C Preferred Stock; and c) 3,628,576 shares of common stock issuable upon conversion of the Series D Preferred Stock.

Conversions of our Series C Preferred Stock and Series D Preferred Stock may result in substantial dilution to other holders of our common stock.

As of March 21, 2019, we had 11.469249 shares of Series C Preferred Stock and 907,144 shares of Series D Preferred Stock outstanding. The issuance of shares of common stock upon conversion of the Series C Preferred Stock is limited to that amount which, after giving effect to the conversion, would cause the holder not to beneficially own in excess of 4.99% or, together with other shares beneficially owned during the 60 day period prior to such conversion, not to beneficially own in excess of 9.99% of the outstanding shares of common stock. The issuance of common stock upon conversion of the Series D Preferred Stock also is limited to that amount which, after giving effect to the conversion, would cause the holder not to beneficially own in excess of 4.99% of the outstanding shares of our common stock, except that each holder has a right to terminate such limitation upon 61 days notice to us. Beneficial ownership for purposes of calculation of such percentage limitations does not include shares whose acquisition is subject to similar limitations. If all shares of the Series C and Series D Preferred Stock, which are outstanding to be issued, are assumed to be converted into or exercised for shares of common stock, the number of new shares of common stock required to be issued as a result would aggregate 4,153,312 shares, which is equal to approximately 6% of the 68,104,957 outstanding shares.

If we conduct offerings in the future, the price at which we offer our securities may trigger a price protection provision for our Series C Preferred Stock and Series D Preferred Stock.

The shares of Series C and Series D Preferred Stock are subject to antidilution provisions, which are triggered in the event of certain stock splits, recapitalizations, or other dilutive transactions. In addition, issuances of common stock at a price below the conversion price then in effect (currently $0.2551 and $0.25 for the Series C and Series D, respectively), or the issuance of warrants, options, rights, or convertible securities which have an exercise price or conversion price less than that conversion price, other than for certain previously outstanding securities and certain “excluded securities” (as defined in the certificate of amendment), require the adjustment of the conversion price to that lower price at which shares of common stock have been issued or may be acquired. In the event that Andrea issues securities in the future which have a conversion price or exercise price which varies with the market price and the terms of such variable price are more favorable than the conversion price in the Series C or Series D Preferred Stock, the purchasers may elect to substitute the more favorable variable price when making conversions of the Series C or Series D Preferred Stock. This would make it more likely that the Series C and Series D Preferred Stock would be converted into common stock, resulting in dilution to our other holders of common stock as outlined in the risk factor above.

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Short sales of our common stock may be attracted by or accompany conversions of Series C Preferred Stock and Series D Preferred Stock, which sales may cause downward pressure upon the price of our common stock.

Short sales of our common stock may be attracted by or accompany the sale of converted common stock, which in the aggregate could cause downward pressure upon the price of the common stock, regardless of our operating results, thereby attracting additional short sales of the common stock.

If we fail to commercialize and fully market our Andrea DSP Microphone and Audio Software products, our total revenues may not increase at a high enough rate to improve our results of operations or may not increase at all.

Our business, results of operations and financial condition depend on the successful commercialization of our Andrea DSP Microphone and Audio Software products and technologies. We introduced our first Andrea DSP Microphone products in 1998 and we continued to introduce complementary products and technologies over the last several years. We primarily target the computer market, the audio and video conferencing markets and the market for in-vehicle computing, among others. The success of these products is subject to the risks frequently encountered by companies in an early stage of product commercialization, particularly companies in the computing and communications industries.

If we are unable to obtain market acceptance of Andrea DSP Microphone and Audio Software products and technologies, or if market acceptance of these products and technologies occurs at a slow rate, then our business, results of operations and financial condition will be materially and adversely affected.

We, and our competitors, are focused on developing and commercializing products and technologies that enhance the use of voice, particularly in noisy environments, for a broad range of computer and communications applications. These products and technologies have been rapidly evolving and the number of our competitors has grown, but the markets for these products and technologies are subject to a high level of uncertainty and have been developing slowly. We, alone or together with our industry, may be unsuccessful in obtaining market acceptance of these products and technologies.

If we fail to develop and successfully introduce new products and technologies in response to competition and evolving technology, we may not be able to attract new customers or retain current customers.

The markets in which we sell our Andrea DSP Microphone and Audio Software products are highly competitive. We may not compete successfully with any of our competitors. Most of our current and potential competitors have significantly greater financial, research and development, marketing, technical support and other resources than we do. Consequently, these competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, marketing, and sale of their products than we can. The introduction of products incorporating new technologies could render our products obsolete and unmarketable and could exert price pressures on existing products.

We are currently engaged in the development of digital signal processing products and technologies for the voice, speech and natural language interface markets. We may not succeed in developing these new digital signal processing products and technologies, and any of these new digital signal processing products or technologies may not gain market acceptance.

Further, the markets for our products and technologies are characterized by evolving industry and government standards and specifications that may require us to devote substantial time and expense to adapt our products and technologies. For example, certain of our Andrea DSP Microphone and Audio Software products are subject to the Federal Communications Commission requirements. We may not successfully anticipate and adapt our products and technologies in a cost effective and timely manner to changes in technology and industry standards or to introductions of new products and technologies by others that render our then existing products and technologies obsolete.

If our marketing collaborators do not effectively market their products that include or incorporate our products, our sales growth will be adversely affected.

We have entered into collaborative and distribution arrangements with software publishers and computer hardware manufacturers relating to the marketing and sale of Andrea DSP Microphone and Audio Software products through inclusion or incorporation with the products of our collaborators. Our success is dependent to a substantial degree on the efforts of these collaborators to market their products that include or incorporate our products. Our collaborators may not successfully market these products. In addition, our collaborators generally are not contractually obligated to any minimum level of sales of our products or technologies, and we have no control over their marketing efforts. Furthermore, our collaborators may develop their own microphone products and technologies that may replace our products or technologies or to which they may give higher priority.

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Shortages of, or interruptions in, the supply of more specialized components for our products could have a material adverse effect on our sales of these products.

The majority of our assembly operations are fulfilled by subcontractors (primarily in the Far East) using purchased components. Some specialized components for the Andrea DSP Microphone products, such as microphones and digital signal processing boards, are available from a limited number of suppliers (and in some cases foreign) and subject to long lead times. We may not be able to continue to obtain sufficient supplies of these more specialized components, particularly if the sales of our products increase substantially or market demand for these components otherwise increases. If our subcontractors fail to meet our production and shipment schedules, our business, results of operations and financial condition would be materially and adversely affected.

The Company depends on component and product manufacturing and logistical services provided by third parties, many of whom are located outside of the United States.

Substantially all of the Company’s components and products are manufactured in whole or in part by a few third-party manufacturers. Many of these manufacturers are located outside of the United States. The Company has also outsourced much of its transportation and logistics management. While these arrangements may lower operating costs, they also reduce the Company’s direct control over production and distribution. It is uncertain what effect such diminished control will have on the quality or quantity of products or the Company’s flexibility to respond to changing conditions. If manufacturing or logistics in these locations is disrupted for any reason, including but not limited to, natural disasters, information technology system failures, military actions or economic, business, labor, environmental, public health, or political issues, the Company’s consolidated financial condition and operating results could be materially adversely affected.

Our ability to compete may be limited by our failure to adequately protect our intellectual property or by patents granted to third parties.

We rely on a combination of patents, patent applications, trade secrets, copyrights, trademarks, and nondisclosure agreements with our employees, independent contractors, licensees and potential licensees, limited access to and dissemination of our proprietary information, and other measures to protect our intellectual property and proprietary rights. However, the steps that we have taken to protect our intellectual property may not prevent its misappropriation or circumvention. In addition, numerous patents have been granted to other parties in the fields of noise cancellation, noise reduction, computer voice recognition, digital signal processing and related subject matter. We expect that products in these fields will increasingly be subject to claims under these patents as the numbers of products and competitors in these fields grow and the functionality of products overlap. Claims of this type could have an adverse effect on our ability to manufacture and market our products or to develop new products and technologies, because the parties holding these patents may refuse to grant licenses or only grant licenses with onerous royalty requirements. Moreover, the laws of other countries do not protect our proprietary rights to our technologies to the same extent as the laws of the United States.

An unfavorable ruling in any current litigation proceeding or future proceeding may adversely affect our business, results of operations and financial condition.

From time to time we are subject to litigation incidental to our business. For example, we are subject to the risk of adverse claims, interference proceedings before the U.S. Patent and Trademark Office, oppositions to patent applications outside the United States, and litigation alleging infringement of the proprietary rights of others. Litigation to establish the validity of patents, to assert infringement claims against others, and to defend against patent infringement claims can be expensive and time-consuming, even if the outcome is in our favor.

For example, as discussed in Part II “*Item 3 – Legal Proceedings*” of this Form 10-K, we are currently involved in appealing an unfavorable ruling by the ITC in our patent infringement claims against Apple Inc. In line with our business strategy, we have dedicated significant resources to vigorously prosecuting these patent infringement claims, and not succeeding on these claims could be detrimental to our Company.

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Changes in economic and political conditions outside the United States could adversely affect our business, results of operations and financial condition.

We generate revenues from regions outside the United States. For the years ended December 31, 2018 and 2017, total revenues from sales to customers outside the United States accounted for approximately 24% and 91%, respectively, of our total revenues. International sales and operations are subject to a number of risks, including:

- trade restrictions in the form of license requirements;
- restrictions on exports and imports and other government controls;
- changes in tariffs and taxes;
- difficulties in staffing and managing international operations;
- problems in establishing and managing distributor relationships;
- general economic conditions; and
- political and economic instability or conflict.

To date, we have invoiced our international revenues in U.S. dollars and have not engaged in any foreign exchange or hedging transactions. We may not be able to continue to invoice all of our revenues in U.S. dollars in order to avoid engaging in foreign exchange or hedging transactions. If we are required to invoice any material amount of international revenues in non-U.S. currencies, fluctuations in the value of non-U.S. currencies relative to the U.S. dollar may adversely affect our business, results of operations and financial condition or require us to incur hedging costs to counter such fluctuations.

If we are unable to attract and retain the necessary managerial, technical and other personnel necessary for our business, then our business, results of operations and financial condition will be harmed.

Our performance is substantially dependent on the performance of our executive officers and key employees. The loss of the services of any of these executive officers or key employees could have a material adverse effect on our business, results of operations and financial condition. Our future success depends on our continuing ability to attract and retain highly qualified managers and technical personnel. Competition for qualified personnel is intense and we may not be able to attract, assimilate or retain qualified personnel in the future.

We have significantly less financial resources than most of our competitors which limits our ability to implement new products or enhancements to our current products and may require us to implement future restructuring plans, which could adversely affect our future sales and financial condition.

Financial resource constraints could limit our ability to execute our product strategy or require us to implement restructuring plans, particularly if we are unable to generate cash from operations or obtain additional sources of financing. Any future restructuring actions may slow our development of new or enhanced products by limiting our research and development and engineering activities. Our cash balances are also lower than those of our competitors, which may limit our ability to develop competitive new products on a timely basis. If we are unable to successfully introduce new or enhanced products, our sales and financial condition will be adversely affected.

A significant amount of our business involves licensing our proprietary software, a strategy that increases business risk and volatility.

We have licensed certain of our proprietary software to third parties and may seek to enter into additional license arrangements in the future. We cannot assure you, however, that others will be interested in licensing our software on commercially favorable terms or at all. We also cannot ensure that licensees will honor agreed-upon market restrictions, not infringe upon or misappropriate our intellectual property or maintain the confidentiality of our proprietary information.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Andrea has a lease for its corporate headquarters, which is located at 620 Johnson Avenue, Suite 1B, Bohemia, New York. The lease, which currently expires in October 2020, is for approximately 3,000 square feet of space used for research and development, sales and executive offices. We believe that we maintain our machinery, equipment and tooling in good operating condition and that these assets are adequate for our current business and are adequately insured. See Notes 5 and 11 of the accompanying Consolidated Financial Statements for further information concerning our property and equipment and leased facilities.

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ITEM 3. LEGAL PROCEEDINGS

In September 2016, the Company filed a complaint with the United States District Court for the Eastern District of New York, alleging patent infringement against Apple Inc. (“Apple”) and requesting monetary and injunctive relief (the “New York Litigation”). The New York Litigation was stayed pending final disposition of a parallel case that the Company filed against Apple with the United States International Trade Commission (“ITC”). The ITC’s final decision finding that Apple did not violate the ITC’s statute was issued on March 22, 2018. Apple informed the New York judge of this final decision on May 30, 2018. The ITC’s final decision does not affect Andrea’s right to continue prosecuting the New York litigation.

In January 2017, Apple filed four (4) petitions for inter partes review (“IPR”) of the Company’s patents asserted in the New York Litigation with the United States Patent and Trademark Office (PTO). The Company filed its Patent Owner’s Preliminary Response in two of these IPR proceedings on May 1, 2017. The PTO instituted the four IPR proceedings requested by Apple on July 24, 2017. The Company filed its Patent Owner’s Response in two of these IPR proceedings on November 7, 2017. On March 19, 2018, both the Company and Apple requested oral argument in these two IPR proceedings, which occurred on April 25, 2018. On July 12, 2018, the PTO issued its final written decisions in those two IPR proceedings, ruling that claims 6-9 of the Company’s U.S. Patent No. 6,363,345 remain valid and enforceable after the PTO’s review. On September 13, 2018, Apple filed its Notice of Appeal of that ruling to the United States Court of Appeals for the Federal Circuit (the “Federal Circuit”). Apple filed its Appeal Brief with the Federal Circuit on January 31, 2019. The Company filed its Response to Apple’s Appeal Brief on March 12, 2019.

On July 20, 2018, after the PTO’s final written decisions, the Company informed the New York judge of the status of the PTO proceedings, and its intention to move forward with the New York Litigation regarding claims 6-9 of the Company’s U.S. Patent No. 6,363,345. Apple asked the New York judge to maintain the previously entered stay of the New York Litigation pending its appeal of the PTO holdings to the Federal Circuit. At the New York judge’s request, the parties fully briefed their competing arguments regarding whether to lift or maintain the stay and submitted those briefs to the New York judge on December 13, 2018. The Company and Apple are still awaiting the New York judge’s ruling on whether to lift the stay.

Andrea intends to vigorously prosecute the New York Litigation and Apple’s appeal of the IPR results to the Federal Circuit.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Andrea’s common stock is currently quoted on the OTCQB tier of the OTC Market Group’s quotation platform. On March 21, 2019, there were approximately 318 holders of record of Andrea’s Common Stock.

No cash dividends were paid on Andrea’s Common Stock in 2018 or 2017.

During the three months ended December 31, 2018, the Company did not repurchase any of its common stock.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable as Andrea is a smaller reporting company.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Our mission is to provide the emerging “voice interface” markets with state-of-the-art digital microphone products and noise reduction software that facilitate natural language, human/machine interfaces.

Examples of the applications and interfaces for which Andrea DSP Microphone and Audio Software Products provide benefits include: Internet and other computer-based speech; telephony communications; multi-point conferencing; speech recognition; and other applications and interfaces that incorporate natural language processing. We believe that end users of these applications and interfaces will require high quality microphone and earphone products that enhance voice transmission, particularly in noisy environments, for use with personal computers, mobile personal computing devices, cellular and other wireless communication devices and automotive communication systems. Our Andrea DSP Microphone and Audio Software Products use “far-field” digital signal processing technology to provide high quality transmission of voice where the user is at a distance from the microphone. High quality audio communication technologies will be required for emerging far-field voice applications, ranging from continuous speech dictation, to Internet telephony and multiparty video teleconferencing and collaboration, to natural language-driven interfaces for automobiles, home and office automation and other machines and devices into which voice-controlled microprocessors are expected to be introduced during the next several years.

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Our Critical Accounting Policies

Our consolidated financial statements and the notes to our consolidated financial statements contain information that is pertinent to management's discussion and analysis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and determination of revenues and expenses in the reporting period. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. On a continual basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews, and if deemed appropriate, those estimates are adjusted accordingly. Actual results may vary from these estimates and assumptions under different and/or future circumstances. Management considers an accounting estimate to be critical if: 1) it requires assumptions to be made that were uncertain at the time the estimate was made; and 2) changes in the estimate, or the use of different estimating methods that could have been selected and could have a material impact on the Company’s consolidated results of operations or financial condition.

The following critical accounting policies that affect the more significant judgments and estimates used in the preparation of the consolidated financial statements have been identified. In addition to the recording and presentation of our convertible preferred stock, we believe that the following are some of the more critical judgment areas in the application of our accounting policies that affect our consolidated financial condition and results of operations. We have discussed the application of these critical accounting policies with our Audit Committee. The following critical accounting policies are not intended to be a comprehensive list of all of the Company’s accounting policies or estimates.

Revenue Recognition – On January 1, 2018 the Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606) (“ASU No. 2014-09”), which is described below in Recent Accounting Pronouncements. In accordance with Topic 606, the Company recognizes revenue using the following five-step approach:

1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price of the contract.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when the performance obligations are met or delivered.

Andrea utilizes the modified retrospective approach when reviewing its current accounting policies to identify potential differences that would result from applying the new requirements to its customer contracts. This approach includes the evaluation of sales terms, performance obligations, variable consideration, and costs to obtain and fulfill contracts. Based on the Company’s review, management did not need to record a cumulative effect adjustment to retained earnings as of the date of initial application and application of this guidance did not have a material impact on its consolidated financial statements.

The Company disaggregates its revenues into three contract types: (1) product revenues (2) service related revenues and (3) license revenues and then further disaggregates its revenues by operating segment. Generally, product revenue is comprised of microphones and microphone connectivity product revenues. Product revenue is recognized when the Company satisfies its performance obligation by transferring promised goods to a customer. Product revenue is measured at the transaction price, which is based on the amount of consideration that the Company expects to receive in exchange for transferring the promised goods to the customer. Contracts with customers are comprised of customer purchase orders, invoices and written contracts. Customer product orders are fulfilled at a point in time and not over a period of time. The Company does not have arrangements for returns from customers and does not have any future obligations directly or indirectly related to product resale by customers. The Company has no sales incentive programs. Service related and licensing revenues are recognized based on the terms and conditions of individual contracts using the five step approach listed above, which identifies performance obligations and transaction price. Typically, Andrea receives licensing reports from its licensees approximately one quarter in arrears due to the fact that its agreements require customers to report revenues between 30-60 days after the end of the quarter. Under this accounting policy, the licensing revenues reported are not based upon estimates. In addition, service related revenues, which are short-term in nature, are generally performed on a time-and-material basis under separate service arrangements and the corresponding revenue is generally recognized as the services are performed.

Accounts Receivable – We are required to estimate the collectability of our trade receivables. Judgment is required in assessing the realization of these receivables, including the current creditworthiness of each customer and related aging of the past due balances. We evaluate specific accounts when we become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit ratings or bankruptcy. The reserve requirements are based on the best facts available to us and are reevaluated and adjusted as additional information is received. Our reserves are also determined by using percentages applied to certain aged receivable categories. At December 31, 2018 and 2017, our allowance for doubtful accounts was $4,793 and $5,092, respectively.

Inventories – We are required to state our inventories at net realizable value. In assessing the ultimate realization of inventories, we are required to make considerable judgments as to future demand requirements and compare that with our current inventory levels. Our reserve requirements generally increase as our projected demand requirements decrease due to market conditions, technological and product life cycle changes as well as longer than previously expected usage periods. We have evaluated the current levels of inventories, considering historical total revenues and other factors and, based on this evaluation, recorded adjustments to cost of revenues to adjust inventories to net realizable value. We have inventories of $213,056 and $136,449 at December 31, 2018 and 2017, respectively. It is possible that additional charges to inventory may occur in the future if there are further declines in market conditions, or if additional restructuring actions are taken.

Long Lived Assets – ASC 360 "Property, Plant and Equipment" ("ASC 360") requires management judgments regarding the future operating and disposition plans for marginally performing assets, and estimates of expected realizable values for assets to be sold. Andrea accounts for its long-lived assets in accordance with ASC 360 for purposes of determining and measuring impairment of its other intangible assets. Andrea's policy is to periodically review the value assigned to its long lived assets to determine if they have been permanently impaired by adverse conditions which may affect Andrea. If required, an impairment charge would be recorded based on an estimate of future discounted cash flows. Considerable management judgment is necessary to estimate undiscounted future operating cash flows and fair values and, accordingly, actual results could vary significantly from such estimates. No impairment charges were recognized during the years ended December 31, 2018 and 2017.

Deferred Tax Assets – We currently have significant deferred tax assets. ASC 740, "Income Taxes" ("ASC 740"), requires a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. Furthermore, ASC 740 provides that it is difficult to conclude that a valuation allowance is not needed when there is negative evidence such as cumulative losses in recent years. Therefore, cumulative losses weigh heavily in the overall assessment. Accordingly, and after considering changes in previously existing positive and negative evidence, the Company determined that a full valuation allowance against the deferred tax assets was required. Andrea will reduce its valuation allowance in future periods to the extent that we can demonstrate our ability to utilize the assets. The future realization of a portion of our reserved deferred tax assets related to tax benefits associated with the exercise of stock options, if and when realized, will not result in a tax benefit in the consolidated statement of operations, but rather will result in an increase in additional paid in capital. We will continue to re-assess our reserves on deferred income tax assets in future periods on a quarterly basis.

Contingencies – We are subject to proceedings, lawsuits and other claims, including proceedings under laws and government regulations related to securities, environmental, labor, product and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is based on an analysis of each individual issue with the assistance of legal counsel. The amount of any reserves may change in the future due to new developments in each matter.

The impact of changes in the estimates and judgments pertaining to revenue recognition, receivables and inventories is directly reflected in our segments' loss from operations. Although any charges related to our deferred tax provision are not reflected in our segment results, the long-term forecasts supporting the realization of those assets and changes in them are significantly affected by the actual and expected results of each segment.

Cautionary Statement Regarding Forward-Looking Statements

Certain information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2018 and other items set forth in this Annual Report on Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "anticipates," "believes," "estimates," "expects," "intends," "plans," "seeks," variations of such words, and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements on our current expectations, estimates and projections about our business and industry, our beliefs and certain assumptions made by our management. Investors are cautioned that matters subject to forward-looking statements involve risks and uncertainties including economic, competitive, governmental, technological and other factors that may affect our business and prospects. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. These statements are based on current expectations and speak as of the date of such statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise. In order to obtain the benefits of these "safe harbor" provisions for any such forward-looking statements, we caution investors and prospective investors about the following significant factors, which, among others, have in some cases affected our actual results and are in the future likely to affect our actual results and could cause them to differ materially from those expressed in any such forward-looking statements. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, our ability to enforce our patents, changes in economic, competitive, governmental, technological and other factors that may affect our business and prospects. Additional factors are discussed in Part I, *"Item 1A – Risk Factors"* of this Form 10-K.

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Results Of Operations

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Total Revenues

	For the Year Ended December 31					
	2018		2017	% Change		
Patent Monetization revenues						
License revenues	$	1,241	$ 6,003,594	(100	)	(a)
Total Patent Monetization revenues		1,241	6,003,594			
Andrea DSP Microphone and Audio Software Products revenues						
Revenue from automotive array microphone products		480,555	64,354	647		(b)
Revenue from OEM array microphone products		685,203	569,278	20		(c)
Revenue from customized digital product		135,812	193,545	(30	)	(d)
All other Andrea DSP Microphone and Audio Software Product revenues		89,765	24,693	264		(e)
License revenues and service related revenues		71,958	88,776	(19	)	(f)
Total Andrea DSP Microphone and Audio Software Products revenues		1,463,293	940,646	56		
Total revenues	$	1,464,534	$ 6,944,240	(79	)	

(a) The approximate decrease of $6,002,000 for the year ended December 31, 2018, as compared to the same period in 2017, in license revenues is the result of non-recurring revenue recognized for certain patent licensing agreements entered into during the year ended December 31, 2017.

(b) The increase of approximately $416,000 for the year ended December 31, 2018, as compared to the same period in 2017, in revenues of automotive array microphone products is primarily the result of increased product revenues from integrators of public safety vehicle solutions.

(c) The increase of approximately $116,000 for the year ended December 31, 2018, as compared to the same period in 2017, in revenues of OEM array microphone products is primarily the result of increased product revenues from integrators of commercial product audio solutions.

(d) The decrease of approximately $58,000 for the year ended December 31, 2018, as compared to the same period in 2017, in customized digital product revenues is related to the timing of purchases from an OEM customer.

(e) The increase of approximately $65,000 for the year ended December 31, 2018, as compared to the same period in 2017, in all other Andrea DSP Microphone and Audio Software product revenues is primarily the result of new customers for new audio solutions.

(f) The decrease of approximately $17,000 for the year ended December 31, 2018, as compared to the same period in 2017, is primarily the result of decreased royalties reported as a result of a decrease in sales of PC models which feature our technology partially offset by an increase in service related revenue.

Cost of Revenues

Cost of revenues as a percentage of total revenues for the year ended December 31, 2018 increased to 30% from 4% for the year ended December 31, 2017. There was no cost of revenues associated with the Patent Monetization revenues of $1,241 and $6,003,594 for the years ended December 31, 2018 and 2017, respectively. The cost of revenues as a percentage of total revenues for the year ended December 31, 2018 for Andrea DSP Microphone and Audio Software Products was 30% compared to 28% for the year ended December 31, 2017. These changes are primarily the result of the changes in the product mix of revenues as described under “Total Revenues” above.

Patent Monetization Expenses

Patent monetization expenses for the year ended December 31, 2018 decreased by 97% to $152,622 from $5,597,928 for the year ended December 31, 2017, primarily as a result of timing of legal services incurred to pursue patent monetization. These expenses are a result of our continuing efforts to pursue patent monetization, including the filing of the complaints disclosed under Part I, *Item 3 Legal Proceedings* of this Form 10-K. Such patent monetization is a key component of our business strategy.

Research and Development

Research and development expenses for the year ended December 31, 2018 decreased by 26% to $601,349 from $813,051 for the year ended December 31, 2017. These expenses primarily relate to costs associated with the development of new products. For the year ended December 31, 2018, research and development expenses reflected a 35% increase in our Patent Monetization efforts to $34,263 or 6% of total research and development expenses, and a 28% decrease in our Andrea DSP Microphone and Audio Software Technology efforts to $567,066, or 94% of total research and development expenses. With respect to DSP Microphone and Audio Software technologies, research efforts are primarily focused on the pursuit of commercializing a natural language-driven human/machine interface by developing optimal far-field microphone solutions for various voice-driven interfaces, incorporating Andrea s digital super directional array microphone technology, and certain other related technologies such as noise suppression and stereo acoustic echo cancellation. We believe that continued research and development spending should benefit Andrea in the future.

General, Administrative and Selling Expenses

General, administrative and selling expenses decreased by approximately 13% to $1,167,002 for the year ended December 31, 2018 from $1,338,284 for the year ended December 31, 2017. For the year ended December 31, 2018, there was a 48% decrease in our Patent Monetization efforts to $208,719, or 18% of total general, administrative and selling expenses and a 3% increase in general, administrative and selling expenses in our Andrea DSP Microphone and Audio Software Technology to $958,283, or 82% of total general, administrative and selling expenses. The overall 13% decrease of approximately $171,000 is related to stock based compensation and salary reductions taken by executive management in 2018 as compared to 2017.

Interest (expense) income, net

Interest expense, net for the year ended December 31, 2018 was $52,360, compared to interest expense, net of $68,862 for the year ended December 31, 2017. The decrease in this line item is attributable to a decrease of interest expense related to long-term debt in conjunction with the Revenue Sharing Agreement.

Provision for Income Taxes

The income tax provision for the year ended December 31, 2018 was $2,563, compared to $12,941 for the year ended December 31, 2017. The provision for income taxes for the year ended December 31, 2018 and 2017 is a result of certain licensing revenues that are subject to withholding of income tax as mandated by the foreign jurisdiction in which the revenues of approximately $2,600 and $64,000 for the year ending December 31, 2018 and 2017, respectively, are earned.

Net loss

Net loss for the year ended December 31, 2018 was $945,108 compared to a net loss of $1,153,731 for the year ended December 31, 2017. The net loss for the year ended December 31, 2018 principally reflects the factors described above.

Inflation

We do not believe that inflation has had a material impact on our business and operating results during the periods presented, and we do not expect it to have a material impact in the near future, although there can be no assurances that our business will not be affected by inflation in the future.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on its consolidated financial condition, changes in consolidated financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Liquidity And Capital Resources

At December 31, 2018, we had cash of $486,521 compared to $1,164,057 at December 31, 2017. The decrease in our cash balance at December 31, 2018 is primarily a result of cash used in operations offset in part by the proceeds of the Additional Notes received in connection with the Revenue Sharing Agreement.

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Our working capital balance at December 31, 2018 was $795,998 compared to working capital of $1,182,903 at December 31, 2017. The decrease in working capital reflects a decrease in total current assets of $410,075 offset in part by a decrease in total current liabilities of $23,170. The decrease in total current assets reflects a decrease in cash of $677,536, an increase in accounts receivable of $157,735, an increase in inventories of $76,607, an increase in prepaid expenses and other current assets of $33,119. The decrease in total current liabilities reflects a decrease in Accrued Series C Preferred Stock Dividends of $36,529 offset in part by an increase in trade accounts payable and other current liabilities of $13,359.

The decrease in cash of $677,536 reflects $993,920 of net cash used in operating activities, $71,216 of net cash used in investing activities, partially offset by $387,600 of net cash provided by financing activities.

The cash used in operating activities of $993,920, excluding non-cash charges, is primarily attributable to the $945,108 net loss for the year ended December 31, 2018, a $160,298 increase in accounts receivable, a $63,118 increase in inventories, a $33,119 increase in prepaid expenses, other current assets and other assets, and a $13,359 increase in trade accounts payable and other current liabilities. The changes in receivables, inventories and trade accounts payable primarily reflect differences in the timing related to both the payments for and the acquisition of inventory as well as for other services in connection with ongoing efforts related to Andrea's operations.

The cash used in investing activities of $71,216 reflects an increase in patents and trademarks of $46,907 and purchases of property and equipment of $24,309. The increase in patents and trademarks reflects capital expenditures associated with our intellectual property. The increase in property and equipment is associated with the purchases of computer equipment and test fixtures.

The cash provided by financing activities of $387,600 reflects $87,600 of proceeds from the exercise of stock options and net proceeds from long-term debt of $300,000.

We plan to improve our cash flows in 2019 by aggressively pursuing monetization of our patents related to our Andrea DSP Microphone Audio Software to result in increased licensing arrangements, increasing the sales of our Andrea DSP Microphone Audio Software Products through the introduction of new products, as well as the increased efforts we are putting into our sales and marketing efforts. As of March 21, 2019, Andrea had approximately $400,000 of cash deposits. We cannot assure you that demand will continue for any of our products, including future products related to our Andrea DSP Microphone and Audio Software technologies, or, that if such demand does exist, that we will be able to obtain the necessary working capital to increase production and provide marketing resources to meet such demand on favorable terms, or at all.

Market Risk

Historically, our principal source of financing activities had been the issuance of convertible preferred stock with financial institutions. We are affected by market risk exposure primarily through any amounts payable in stock, or cash by us under convertible securities. We do not utilize derivative financial instruments to hedge against changes in interest rates or for any other purpose. In addition, substantially all transactions entered into by us are denominated in U.S. dollars. As such, we have shifted foreign currency exposure onto our foreign customers. As a result, if exchange rates move against foreign customers, we could experience difficulty collecting unsecured accounts receivable, the cancellation of existing orders or the loss of future orders. For the year ended December 31, 2018, total revenue from sales to customers outside the United States accounted for approximately 24% of our total revenue. The foregoing could materially adversely affect our business, financial condition and results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements are included in this Report beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the SEC (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

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(b) Internal Controls Over Financial Reporting

Management's annual report on internal control over financial reporting is included herein by reference to the section titled "Management's Report on Internal Control Over Financial Reporting" immediately preceding the Company's audited Consolidated Financial Statements in this Report.

(c) Changes to Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On March 22, 2019, the Company amended the employment agreement, dated August 1, 2014, with Douglas J. Andrea, Chairman of the Board, President and Chief Executive Officer of the Company (the "Amended Agreement"). The original agreement, as amended, was scheduled to terminate on January 31, 2019. The Amended Agreement extended this date until July 31, 2019. Pursuant to the Amended Agreement, Mr. Andrea will receive an annual base salary of $216,000.

If a change in control occurs during the term of the Amended Agreement and subsequent termination of Mr. Andrea's employment within twelve months thereafter, Mr. Andrea will be entitled to a severance payment equal to twelve months of the Executive's most recent Base Salary plus a pro-rated portion of the Executive's most recent annual and four quarterly bonuses paid immediately preceding the Change of Control, continuation of health and medical benefits for twelve months and immediate vesting of all stock options.

Under the Amended Agreement, in the event of his termination without cause or resignation with the Company's consent, Mr. Andrea is entitled to a severance payment equal to two months of his base salary, plus two months pro-rated portion of the Executive's most recent annual and quarterly bonuses, payment of $12,500, the un-paid bonus for the quarter ended September 30, 2017, and a continuation of health insurance coverage for Mr. Andrea, his spouse and his dependents for 6 months.

The foregoing summary of the Amended Agreement is not complete and is qualified in its entirety by reference to the complete text of such amendment, which is filed as Exhibit 10.9 to this Form 10-K and which is incorporated herein by reference in its entirety.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information on the Directors of the Company is provided below. All Directors serve one-year terms and ages are as of December 31, 2018. Based on their respective experiences, qualifications, attributes and skills set forth below, the board of directors determined that each current director should serve as a director.

Douglas J. Andrea, age 56, has been Chairman of the Board of Directors since November 2001, a Director of the Company since 1991, Corporate Secretary since 2003 and Chief Executive Officer since January 2005. He was Co-Chairman and Co-Chief Executive Officer of the Company from November 1998 until August 2001. He served as Co-President of the Company from November 1992 to November 1998, as Vice President - Engineering of the Company from December 1991 to November 1992, and as Secretary of the Company from 1989 to January 1993.

Mr. Andrea's extensive experience in the software and communications industry affords the Board valuable insight regarding the business and operation of the Company. In addition, Mr. Andrea's extensive background in corporate management provides him a unique and broad-based decision-making capability for the Company. Mr. Andrea has held various positions within the Company, which has given him knowledge of all aspects of the Company's business and history and, positions him well to continue to serve as a member of the Board.

Gary A. Jones, age 73, has been a Director of the Company since April 1996. He has served as President of Digital Technologies, Inc. since 1994 and was Chief Engineer at Allied Signal Ocean Systems from 1987 to 1994. From March 1998 to December 2000, Mr. Jones was the Managing Director of Andrea Digital Technologies, Inc., a wholly-owned subsidiary of Andrea Electronics Corporation.

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Mr. Jones’s extensive experience in the software and communications industry affords the Board valuable insight regarding the business and operation of the Company. In addition, Mr. Jones was the Managing Director of a wholly-owned subsidiary of Andrea Electronics, which has given him knowledge of all aspects of the Company’s business and history and, positions him well to continue to serve as a member of the Board.

Louis Libin, age 60, has been a Director of the Company since February 2002. Mr. Libin is Managing Director of HC2 Broadcasting, a subsidiary of HC2 Holdings, Inc. (NYSE: HCHD). Since 1996, he has been the President of Broad Comm, Inc., a consulting group specializing in advanced television broadcast, interactive TV, Internet Protocol and wireless communications. Mr. Libin has been an executive director of the Advanced Television Broadcasting Alliance (the “ATBA”) since January 2014. The ATBA is an organization comprised of hundreds of low-power television (“LPTV”) broadcasters, owners and operators of translators, and allied industry organizations and companies. Mr. Libin also served as the Senior Director for advanced technology for Sinclair Broadcast Group from 2015-2018. Mr. Libin was Chief Technology Officer for NBC, and was responsible for all business and technical matters for satellite, wireless and communication issues for General Electric and NBC. Since 1989, Mr. Libin has represented the United States on satellite and transmission issues at the International Telecommunications Union in Geneva, Switzerland. Mr. Libin is a Senior Member of the Institute of Electrical and Electronic Engineers and is a member of the National Society of Professional Engineers. Mr. Libin also serves on the boards of directors of several private and not-for profit companies.

Mr. Libin’s extensive experience in the communications industry affords the Board valuable insight regarding the business and operation of the Company. Mr. Libin’s technical background, as well as his experiences from his other board memberships makes him a valuable asset to continue to serve as a member of the Board.

Joseph J. Migliozzi, age 68, has been a Director of the Company since September 2003. He is the Executive Vice President of Ionian Management Inc., a petroleum shipping, trading and distribution company. Prior to that he was the Engagement Partner at Tatum LLC, an Interim CFO practice. He has operated his own management consulting firm since 2001. From 1997 to 2001, Mr. Migliozzi was the Chief Operating and Financial Officer of Voyetra Turtle Beach. Prior to that, he served in various executive management positions in the electronics manufacturing industries, with both financial and operational responsibilities. Mr. Migliozzi is a Certified Public Accountant.

Mr. Migliozzi’s accounting, finance and corporate management experience affords the Board valuable insight regarding the business, finances and operation of the Company. Mr. Migliozzi’s extensive background provides him the distinctive skill set required to continue to serve as a member of the Board.

Jonathan D. Spaet, age 62, has been a Director of the Company since 2003. He currently is Vice President of Networks Sales for Sinclair Broadcast, the largest owner of television stations in the country. Previously, he was the Senior Director of Advanced Advertising, heading the group for Viamedia, a cable television advertising representation company that represents many cable providers including, but not limited to, Verizon FiOS and RCN. Prior to Viamedia, he was Executive Vice President of Vault.com, an internet site in the career and recruitment space. Before Vault, he was Vice-President/General Manager of Advertising Sales for Time Warner Cable in New York City, where he had been since 2008. Prior to that appointment, he was at Time Warner Cable National Advertising Sales since September 2004, overseeing advertising sales for Time Warner Cable markets around the country. Previously, he was Vice-President of Sales for Westwood One Radio Networks, managing ad sales for one of the largest radio groups in the country. From 2002 to 2003, he was the Chief Operating Officer of MEP Media, a company that started a digital cable channel devoted to the music enthusiast. Prior to MEP, he was President of Ad Sales for USA Networks, supervising ad sales, marketing, research and operations for both USA and Sci-fi, two top-tier cable channels. Previously, he was President of Ad Sales for About.com. This followed 15 years at NBC, where Mr. Spaet’s career included a six-year position in NBC Cable and nine years in the NBC Television Stations Group. Mr. Spaet holds a Bachelor and Masters of Business Administration degrees from New York University and is a member of the National Sales Advisory Board of the Cable Advertising Bureau, and is a member of the Internet Advertising Bureau.

Mr. Spaet’s extensive experience in media sales, marketing, promotion and finance brings the Board valuable insight regarding the business and operation of the Company. Mr. Spaet’s background in producing, packaging, positioning and experience in the communication industry make him a valuable asset to continue to serve as a member of the Board.

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Information about Executive Officers Who Are Not Directors

The following information is provided for the Company’s executive officer who is not also a director:

Corisa L. Guiffre, age 46, has been the Company's Vice President and Chief Financial Officer since June 2003 and Assistant Corporate Secretary since October 2003. Ms. Guiffre joined the Company in November 1999 and served as Vice President and Controller until June 2003. Prior to joining the Company, she was a member of the Audit, Tax and Business Advisory divisions at Arthur Andersen LLP. She is a Certified Public Accountant, a member of the American Institute of Certified Public Accountants and a member of the New York State Society of Certified Public Accountants.

Ms. Guiffre is elected annually and holds office until her successor has been elected and qualified or until she is removed or replaced.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and officers and persons who beneficially own more than ten percent of the Company's common stock to file with the Securities and Exchange Commission ("SEC") initial reports of ownership and reports of changes in ownership of common stock in the Company. Officers, directors and greater-than-ten percent shareholders are also required to furnish the Company with copies of all Section 16(a) reports they file. Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company under Section 16(a) of the Securities Exchange Act of 1934, as amended, during the year ended December 31, 2018 and Forms 5 and amendments thereto furnished to the Company with respect to the year ended December 31, 2018, and written representations provided to the Company from the individuals required to filed reports, the Company believes that each of the individuals required to file reports complied with applicable reporting requirements for transactions in the Company’s common stock during the year ended December 31, 2018.

Code of Business Ethics and Conduct

Andrea has adopted a Code of Business Ethics and Conduct which applies to all directors, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) and employees. See Part II, “*Item 15 – Exhibits*” to this Annual Report on Form 10-K.

Audit Committee and Audit Committee Financial Expert

The Company has a separately designated standing Audit Committee, which currently consists of Messrs. Jones, Libin, Migliozzi and Spaet, each of whom the Board determined was “independent” and financially literate under the rules and regulations promulgated by the SEC and The Nasdaq Stock Market. Although not required, the Company has elected to continue to assess director "independence" and evaluate the service of its directors serving on its Board committees under the applicable Nasdaq Stock Market rules and regulations. Our Board has determined that Mr. Migliozzi is an audit committee financial expert under the rules of the SEC.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information for the last two fiscal years relating to compensation earned by each person who served as chief executive officer and the other most highly compensated executive officer whose total compensation was over $100,000 during the years ended December 31, 2018 and 2017.

Name and Principal Position	Year	Salary	Bonus	Total
Douglas J. Andrea, Chairman of the Board, Chief Executive Officer, and Corporate	2018	$ 216,000	$ -	$ 216,000
Secretary	2017	300,000	-	300,000
Corisa L. Guiffre, Vice President, Chief Financial Officer and Assistant Corporate	2018	$ 136,000	$ 50,000	$ 186,000
Secretary	2017	160,000	-	160,000

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Outstanding Equity Awards at December 31, 2018

The following table provides information concerning outstanding unexercised options as of December 31, 2018 for each named executive officer. Neither of the named executive officers had stock awards that have not vested or unearned equity incentive plan awards at December 31, 2018.

	Option Awards			
Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Option exercise price ($/share)	Option expiration date
Douglas J. Andrea	1,000,000	-	$ 0.11	7-24-2019
	1,000,000	-	$ 0.13	8-01-2020
	500,000	-	$ 0.10	9-02-2024
	500,000	-	$ 0.06	8-07-2025
	932,400	467,600	$ 0.05	11-16-2026
Corisa L. Guiffre	200,000	-	$ 0.11	7-24-2019
	250,000	-	$ 0.08	9-22-2020
	350,000	-	$ 0.08	10-21-2024
	266,400	133,600	$ 0.05	11-16-2026

Employment Agreements

In August 2014, the Company entered into an employment agreement with Mr. Andrea, which was subsequently amended on February 19, 2018, August 9, 2018 and March 22, 2019. The effective date of the original employment agreement was August 1, 2014 and it currently expires on July 31, 2019, subject to renewal as approved by the Compensation Committee of the Board of Directors. Pursuant to his amended employment agreement, Mr. Andrea will receive an annual base salary of $216,000. The employment agreement provides for quarterly bonuses equal to 5% of the Company’s pre-bonus net after tax quarterly earnings for a total quarterly bonus amount not to exceed $12,500; and annual bonuses equal to 9% of the Company’s annual pre-bonus net after tax earnings in excess of $300,000 up to $3,000,000, and 3% of the Company’s annual pre-bonus adjusted net after tax earnings in excess of $3,000,000. Adjustments to net after tax earnings shall be made to remove the impact of change in recognition of accumulated deferred tax asset value. All bonuses shall be payable as soon as the Company’s cash flow permits. All bonus determinations or any additional bonus in excess of the above will be made in the sole discretion of the Compensation Committee. Under certain circumstances, Mr. Andrea is entitled to a change in control payment equal to twelve months of the Executive's most recent Base Salary plus a pro-rated portion of the Executive's most recent annual and four quarterly bonuses paid immediately preceding the Change of Control, continuation of health and medical benefits for twelve months and immediate vesting of all stock options in the event of a change in control during the term of his agreement and subsequent termination of his employment within twelve months following the change of control. In the event of his termination without cause or resignation with the Company’s consent, Mr. Andrea is entitled to a severance payment equal to two months of his base salary, plus the two months pro-rated portion of his most recent annual and quarterly bonuses, payment of $12,500, the un-paid bonus for the quarter ended September 30, 2017 and a continuation of health insurance coverage for Mr. Andrea, his spouse and his dependents for 6 months. At December 31, 2018, the future minimum cash commitments under this agreement aggregate $126,000.

On November 11, 2008, the Company entered into an amended and restated change in control agreement with Corisa Guiffre, Vice President, Chief Financial Officer and Assistant Corporate Secretary of the Company. The change in control agreement provides Ms. Guiffre with a severance benefit upon termination in connection with a change in control (as defined in the agreement). If Ms. Guiffre is terminated following a change in control, the Company will pay Ms. Guiffre a sum equal to three times Ms. Guiffre’s average annual compensation for the five preceding taxable years. All restrictions on any restricted stock will lapse immediately and incentive stock options and stock appreciation rights, if any, will become immediately exercisable in the event of a change in control. Upon the occurrence of a change in control followed by Ms. Guiffre’s termination of employment, the Company will cause to be continued life, medical, dental and disability coverage. Such coverage and payments shall cease upon the expiration of 36 full calendar months following the date of termination.

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Director Compensation

The following table provides the compensation received by individuals who served as non-employee directors of the Company during the 2018 fiscal year.

Director	Fees Earned or Paid in Cash	Stock Option Awards	Total
Gary A Jones	$ 8,000	$ -	$ 8,000
Louis Libin	7,500	-	7,500
Joseph J. Migliozzi	9,500	-	9,500
Jonathan D. Spaet	7,500	-	7,500

Annual Retainer and Meeting Fees for Non-Employee Directors

The following sets forth the applicable retainers and fees that were paid to non-employee directors for their service on the Board of Directors of the Company during 2018. Employee directors do not receive any retainers or fees for their services on the Board of Directors.

Annual Retainer	$ 3,500
Fee per Board Meeting (Regular or Special)	$ 250
Fee per Committee Meeting	$ 250
Additional Annual Retainer for the Chairperson of the Audit Committee	$ 1,500

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Stock Ownership

The following table sets forth certain information as of March 21, 2019, with respect to the common stock ownership of (i) each director of the Company, (ii) each executive officer named in the Summary Compensation Table and (iii) all directors and executive officers of the Company as a group.

Name of Beneficial Owner	Number of Shares Owned (excluding options)	Number of Shares That May be Acquired Within 60 days by Exercising Options	Percent of Common Stock Outstanding(1)
Douglas J. Andrea	2,236,014 (2)	3,932,400	8.6 %
Corisa L. Guiffre	102,750	1,066,400	1.7 %
Gary A. Jones	437,472	343,032	1.1 %
Louis Libin	352,149	443,032	1.2 %
Joseph J. Migliozzi	1,066,261	507,805	2.3 %
Jonathan D. Spaet	29,261	343,032	*
Current directors and executive officers as a group (6 persons)	4,223,907	6,635,701	14.5 %

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* Less than 1%

(1) Percentages with respect to each person or group of persons have been calculated on the basis of 68,104,957 shares of Company common stock outstanding, plus the number of shares of Company common stock which such person or group of persons has the right to acquire within 60 days from March 21, 2019, by the exercise of options. The information concerning the shareholders is based upon information furnished to the Company by such shareholders. Except as otherwise indicated none of the shares listed are pledged as security and all of the shares next to each identified person or group are owned of record and beneficially by such person or each person within such group and such persons have sole voting and investment power with respect thereto.

(2) Includes 12,438 and 3,876 shares owned by Mr. Andrea's spouse and Mr. Andrea's daughter, respectively.

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The following table sets forth certain information as of March 21, 2019, with respect to the stock ownership of beneficial owners of more than 5% of the Company's outstanding common stock other than Mr. Andrea whose stock ownership is set forth above:

Name and Address	Shares of Common Stock Owned	Common Stock Equivalents [(1)]	Percent of Common Stock and Common Stock Equivalents Outstanding [(2)]
Alpha Capital Anstalt Pradafant 7, Furstentums 9490 Vaduz, Liechtenstein	-	5,722,159 [(3)]	7.8 %
Nickolas W. Edwards 937 Pine Ave, Long Beach, CA 90813	5,390,000 [(4)]	-	7.9 %

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(1) The issuance of shares of common stock upon conversion of the Series C Preferred Stock is limited to that amount which, after given effect to the conversion, would cause the holder not to beneficially own in excess of 4.99% or, together with other shares beneficially owned during the 60 day period prior to such conversion, not to beneficially own in excess of 9.99% of the outstanding shares of common stock. The issuance of common stock upon conversion of the Series D Preferred Stock also are limited to that amount which, after given effect to the conversion, would cause the holder not to beneficially own an excess of 4.99% of the outstanding shares of our common stock, except that each holder has a right to terminate such limitation upon 61 days notice to us.

(2) Percentages with respect to each person or group of persons have been calculated on the basis of 68,104,957 shares of Company common stock outstanding, plus the number of shares of Company common stock which such person or groups of persons has the right to acquire within 60 days of the conversion of Series C Preferred Stock and Series D Preferred Stock.

(3) Based on information filed with the Securities and Exchange Commission in a Schedule 13G (Amendment No. 1) on February 15, 2007. Common stock ownership of Alpha Capital Anstalt ("Alpha Capital') is not known as of March 21, 2019. As of March 21, 2019, Alpha Capital has 2,086,809 of common stock equivalents from Series C Preferred Stock and Series D Preferred Stock. See footnote (1) above, for limitations on the conversion of such common stock equivalents.

(4) Based on information filed with the Securities and Exchange Commission in a Schedule 13G (Amendment No. 1) on October 20, 2006 by Nickolas W. Edwards.

The following table sets forth certain information as of December 31, 2018, for all compensation plans, including individual compensation arrangements under which equity securities of the Company are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	10,008,001	$ 0.08	-
Equity compensation plans not approved by security holders	-	-	-
Total	10,008,001	$ 0.08	-

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Each member of the Company's Board of Directors is independent under the listing standards of the Nasdaq Stock Market, except for Mr. Andrea, Chairman of the Board, President and Chief Executive Officer of the Company. Although not required, the Company has elected to continue to assess director "independence" and evaluate the service of its directors serving on its Board committees under the applicable Nasdaq Stock Market rules and regulations.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The following table sets forth the fees billed or expected to be billed to the Company for the fiscal years ended December 31, 2018 and 2017 by Marcum LLP:

	2018	2017
Audit Fees	$ 107,000	$ 107,000
Audit-related fees	-	-
Tax fees	-	-
All other fees	-	-

Pre-Approval of Services by the Independent Auditor

The Audit Committee has adopted a policy for pre-approval of audit and permitted non-audit services by the Company's independent auditor. The Audit Committee will consider annually and, if appropriate, approve the provision of audit services by its external auditor and consider and, if appropriate, pre-approve the provision of certain defined audit and non-audit services. The Audit Committee also will consider on a case-by-case basis and, if appropriate, approve specific engagements that are not otherwise pre-approved.

Any proposed engagement that does not fit within the definition of a pre-approved service may be presented to the Audit Committee for consideration at its next regular meeting or, if earlier consideration is required, to the Audit Committee or one or more of its members. The member or members to whom such authority is delegated shall report any specific approval of services at its next regular meeting. The Audit Committee will regularly review summary reports detailing all services being provided to the Company by its external auditor.

During the year ended December 31, 2018, all services were approved, in advance, by the Audit Committee in compliance with these procedures.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following documents are included in this Annual Report on Form 10-K beginning on page F-1.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets—at December 31, 2018 and 2017

Consolidated Statements of Operations—Years Ended December 31, 2018 and 2017

Consolidated Statements of Shareholders' (Deficit) Equity —Years Ended December 31, 2018 and 2017

Consolidated Statements of Cash Flows—Years ended December 31, 2018 and 2017

Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

All schedules are omitted as required information is either not applicable, or is presented in the consolidated financial statements.

(a)(3) Exhibits

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Exhibit Number	Description
2.1	Asset Purchase Agreement, dated as of March 27, 2015, by and between Andrea Communications LLC and Andrea Electronics Corporation (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed April 2, 2015)
3.1	Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-K for the year ended December 31, 2017)
3.2	Certificate of Amendment of the Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Form 10-K for the year ended December 31, 1997)
3.3	Certificate of Amendment of the Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed November 30, 1998)
3.4	Certificate of Amendment of the Restated Certificate of Incorporation of Registrant, dated May 7, 1999 (incorporated by reference to Exhibit 3.4 of the Registrant's Form 10-K for the year ended December 31, 2017)
3.5	Certificate of Amendment to the Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed June 22, 1999)
3.6	Certificate of Amendment of the Restated Certificate of Incorporation of Registrant, dated September 28, 2000 (incorporated by reference to Exhibit 3.6 of the Registrant's Form 10-K for the year ended December 31, 2017)
3.7	Certificate of Amendment to the Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed October 12, 2000)
3.8	Certificate of Amendment to the Certificate of Incorporation of the Registrant dated August 22, 2001 (incorporated by reference to Exhibit 3.6 of the Registrant's Annual Report on Form 10-K filed April 1, 2002)
3.9	Certificate of Amendment to the Certificate of Incorporation of the Registrant dated February 5, 2003 (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form 8-A/A filed February 6, 2003)
3.10	Certificate of Amendment to the Certificate of Incorporation of the Registrant dated February 23, 2004 (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form 8-K filed February 26, 2004)
3.11	Amended By-Laws of Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K filed November 30, 1998)
4.1	Rights Agreement dated as of April 23, 1999 between Andrea and Continental Stock Transfer and Trust Company, as Rights Agent, including the form of Certificate of Amendment to Certificate of Incorporation as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Shares of Series A Preferred Stock (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed May 7, 1999)
10.1	Exchange and Termination Agreement, dated as of February 11, 2004, by and among the Company and HFTP Investment L.L.C (incorporated by reference to Exhibit 10.1 of the Registrant's Registration Statement on Form 8-K filed February 17, 2004)
10.2	Acknowledgement and Waiver Agreement, dated as of February 11, 2004, by the Company and the investors listed in such agreement (incorporated by reference to Exhibit 10.2 of the Registrant's Registration Statement on Form 8-K filed February 17, 2004)
10.3	Securities Purchase Agreement, dated February 20, 2004, by and among the Company and the investors listed in such agreement (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form 8-K filed February 26, 2004)
10.4	Registration Rights Agreement, dated February 23, 2004, by and among the Company and the investors listed in such agreement (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form 8-K filed February 26, 2004)
10.5	*2006 Equity Compensation Plan of the Registrant (incorporated by reference to Appendix A of the Registrant's Schedule 14A filed on October 17, 2006)
10.6	*Amended and Restated Change in Control Agreement, dated as of November 11, 2008, by and between Andrea Electronics Corporation and Corisa L. Guiffre (incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q filed on November 14, 2008)
10.7	* Amendment to the 2006 Equity Compensation Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-K filed on March 16, 2010)
10.8	*Employment Agreement, dated as of August 1, 2014 by and between Andrea Electronics Corporation and Douglas J. Andrea (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on September 8, 2014)
10.9	+ Sixth Amendment to Executive Employment Agreement, dated as of March 22, 2019, by and between Andrea Electronics Corporation and Douglas J. Andrea
10.10	**Revenue Sharing and Note Purchase Agreement by and among Andrea Electronics Corporation and AND34 Funding LLC dated as of February 14, 2014 (incorporated by reference to Exhibit 1.1 of the Registrant's Form 10-Q/A filed on December 31, 2014)
10.11	**Amended and Restated Revenue Sharing and Note Purchase Agreement by and among Andrea Electronics Corporation and AND34 Funding LLC dated as of December 24, 2014, retroactively effective as of February 14, 2014 (incorporated by reference to Exhibit 1.1 of the Registrant's Form 8-K/A filed on January 22, 2015)

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Exhibit Number		Description
10	.19	Rider to Amended and Restated Revenue Sharing and Note Purchase Agreement by and among Andrea Electronics Corporation and AND34 Funding LLC dated as of December 24, 2014, retroactively effective as of February 14, 2014 (incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q filed on November 14, 2016)
14	.0	Code of Business Ethics and Conduct (incorporated by reference to Exhibit 14.0 of the Registrant's Form 10-KSB filed April 15, 2005)
21	.0	+Subsidiaries of Registrant
23	.1	+Consent of Independent Registered Public Accounting Firm
31	.0	+Rule 13a-14(a)/15d – 14(a) Certifications
32	.0	+Section 1350 Certifications
101	.0	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Shareholders' Equity; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to the Consolidated Financial Statements.

\+ Filed herewith

* Management contract or compensatory plan or arrangement

** Confidential treatment has been requested with respect to portions of this exhibit pursuant to Rule 24b-2 of the Exchange Act and these confidential portions have been redacted from the document filed as an exhibit to this report. A complete copy of this agreement, including the redacted terms, has been separately filed with the SEC.

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Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018, utilizing the 2013 framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2018 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors
of Andrea Electronics Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Andrea Electronics Corporation and Subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, shareholders’ (deficit) equity and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Marcum LLP

/s/ Marcum LLP

We have served as the Company’s auditor since 2002.

Marcum LLP
Melville, NY
March 29, 2019

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ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2018	2017
ASSETS		
Current assets:		
Cash	$ 486,521	$ 1,164,057
Accounts receivable, net of allowance for doubtful accounts of $4,793 and $5,092, respectively	418,681	260,946
Inventories, net	213,056	136,449
Prepaid expenses and other current assets	77,593	44,474
Total current assets	1,195,851	1,605,926
Property and equipment, net	55,088	60,333
Intangible assets, net	262,819	284,408
Other assets, net	5,250	5,250
Total assets	$ 1,519,008	$ 1,955,917
LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Trade accounts payable and other current liabilities	$ 380,685	$ 367,326
Accrued Series C Preferred Stock Dividends	19,168	55,697
Total current liabilities	399,853	423,023
Long-term debt	1,551,284	1,189,964
Total liabilities	1,951,137	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: 11.47 and 33.3 shares, respectively; liquidation value: $114,692 and $333,269, respectively	-	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; 68,104,957 and 64,914,935 issued and outstanding, respectively	681,050	649,149
Additional paid-in capital	78,069,200	77,931,051
Accumulated deficit	(79,191,451)	(78,246,343)
Total shareholders' (deficit) equity	(432,129)	342,930
Total liabilities and shareholders' (deficit) equity	$ 1,519,008	$ 1,955,917

The accompanying notes are an integral part of these consolidated financial statements.

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ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31, 2018	2017
Revenues		
Net product revenues	$ 1,391,335	$ 851,870
License revenues and service related revenues	73,199	6,092,370
Total revenues	1,464,534	6,944,240
Cost of revenues	433,746	266,905
Gross margin	1,030,788	6,677,335
Patent Monetization Expenses	152,622	5,597,928
Research and development expenses	601,349	813,051
General, administrative and selling expenses	1,167,002	1,338,284
Operating loss	(890,185)	(1,071,928)
Interest expense, net	(52,360)	(68,862)
Loss from operations before provision for income taxes	(942,545)	(1,140,790)
Provision for income taxes	2,563	12,941
Net loss	$ (945,108)	$ (1,153,731)
Basic and diluted weighted average shares	66,289,137	64,914,935
Basic and diluted net loss per share	$ (0.01)	$ (0.02)

The accompanying notes are an integral part of these consolidated financial statements.

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ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICIT) EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Series C Convertible Preferred Stock Outstanding	Series C Convertible Preferred Stock	Series D Convertible Preferred Stock Outstanding	Series D Convertible Preferred Stock	Common Stock Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' (Deficit) Equity
Balance, January 1, 2017	33.326899	$ 1	907,144	$ 9,072	64,914,935	$ 649,149	$ 77,806,356	$ (77,092,612)	$ 1,371,966
Stock-based Compensation Expense related to Stock Option Grants	-	-	-	-	-	-	124,695	-	124,695
Net loss	-	-	-	-	-	-	-	(1,153,731)	(1,153,731)
Balance, December 31, 2017	33.326899	$ 1	907,144	$ 9,072	64,914,935	$ 649,149	$ 77,931,051	$ (78,246,343)	$ 342,930
Stock-based Compensation Expense related to Stock Option Grants	-	-	-	-	-	-	45,920	-	45,920
Stock option exercises	-	-	-	-	2,190,000	21,900	65,700	-	87,600
Conversion of Series C Convertible Preferred Stock	(21.857650)	(1)	-	-	1,000,022	10,001	26,529	-	36,529
Net loss	-	-	-	-	-	-	-	(945,108)	(945,108)
Balance, December 31, 2018	11.469249	$ -	907,144	$ 9,072	68,104,957	$ 681,050	$ 78,069,200	$ (79,191,451)	$ (432,129)

The accompanying notes are an integral part of these consolidated financial statements.

ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2018	2017
Cash flows from operating activities:		
Net loss	$ (945,108)	$ (1,153,731)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	98,050	75,445
Stock based compensation	45,920	124,695
Inventory net realizable adjustment	(13,489)	(11,645)
Provision for income tax withholding	2,563	12,941
PIK interest, net	61,320	78,811
Change in:		
Accounts receivable	(160,298)	(166,910)
Inventories	(63,118)	(11,988)
Prepaid expenses, other current assets and other assets	(33,119)	7,741
Trade accounts payable and other current liabilities	13,359	(504,459)
Net cash used in operating activities	(993,920)	(1,549,100)
Cash flows from investing activities:		
Purchases of property and equipment	(24,309)	(21,561)
Proceeds from repayments of note receivable	-	103,709
Purchases of patents and trademarks	(46,907)	(25,120)
Net cash (used in) provided by investing activities	(71,216)	57,028
Cash flows from financing activities:		
Proceeds from exercise of stock options	87,600	-
Repayments of long-term debt and PIK interest	-	(5,999,000)
Proceeds from long-term debt	300,000	5,700,000
Net cash provided by (used in) financing activities	387,600	(299,000)
Net decrease in cash	(677,536)	(1,791,072)
Cash, beginning of year	1,164,057	2,955,129
Cash, end of year	$ 486,521	$ 1,164,057
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$ -	$ 83,422
Income Taxes	$ 4,610	$ 14,270
Non Cash Financing Activity:		
Conversion of Series C Convertible Preferred Stock and related dividends into common stock	$ 36,529	$ -

The accompanying notes are an integral part of these consolidated financial statements.

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ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. ORGANIZATION AND BUSINESS

Andrea Electronics Corporation, incorporated in the State of New York in 1934, (together with its subsidiaries, “Andrea” or the “Company”) has been engaged in the electronic communications industry since its inception. Since the early 1990s, Andrea has been primarily focused on developing and manufacturing state-of-the-art microphone technologies and products for enhancing speech-based applications software and communications, primarily in the computer and business enterprise markets that require high quality, clear voice signals. Andrea’s technologies eliminate unwanted background noise to enable the optimum performance of various speech-based and audio applications. Andrea DSP Microphone and Audio Software Products have been designed for applications that are controlled by or depend on speech across a broad range of hardware and software platforms. These products incorporate Digital Signal Processing, Noise Cancellation, Active Noise Cancellation and Active Noise Reduction microphone technologies, and are designed to cancel background noise in a wide range of noisy environments, such as homes, offices, factories and automobiles. Andrea also manufactures a line of accessories for these products for the consumer and commercial markets in the United States as well as in Europe and Asia. Andrea’s products and technologies are developed in part using our proprietary intellectual property. Andrea intends to vigorously defend and monetize its intellectual property through licensing arrangements and, where necessary, enforcement actions against those entities using our patented solutions in their products. Royalties resulting from these patent monetization efforts can be structured in a variety of ways, including but not limited to one-time paid up licenses or on-going royalty arrangements. Andrea records these activities as part of Andrea’s Patent Monetization segment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Liquidity

The Financial Accounting Standards Board (the “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.

The Company’s loss before income taxes was approximately $943,000 for the year ended December 31, 2018, of which $144,000 represents non-cash stock based compensation, depreciation and amortization expenses. As part of the evaluation, management considered the Company’s cash balance of $486,521 and its positive working capital of $795,998 as of December 31, 2018 as well as the Company’s projected revenues and expenses for the next twelve months. If the Company is not successful in achieving its projected revenues and expenses, it may need to seek other sources of revenue, areas of further expense reduction or additional funding from other sources such as debt or equity raising; however, there is no assurance that the Company would be successful in a debt or equity raise or that such funding would be on terms that it would find acceptable.

Principles of Consolidation

The consolidated financial statements include the accounts of Andrea and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

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).

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ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

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:

	December 31,	
	2018	2017
Total potentially dilutive common shares as of:		
Stock options to purchase common stock (Note 12)	10,008,001	15,163,001
Series C Convertible Preferred Stock and related accrued dividends (Note 8)	524,736	1,524,758
Series D Convertible Preferred Stock (Note 9)	3,628,576	3,628,576
Total potentially dilutive common shares	14,161,313	20,316,335

Cash

Cash includes cash and highly liquid investments with original maturities of three months or less. At times during the years ended December 31, 2018 and 2017, the Company had cash deposits in excess of the maximum amounts insured by the Federal Deposit Insurance Corporation insurance limits. At December 31, 2018, the Company's cash was held at four financial institutions.

Concentration of Risk

The following customers accounted for 10% or more of Andrea's consolidated total revenues during at least one of the periods presented below:

	December 31,	
	2018	2017
Customer A	44%	*
Customer B	11%	*
Customer C	20%	*
Customer D	*	86%

* Amounts are less than 10%

As of December 31, 2018, Customers A, B and C accounted for approximately 55%, 19% and 14%, respectively, of accounts receivable.

Allowance for Doubtful Accounts

The Company performs on-going credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by the review of their current credit information. Collections and payments from customers are continuously monitored. The Company maintains an allowance for doubtful accounts, which is based upon historical experience as well as specific customer collection issues that have been identified. While such bad debt expenses have historically been within expectations and allowances established, the Company cannot guarantee that it will continue to experience the same credit loss rates that it has in the past. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories

Inventories are stated at the lower of cost (on a first-in, first-out) or net realizable value. The cost of inventory is based on the respective cost of materials. Andrea reviews its inventory reserve for obsolescence on a quarterly basis and establishes reserves on inventories based on the specific identification method as well as a general reserve. Andrea records charges in inventory reserves as part of cost of revenues.

Property and Equipment, net

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are amortized on a straight-line basis over the shorter of the lives of the respective leases or the expected useful lives of those improvements.

ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

Expenditures for maintenance and repairs that do not materially prolong the normal useful life of an asset are charged to operations as incurred. Improvements that substantially extend the useful lives of the assets are capitalized. Upon sale or other disposition of assets, the cost and related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss, if any, is reflected in the statement of operations.

Other Intangible Assets

Andrea amortizes its core technology and patents and trademarks on a straight-line basis over their estimated useful lives that range from 10 to 20 years.

Long-Lived Assets

Andrea accounts for its long-lived assets in accordance with ASC 360 “Plant, Property and Equipment,” for purposes of determining and measuring impairment of its long-lived assets (primarily intangible assets) other than goodwill. Andrea’s policy is to review the value assigned to its long-lived assets to determine if they have been permanently impaired by adverse conditions which may affect Andrea whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If Andrea identifies a permanent impairment such that the carrying amount of Andrea’s long-lived assets is not recoverable using the sum of an undiscounted cash flow projection (gross margin dollars from product sales), the impaired asset is adjusted to its estimated fair value, based on an estimate of future discounted cash flows which becomes the new cost basis for the impaired asset. Considerable management judgment is necessary to estimate undiscounted future operating cash flows and fair values and, accordingly, actual results could vary significantly from such estimates. No impairment charges were recognized during the years ended December 31, 2018 and 2017.

Revenue Recognition

On January 1, 2018 the Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606) (“ASU No. 2014-09”), which is described below in Recent Accounting Pronouncements. In accordance with Topic 606, the Company recognizes revenue using the following five-step approach:

1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price of the contract.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when the performance obligations are met or delivered.

Andrea utilized the modified retrospective approach when reviewing its current accounting policies to identify potential differences that would result from applying the new requirements to its customer contracts. This approach includes the evaluation of sales terms, performance obligations, variable consideration, and costs to obtain and fulfill contracts. Based on the Company’s review, management did not need to record a cumulative effect adjustment to retained earnings as of the date of initial application and application of this guidance did not have a material impact on its consolidated financial statements.

The Company disaggregates its revenues into three contract types: (1) product revenues, (2) service related revenues and (3) license revenues and then further disaggregates its revenues by operating segment. Generally, product revenue is comprised of microphones and microphone connectivity product revenues. Product revenue is recognized when the Company satisfies its performance obligation by transferring promised goods to a customer. Product revenue is measured at the transaction price, which is based on the amount of consideration that the Company expects to receive in exchange for transferring the promised goods to the customer. Contracts with customers are comprised of customer purchase orders, invoices and written contracts. Customer product orders are fulfilled at a point in time and not over a period of time. The Company does not have arrangements for returns from customers and does not have any future obligations directly or indirectly related to product resale by customers. The Company has no sales incentive programs. Service related and licensing revenues are recognized based on the terms and conditions of individual contracts using the five step approach listed above, which identifies performance obligations and transaction price. Typically, Andrea receives licensing reports from its licensees approximately one quarter in arrears due to the fact that its agreements require customers to report revenues between 30-60 days after the end of the quarter. Under this accounting policy, the licensing revenues reported are not based upon estimates. In addition, service related revenues, which are short-term in nature, are generally performed on a time-and-material basis under separate service arrangements and the corresponding revenue is generally recognized as the services are performed. At December 31, 2018, the Company had $25,341 of deferred revenue, which are advance payments from customers, are expected to be recognized as revenue within one year and are included in trade accounts payable and other current liabilities in the Company’s consolidated balance sheets. See Note 13 for additional description of the Company’s reportable business segments and the revenue reported in each segment.

ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

Income Taxes

Andrea accounts for income taxes in accordance with ASC 740, “Income Taxes” (“ASC 740”). ASC 740 requires an asset and liability approach for financial accounting and reporting for income taxes and establishes for all entities a minimum threshold for financial statement recognition of the benefit of tax positions, and requires certain expanded disclosures. The provision for income taxes is based upon income or loss after adjustment for those permanent items that are not considered in the determination of taxable income. Deferred income taxes represent the tax effects of differences between the financial reporting and tax bases of the Company’s assets and liabilities at the enacted tax rates in effect for the years in which the differences are expected to reverse. The Company evaluates the recoverability of deferred tax assets and establishes a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2018, the Company has recorded a full valuation allowance. Andrea expects it will reduce its valuation allowance in future periods to the extent that it can demonstrate its ability to utilize the assets. Management makes judgments as to the interpretation of the tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. In management’s opinion, adequate provisions for income taxes have been made for all years. If actual taxable income by tax jurisdiction varies from estimates, additional allowances or reversals of reserves may be necessary. Income tax expense consists of taxes payable for the period, withholding of income tax as mandated by the foreign jurisdiction in which the revenues are earned and the change during the period in deferred tax assets and liabilities. The Company has identified its federal tax return and its state tax return in New York as "major" tax jurisdictions. Based on the Company's evaluation, it has been concluded that there are no significant uncertain tax positions requiring recognition in the Company's condensed consolidated interim financial statements. The Company's evaluation was performed for tax years ended 2014 through 2018. 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.

Stock-Based Compensation

At December 31, 2018, Andrea had one stock-based employee compensation plan, which is described more fully in Note 12. Andrea accounts for stock based compensation in accordance with ASC 718, “Compensation – Stock Compensation” (“ASC 718”). ASC 718 establishes accounting for stock-based awards exchanged for employee services. Under the provisions of ASC 718, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the employee’s requisite service period (generally the vesting period of the equity grant). The fair value of the Company’s common stock options are estimated using the Black Scholes option-pricing model with the following assumptions: expected volatility, dividend rate, risk free interest rate and the expected life. The Company expenses stock-based compensation by using the straight-line method. In accordance with ASC 718, excess tax benefits realized from the exercise of stock-based awards are classified in cash flows from financing activities. The future realization of the reserved deferred tax assets related to these tax benefits associated with the exercise of stock options will result in a credit to additional paid in capital if the related tax deduction reduces taxes payable. The Company has elected the “with and without approach” regarding ordering of windfall tax benefits to determine whether the windfall tax benefit did reduce taxes payable in the current year. Under this approach, the windfall tax benefit would be recognized in additional paid-in-capital only if an incremental tax benefit is realized after considering all other benefits presently available.

Research and Development

Andrea expenses all research and development costs as incurred.

Advertising Expenses

All media costs of newspaper and magazine advertisements as well as trade show costs are expensed as incurred. Total advertising and marketing expenses for the years ended December 31, 2018 and 2017 were approximately $17,000 and $13,000, respectively and are included in general, administrative and selling expenses.

Fair Value of Financial Instruments

ASC 820 “Fair Value Measurement and Disclosures: (“ASU 820”) defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles in the United States of America (“GAAP”), and expands disclosures about payments to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 applies to all assets and liabilities that are measured and reported on a fair value basis.

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ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

The Company will apply the provisions of ASC 820 to nonfinancial assets and liabilities. Andrea calculates the fair value of financial instruments and includes this additional information in the notes to consolidated financial statements when the fair value is different than the book value of those financial instruments. When the book value approximates fair value, no additional disclosure is made. Andrea uses quoted market prices whenever available to calculate these fair values. When quoted market prices are not available, Andrea uses standard pricing models for various types of financial instruments which take into account the present value of estimated future cash flows. As of December 31, 2018 and 2017, the carrying value of all financial instruments approximated fair value.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. The most significant estimates, among other things, are used in accounting for allowances for bad debts, inventory valuation and obsolescence, product warranty, depreciation, deferred income taxes, expected realizable values for assets (primarily intangible assets), contingencies, revenue recognition as well as the recording and presentation of the Company’s convertible preferred stock. Estimates and assumptions are periodically reviewed and the effects of any material revisions are reflected in the consolidated financial statements in the period that they are determined to be necessary. Actual results could differ from those estimates and assumptions.

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” This standard requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company currently expects to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Company will not recognize right of use (“ROU”) assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company expects ASU 2016-02 will not have a material effect on its financial statements. While it continues to assess all the effects of adoption, the Company currently believes the most significant effects relate to the recognition of ROU assets and lease liabilities on the balance sheet for its existing leases. On adoption, the Company estimates it will recognize additional lease liabilities of approximately $78,000, with corresponding ROU assets of approximately the same amount.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments.” ASU No. 2016-13 provides financial statement readers more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. ASU No. 2016-13 is effective for annual reporting periods beginning after December 15, 2019. The Company has adopted ASU No. 2016-13 early and the adoption of this standard did not have a material impact on the Company’s financial position and results of operations.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (230) – Restricted Cash.” ASU No. 2016-18 requires an entity to include amounts described as restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. It is effective for annual reporting periods beginning after December 15, 2018. The Company has adopted ASU No. 2016-18 early and the adoption of this standard did not have a material impact on the Company’s financial position and results of operations.

In July 2017, FASB issued ASU No. 2017-11, I. Accounting for Certain Financial Instruments With Down Round Features and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests With a Scope Exception (“ASU 2017-11”). ASU 2017-11 amends guidance in FASB ASC 260, Earnings Per Share, FASB ASC 480, Distinguishing Liabilities from Equity, and FASB ASC 815, Derivatives and Hedging. The amendments in Part I of ASU 2017-11 change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. The amendments in Part II of ASU 2017-11 re-characterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the codification, to a scope exception. Those amendments do not have an accounting effect. ASU 2017-11 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company has adopted ASU No. 2017-11 early and the adoption of this standard did not have a material impact on the Company’s financial position and results of operations.

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In June 2018, the FASB issued ASU No. 2018-07, "Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-based Payment Accounting." ASU No. 2018-07 aligns accounting for share-based payments issued to nonemployees to that of employees under the existing guidance of Topic 718, with certain exceptions. This update supersedes previous guidance for equity-based payments to nonemployees under Subtopic 505-50, "Equity – Equity-based Payments to Nonemployees." It is effective for annual reporting periods beginning after December 15, 2018. The Company has adopted ASU No. 2018-07 early and the adoption of this standard did not have a material impact on the Company's financial position and results of operations.

Subsequent Events

The Company evaluates events that occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the consolidated financial statements.

3. INTANGIBLE ASSETS

Intangible assets, net, consisted of the following:

	December 31,	
	2018	2017
Core Technology	$ 8,567,448	$ 8,567,448
Patents and trademarks	946,970	900,063
	9,514,418	9,467,511
Less: accumulated amortization	(9,251,599)	(9,183,103)
	$ 262,819	$ 284,408

The changes in the carrying amount of intangible assets during the years ended December 31, 2018 and 2017 were as follows:

Balance as of January 1, 2017	$ 309,894
Additions during the period	25,120
Amortization	(50,606)
Balance as of December 31, 2017	284,408
Additions during the period	46,907
Amortization	(68,496)
Balance as of December 31, 2018	$ 262,819

Andrea accounts for its long-lived assets in accordance with ASC 360 "Property, Plant and Equipment" for purposes of determining and measuring impairment of its long-lived assets (primarily intangible assets) other than goodwill. Andrea's policy is to periodically review the value assigned to its long-lived assets to determine if they have been permanently impaired by adverse conditions which may affect Andrea. If Andrea identifies a permanent impairment such that the carrying amount of Andrea's long-lived assets are not recoverable using the sum of an undiscounted cash flow projection (gross margin dollars from product revenues), a new cost basis for the impaired asset will be established. If required, an impairment charge is recorded based on an estimate of future discounted cash flows. This new cost basis will be net of any recorded impairment. At December 31, 2018 and 2017, Andrea concluded that there were no long-lived assets that were required to be tested for recoverability.

Amortization expense was $68,496 and $50,606 for the years ended December 31, 2018 and 2017, respectively. Patents and trademarks, once issued are amortized on a straight-line basis over periods ranging from 10 to 20 years. Assuming no changes in the Company's intangible assets, estimated amortization expense for each of the five succeeding fiscal years ending December 31 is expected to be approximately $47,000, $34,000, $25,000, $24,000 and $23,000, respectively.

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4. INVENTORIES, net

Inventories, net, consisted of the following:

	December 31, 2018	December 31, 2017
Raw materials	$ 12,855	$ 18,843
Finished goods	200,201	117,606
	$ 213,056	$ 136,449

5. PROPERTY AND EQUIPMENT, net

Property and equipment, net, consisted of the following:

	December 31, 2018	December 31, 2017
Information Technology Equipment	$ 274,735	$ 258,715
Furniture and fixtures	87,958	87,958
Tools, molds and testing equipment	212,366	210,894
	575,059	557,567
Less: accumulated depreciation and amortization	(519,971)	(497,234)
	$ 55,088	$ 60,333

Depreciation and amortization of property and equipment was $29,554 and $24,839 for the years ended December 31, 2018 and 2017, respectively.

6. REVENUE SHARING, NOTE PURCHASE AGREEMENT, AND LONG-TERM DEBT

Revenue Sharing and Note Purchase Agreement

On December 24, 2014, the Company entered into an Amended and Restated Revenue Sharing and Note Purchase Agreement (the "Revenue Sharing Agreement") with AND34 Funding LLC ("AND34") (acting as the "Revenue Participants," the "Note Purchasers," and the "Collateral Agent"), which was retroactively effective as of February 14, 2014. Under the Revenue Sharing Agreement, the Company granted AND34 a perpetual predetermined share in the rights of the Company's specified future revenues from patents ("Monetization Revenues") owned by the Company (the "Patents") in exchange for $3,500,000, which was fully repaid as of September 30, 2016 and issued certain notes containing the features described in the Revenue Sharing Agreement (the "Notes"), which were repaid in 2016. In 2016-2017, the parties executed and amended a rider to the Revenue Sharing Agreement (the "Rider") pursuant to which Andrea agreed to issue and sell to AND34 additional Notes up to an aggregate amount of $7,500,000 (the "Additional Notes"), or such greater amount as AND34 may agree to in its sole discretion, during the four-year period beginning on the date of execution of the Rider (August 10, 2016). The Additional Notes have a maturity date of August 31, 2020. The proceeds of the Additional Notes will be used to pay certain expenses related to the Revenue Sharing Agreement and expenses of the Company incurred in pursuing patent monetization. As of December 31, 2018, there was $1,484,422 in Additional Notes principal and $66,862 PIK Interest outstanding.

Any Monetization Revenues will first be applied 100% to the payment of accrued and unpaid interest on, and then to repay outstanding principal of, the Additional Notes. After the Additional Notes are paid in full, the Monetization Revenues will be allocated amongst the Revenue Participants and the Company in accordance with certain predetermined percentages (based on aggregate amounts received by the Revenue Participants) ranging from 50% to the Revenue Participants to ultimately 20%. Monetization Revenues is defined in the Revenue Sharing Agreement to include, but is not limited to, amounts that the Company receives from third parties with respect to the Patents, which may include new license revenues, certain product revenue, payments and judgments. Monetization Revenues and associated expenses are included in the Company's Patent Monetization Segment (See Note 13).

The Revenue Sharing Agreement contains many stipulations between the parties regarding the handling of various matters related to the monetization of the Patents including tax treatment. Following an Event of Default under the Revenue Sharing Agreement, the Note Purchasers and Revenue Participants may proceed to protect and enforce their rights by suit or other appropriate proceeding, either for specific performance or the exercise of any power granted under the Revenue Sharing Agreement or ancillary documents including the Additional Notes.

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Long-term debt

	December 31,	
	2018	2017
Note Payable	$ 1,484,422	$ 1,184,422
PIK interest	66,862	5,542
Total long-term debt	1,551,284	1,189,964
Less: current maturities of long-term debt	-	-
Long-term debt, net of current maturities	$ 1,551,284	$ 1,189,964

The unpaid principal amount of the Additional Notes (including any PIK Interest) has an interest rate equal to LIBOR (as defined in the Revenue Sharing Agreement) plus 2% per annum, (totaling 4.40% and 3.33% at December 31, 2018 and 2017, respectively); provided that upon and during the continuance of an Event of Default (as set forth in the Revenue Sharing Agreement), the interest rate will increase an additional 2% per annum. Interest may be paid in cash at the option of the Company or otherwise shall be paid by increasing the principal amount of the Additional Notes by the amount of such interest ("PIK Interest"). The Company may prepay the Additional Notes from time to time in whole or in part, without penalty or premium. During the years ended December 31, 2018 and 2017, $300,000 and $5,700,000, respectively, of Additional Notes were issued to AND34. As of December 31, 2018, the remaining amount of Additional Notes that can be issued is $100,000. Amounts reported as current maturities of long-term debt reflect amounts expected to be paid in the next twelve months.

7. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

Trade accounts payable and other current liabilities consisted of the following:

	December 31,	
	2018	2017
Trade accounts payable	$ 86,706	$ 34,659
Payroll and related expenses	49,937	23,494
Patent monetization expenses	124,422	200,769
Deferred revenue	25,341	-
Professional and other service fees	94,279	108,404
Total trade accounts payable and other current liabilities	$ 380,685	$ 367,326

8. SERIES C CONVERTIBLE PREFERRED STOCK

On October 10, 2000, Andrea issued and sold in a private placement $7,500,000 of Series C Redeemable Convertible Preferred Stock (the "Series C Preferred Stock"). Each of these shares of Series C Preferred Stock had a stated value of $10,000 plus a $1,671 increase in the stated value, which sum is convertible into Common Stock at a conversion price of $0.2551. On February 17, 2004, Andrea announced that it had entered into an Exchange and Termination Agreement and an Acknowledgment and Waiver Agreement, which eliminated the dividend of 5% per annum on the stated value. The additional amount of $1,671 represents the 5% per annum from October 10, 2000 through February 17, 2004. The shares of Series C Preferred Stock are subject to antidilution provisions, which are triggered in the event of certain stock splits, recapitalizations, or other dilutive transactions. In addition, issuances of common stock at a price below the conversion price then in effect (currently $0.2551), or the issuance of warrants, options, rights, or convertible securities which have an exercise price or conversion price less than that conversion price, other than for certain previously outstanding securities and certain "excluded securities" (as defined in the certificate of amendment), require the adjustment of the conversion price to that lower price at which shares of common stock have been issued or may be acquired. In the event that Andrea issues securities in the future which have a conversion price or exercise price which varies with the market price and the terms of such variable price are more favorable than the conversion price in the Series C Preferred Stock, the purchasers may elect to substitute the more favorable variable price when making conversions of the Series C Preferred Stock.

In accordance with Sub Topic 815-40, Andrea evaluated the Series C Preferred Stock and concluded that it is not indexed to the Company's stock because of the conversion price adjustment feature described above. Accordingly, under the provisions of ASC 815, "Derivatives and Hedging" ("ASC 815"), Andrea evaluated the Series C Preferred Stock embedded conversion feature. The Company has concluded that the embedded conversion feature would be classified in shareholders' equity if it were a freestanding instrument, but as the Series C Preferred Stock is more akin to equity and as such it should not be bifurcated from the Series C instrument and accounted for separately.

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On July 17, 2018, 21.85765 shares of Series C Preferred Stock, together with related accrued dividends, were converted into 1,000,022 shares of Common Stock at a conversion price of $0.2551.

As of December 31, 2018, there were 11.469249 shares of Series C Preferred Stock outstanding, which were convertible into 524,736 shares of Common Stock and had remaining accrued dividends of $19,168.

9. SERIES D CONVERTIBLE PREFERRED STOCK

On February 17, 2004, Andrea entered into a Securities Purchase Agreement (including a Registration Rights Agreement) with certain holders of the Series C Preferred Stock and other investors (collectively, the "Buyers") pursuant to which the Buyers agreed to invest a total of $2,500,000. In connection with this agreement, on February 23, 2004, the Buyers purchased, for a purchase price of $1,250,000, an aggregate of 1,250,000 shares of a new class of preferred stock, the Series D Preferred Stock, convertible into 5,000,000 shares of Common Stock (an effective conversion price of $0.25 per share) and Common Stock warrants exercisable for an aggregate of 2,500,000 shares of Common Stock. These warrants were exercisable at any time after August 17, 2004, at an exercise price of $0.38 per share. On February 23, 2009, these warrants expired without being exercised.

In addition, on June 4, 2004, the Buyers purchased for an additional $1,250,000, an additional 1,250,000 shares of Series D Preferred Stock convertible into 5,000,000 shares of Common Stock (an effective conversion price of $0.25 per share) and Common Stock warrants exercisable for an aggregate of 2,500,000 shares of Common Stock. The warrants were exercisable at any time after December 4, 2004 and before June 4, 2009 at an exercise price of $0.17 per share. On June 4, 2009, these warrants expired without being exercised.

The shares of Series D Preferred Stock are also subject to antidilution provisions, which are triggered in the event of certain stock splits, recapitalizations, or other dilutive transactions. In addition, issuances of common stock at a price below the conversion price then in effect (currently $0.25), or the issuance of warrants, options, rights, or convertible securities which have an exercise price or conversion price less than that conversion price, other than for certain previously outstanding securities and certain "excluded securities" (as defined in the certificate of amendment), require the adjustment of the conversion price to that lower price at which shares of common stock have been issued or may be acquired. In the event that Andrea issues securities in the future which have a conversion price or exercise price which varies with the market price and the terms of such variable price are more favorable than the conversion price in the Series D Preferred Stock, the purchasers may elect to substitute the more favorable variable price when making conversions of the Series D Preferred Stock. In addition, the Company is required to use its best efforts to secure the inclusion for quotation on the Over the Counter Bulletin Board for the common stock issuable under the Series D Preferred Stock and to arrange for at least two market makers to register with the Financial Industry Regulatory Authority. In the event that the holder of the Series D Preferred Stock is unable to convert these securities into Andrea Common Stock, the Company shall pay to each such holder a Registration Delay Payment. This payment is to be paid in cash and is equal to the product of (i) the stated value of such Preferred Shares multiplied by (ii) the product of (1) .0005 multiplied by (2) the number of days that sales cannot be made pursuant to the Registration Statement (excluding any days during that may be considered grace periods as defined by the Registration Rights Agreement).

In accordance with Sub Topic 815-40, Andrea evaluated the Series D Preferred Stock and concluded that it is not considered to be indexed to the Company's stock because of the conversion price adjustment feature described above. Accordingly, under the provisions of ASC 815, Andrea evaluated the Series D Preferred Stock embedded conversion feature. The Company has concluded that the embedded conversion feature would be classified in shareholders' equity if it were a freestanding instrument, but as the Series D Preferred Stock is more akin to equity and as such it should not be bifurcated from the Series D instrument and accounted for separately.

As of December 31, 2018, there were 907,144 shares of Series D Preferred Stock outstanding which were convertible into 3,628,576 shares of Common Stock.

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10. INCOME TAXES

The Company accounts for income taxes in accordance with ASC 740 which 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. ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim period, disclosure and transition. There were no unrecognized tax benefits as of January 1, 2017 and during the years ended December 31, 2018 and 2017.

The Company has identified its federal tax return and its state tax return in New York as "major" tax jurisdictions, as defined in ASC 740. Based on the Company's evaluation, it has concluded that there are no significant uncertain tax positions requiring recognition in the Company's consolidated financial statements. The Company's evaluation was performed for tax years ended 2015 through 2018. 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 consolidated financial position.

On December 22, 2017, President Trump signed into law the legislation generally known as the Tax Cut and Jobs Act (the “2017 Tax Act”). The 2017 Tax Act includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years beginning after December 31, 2017. The company recognized the income tax effects of the 2017 Tax Act during the fourth quarter of 2017, the Company recorded a material, non-cash, change in its net deferred income tax balances of approximately $5.7 million related to the tax rate change, which resulting in a corresponding reduction of its valuation allowance.

The Company's policy for recording interest and penalties associated with audits is to record such items as a component of income tax expense. There were no amounts accrued for penalties or interest as of or during the year ended December 31, 2018. For the year ended December 31, 2018, the Company determined that, more likely than not, its deferred tax assets would not be realized and, accordingly, increased the valuation allowance. The increase in the valuation allowance is included in the income tax provision in the accompanying consolidated statement of operations for the year ended December 31, 2018. Management is currently unaware of any issues under review that could result in significant payments, accruals or material deviations from its position.

The provision for income tax consisted of the following:

	For the Years Ended December 31,	
	2018	2017
Current:		
Federal	$ -	$ -
Foreign	2,563	12,941
State and Local	-	-
Total Current	2,563	12,941
Deferred		
Federal	(229,000)	5,297,000
Foreign	-	-
State and Local	(55,000)	(66,000)
Adjustment to valuation allowance related to net deferred tax assets	284,000	(5,231,000)
Total Deferred	-	-
Provision for income taxes	$ 2,563	$ 12,941

The provision for income taxes for the years ended December 31, 2018 and 2017 of approximately $2,600 and $13,000, respectively, is the result of certain licensing revenues that are subject to withholding of income tax as mandated by the foreign jurisdiction in which the revenues are earned partially offset by a Federal income tax refund relating to alternative minimum tax credits.

Loss before income taxes is comprised of the following:

	For the Years Ended December 31,	
	2018	2017
Domestic	$ (955,411)	$ (1,205,543)
Foreign	12,866	64,753

Net loss before income taxes	$	(942,545)	$	(1,140,790)

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A reconciliation between the effective rate for income taxes and the amount computed by applying the statutory Federal income tax rate to loss before provision for income taxes is as follows:

	For the Years Ended December 31,			
	2018		2017	
Tax provision at statutory rate		(21)%		(21)%
State and local taxes		(5)%		(5)%
Foreign taxes		-		(1)%
Incentive Stock Option Expense		1%		2%
Change in effective tax rate		-		(503)%
Change in valuation allowance for net deferred tax assets	25	%	527	%
	-	%	(1	)%

The components of temporary differences that give rise to significant portions of the deferred tax asset, net, are as follows:

	For the Years Ended December 31,			
	2018		2017	
Deferred tax assets:				
Accrued expenses	$	27,000	$	26,000
Allowance for doubtful accounts		1,000		1,000
Deferred revenue		7,000		-
Reserve for obsolescence		25,000		29,000
Expense associated with non-qualified stock options		94,000		90,000
Revenue Sharing Agreement		200,000		258,000
General business credit		1,378,000		1,337,000
NOL carryforward		11,377,000		11,084,000
		13,109,000		12,825,000
Less: valuation allowance		(13,109,000)		(12,825,000)
Deferred tax asset, net	$	-	$	-

The change in the valuation allowance for deferred tax assets are summarized as follows:

	For the Years Ended December 31,			
	2018		2017	
Beginning Balance	$	12,825,000	$	18,056,000
Change in Allowance		284,000		(5,231,000)
Ending Balance	$	13,109,000	$	12,825,000

As of December 31, 2018, Andrea had net operating loss carryforwards of approximately $43.8 million. $1 million of these net operating loss carryforwards are carried forward indefinitely, the remaining $42.8 million expire in varying amounts beginning in 2018 through 2037. Andrea has General Business Credits of approximately $1.4 million expiring in varying amounts beginning in 2018 through 2038. As a result of the Company's adoption of ASU No. 2016-09 effective January 1, 2016, the Company records tax benefits and expense in the statements of earnings.

11. COMMITMENTS AND CONTINGENCIES

Leases

In May 2015, Andrea entered into a new lease for its new corporate headquarters located in Bohemia, New York, where Andrea leases space for research and development, sales and executive offices from an unrelated party. The lease is for approximately 3,000 square feet and expires in October 2020. The rent expense under this operating lease was $34,666 and $33,701 for the years ended December 31, 2018 and 2017, respectively. The current monthly rent under this lease is $2,910 with annual escalations of 3.5%.

As of December 31, 2018, the minimum annual future lease payments, under this lease and all other noncancellable operating leases, were as follows:

2019		57,529
2020		35,787
Total	$	93,316

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Employment Agreements

In August 2014, the Company entered into an employment agreement with Mr. Andrea, which was subsequently amended on February 19, 2018, August 9, 2018 and March 22, 2019. The effective date of the original employment agreement was August 1, 2014 and it currently expires on July 31, 2019, subject to renewal as approved by the Compensation Committee of the Board of Directors. Pursuant to his amended employment agreement, Mr. Andrea will receive an annual base salary of $216,000. The employment agreement provides for quarterly bonuses equal to 5% of the Company's pre-bonus net after tax quarterly earnings for a total quarterly bonus amount not to exceed $12,500; and annual bonuses equal to 9% of the Company's annual pre-bonus net after tax earnings in excess of $300,000 up to $3,000,000, and 3% of the Company's annual pre-bonus adjusted net after tax earnings in excess of $3,000,000. Adjustments to net after tax earnings shall be made to remove the impact of change in recognition of accumulated deferred tax asset value. All bonuses shall be payable as soon as the Company's cash flow permits. All bonus determinations or any additional bonus in excess of the above will be made in the sole discretion of the Compensation Committee. Under certain circumstances, Mr. Andrea is entitled to a change in control payment equal to twelve months of the Executive's most recent Base Salary plus a pro-rated portion of the Executive's most recent annual and four quarterly bonuses paid immediately preceding the Change of Control, continuation of health and medical benefits for twelve months and immediate vesting of all stock options in the event of a change in control during the term of his agreement and subsequent termination of his employment within twelve months following the change of control. In the event of his termination without cause or resignation with the Company's consent, Mr. Andrea is entitled to a severance payment equal to two months of his base salary, plus the two months pro-rated portion of his most recent annual and quarterly bonuses, payment of $12,500, the un-paid bonus for the quarter ended September 30, 2017 and a continuation of health insurance coverage for Mr. Andrea, his spouse and his dependents for 6 months. At December 31, 2018, the future minimum cash commitments under this agreement aggregate $126,000.

On November 11, 2008, the Company entered into an amended and restated change in control agreement with Corisa L. Guiffre, Vice President, Chief Financial Officer and Assistant Corporate Secretary of the Company. The change in control agreement provides Ms. Guiffre with a severance benefit upon termination in connection with a change in control (as defined in the agreement). If Ms. Guiffre is terminated following a change in control, the Company will pay Ms. Guiffre a sum equal to three times Ms. Guiffre's average annual compensation for the five preceding taxable years. All restrictions on any restricted stock will lapse immediately and incentive stock options and stock appreciation rights, if any, will become immediately exercisable in the event of a change in control of the Company. Upon the occurrence of a change in control followed by Ms. Guiffre's termination of employment, the Company will cause to be continued life, medical, dental and disability coverage. Such coverage and payments shall cease upon the expiration of 36 full calendar months following the date of termination.

Legal Proceedings

In September 2016, the Company filed a complaint with the United States District Court for the Eastern District of New York, alleging patent infringement against Apple Inc. ("Apple") and requesting monetary and injunctive relief (the "New York Litigation"). The New York Litigation was stayed pending final disposition of a parallel case that the Company filed against Apple with the United States International Trade Commission ("ITC"). The ITC's final decision finding that Apple did not violate the ITC's statute was issued on March 22, 2018. Apple informed the New York judge of this final decision on May 30, 2018. The ITC's final decision does not affect Andrea's right to continue prosecuting the New York litigation.

In January 2017, Apple filed four (4) petitions for inter partes review ("IPR") of the Company's patents asserted in the New York Litigation with the United States Patent and Trademark Office (PTO). The Company filed its Patent Owner's Preliminary Response in two of these IPR proceedings on May 1, 2017. The PTO instituted the four IPR proceedings requested by Apple on July 24, 2017. The Company filed its Patent Owner's Response in two of these IPR proceedings on November 7, 2017. On March 19, 2018, both the Company and Apple requested oral argument in these two IPR proceedings, which occurred on April 25, 2018. On July 12, 2018, the PTO issued its final written decisions in those two IPR proceedings, ruling that claims 6-9 of the Company's U.S. Patent No. 6,363,345 remain valid and enforceable after the PTO's review. On September 13, 2018, Apple filed its Notice of Appeal of that ruling to the United States Court of Appeals for the Federal Circuit (the "Federal Circuit"). Apple filed its Appeal Brief with the Federal Circuit on January 31, 2019. The Company filed its Response to Apple's Appeal Brief on March 12, 2019.

On July 20, 2018, after the PTO's final written decisions, the Company informed the New York judge of the status of the PTO proceedings, and its intention to move forward with the New York Litigation regarding claims 6-9 of the Company's U.S. Patent No. 6,363,345. Apple asked the New York judge to maintain the previously entered stay of the New York Litigation pending its appeal of the PTO holdings to the Federal Circuit. At the New York judge's request, the parties fully briefed their competing arguments regarding whether to lift or maintain the stay and submitted those briefs to the New York judge on December 13, 2018. The Company and Apple are still awaiting the New York judge's ruling on whether to lift the stay.

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Andrea intends to vigorously prosecute the New York Litigation and Apple's appeal of the IPR results to the Federal Circuit.

12. STOCK PLANS AND STOCK-BASED COMPENSATION

In October 2006, the Board adopted the Andrea Electronics Corporation 2006 Equity Compensation Plan ("2006 Plan"), which was subsequently approved by the shareholders. The 2006 Plan, as amended, authorized the granting of awards, the exercise of which would allow up to an aggregate of 18,000,000 shares of Andrea's Common Stock to be acquired by the holders of those awards. Awards could be granted to key employees, officers, directors and consultants. As the 2006 Plan has expired, no further awards will be granted under the 2006 Plan.

The stock option awards granted under this plan have been granted with an exercise price equal to the market price of the Company's stock at the date of grant with vesting periods of up to four years and 10-year contractual terms. The fair values of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model that uses the weighted-average assumptions noted in the following table. Expected volatilities are based on implied volatilities from historical volatility of the Company's stock. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

No options were granted during the year ended December 31, 2018 or 2017.

Option activity during 2018 is summarized as follows:

	Options Outstanding				Options Exercisable			
	Options Outstanding	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Contractual Life	Options Exercisable	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Contractual Life
At January 1, 2018	15,163,001	$ 0.07	$ 0.07	4.15 years	12,561,401	$ 0.07	$ 0.07	3.19 years
Exercised	(2,190,000)	$ 0.04	$ 0.04					
Forfeited	(83,375)	$ 0.05	$ 0.05					
Canceled	(2,881,625)	$ 0.04	$ 0.04					
At December 31, 2018	10,008,001	$ 0.08	$ 0.08	4.81 years	8,847,351	$ 0.08	$ 0.08	4.41 years

During the year ended December 31, 2018, 1,357,575 options vested with a weighted average exercise price of $0.05 and a weighted average fair value of $0.05 per option. Based on the December 31, 2018 fair market value of the Company's common stock of $0.06 per share, the aggregate intrinsic value of the 10,008,001 options outstanding and 8,847,351 options exercisable is $34,750 and $23,144, respectively.

Total compensation expense recognized related to stock option awards was $45,920 and $124,695 for the years ended December 31, 2018 and 2017, respectively. In the accompanying consolidated statement of operations for the year ended December 31, 2018, $42,430 of expense is included in general, administrative and selling expenses and $3,490 is included in research and development expenses. In the accompanying consolidated statement of operations for the year ended December 31, 2017, $106,448 of expense is included in general, administrative and selling expenses and $18,247 is included in research and development expenses.

As of December 31, 2018, there was $17,710 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the 2006 Plan which is expected to be recognized in 2019.

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ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

13. SEGMENT INFORMATION

Andrea follows the provisions of ASC 280 "Segment Reporting" ("ASC 280"). Reportable operating segments are determined based on Andrea's management approach. The management approach, as defined by ASC 280, is based on the way that the chief operating decision-maker organizes the segments within an enterprise for making operating decisions and assessing performance. While Andrea's results of operations are primarily reviewed on a consolidated basis, the chief operating decision-maker manages the enterprise in two segments: (i) Patent Monetization; and (ii) Andrea DSP Microphone and Audio Software Products. Patent Monetization includes Monetization Revenues (as defined in our Revenue Sharing Agreement). Andrea DSP Microphone and Audio Software Products primarily include products based on the use of some, or all, of the following technologies: Andrea Digital Super Directional Array microphone technology ("DSDA"), Andrea Direction Finding and Tracking Array microphone technology ("DFTA"), Andrea PureAudio noise filtering technology, and Andrea EchoStop, an advanced acoustic echo cancellation technology. The following represents selected consolidated financial information for Andrea's segments for the years ended December 31, 2018 and 2017:

2018 Twelve Month Segment Data	Patent Monetization	Andrea DSP Microphone and Audio Software Products	Total 2018
Net product revenues	$ -	$ 1,391,335	$ 1,391,335
Service related revenues	-	38,999	38,999
License revenues	1,241	32,959	34,200
Loss from operations	(394,382)	(495,803)	(890,185)
Depreciation and amortization	34,250	63,800	98,050
Purchases of patents and trademarks	23,453	23,454	46,907
Purchases of property and equipment	-	24,309	24,309
Assets	287,206	1,231,802	1,519,008
Total long lived assets	131,410	186,497	317,907

2017 Twelve Month Segment Data	Patent Monetization	Andrea DSP Microphone and Audio Software Products	Total 2017
Net product revenues	$ -	$ 851,870	$ 851,870
Service related revenues	-	-	-
License revenues	6,003,594	88,776	6,092,370
Loss from operations	(24,461)	(1,047,467)	(1,071,928)
Depreciation and amortization	25,304	50,141	75,445
Purchases of patents and trademarks	12,560	12,560	25,120
Purchases of property and equipment	-	21,561	21,561
Assets	255,759	1,700,158	1,955,917
Total long lived assets	142,201	202,540	344,741

Management of Andrea assesses assets and non-operating income statement data on a consolidated basis only. International revenues are based on the country in which the end-user is located. For the years ended December 31, 2018 and 2017, and as of each respective year-end, total revenues and accounts receivable by geographic area were as follows:

Geographic Data	2018	2017
Total Revenues:		
United States	$ 1,108,749	$ 659,297
Foreign[(1)]	355,785	6,284,943
	$ 1,464,534	$ 6,944,240

Accounts receivable:		
United States	$ 293,978	$ 187,222
Foreign	124,703	73,724
	$ 418,681	$ 260,946

(1) Net revenues to any one foreign country did not exceed 10% for the year ended December 31, 2018. Total revenue from South Korea represented 86% of total revenues for the year ended December 31, 2017.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ANDREA ELECTRONICS CORPORATION

By: /s/ DOUGLAS J. ANDREA
Name: **Douglas J. Andrea**
Title: **Chairman of the Board, President, Chief Executive Officer and Corporate Secretary**
Date: March 29, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons in the capacities and on the dates indicated.

/s/ DOUGLAS J. ANDREA **Douglas J. Andrea**	Chairman of the Board, President, Chief Executive Officer and Corporate Secretary	March 29, 2019
/s/ CORISA L. GUIFFRE **Corisa L. Guiffre**	Vice President, Chief Financial Officer and Assistant Corporate Secretary	March 29, 2019
/s/ GARY A. JONES **Gary A. Jones**	Director	March 29, 2019
/s/ LOUIS LIBIN **Louis Libin**	Director	March 29, 2019
/s/ JOSEPH J. MIGLIOZZI **Joseph J. Migliozzi**	Director	March 29, 2019
/s/ JONATHAN D. SPAET **Jonathan D. Spaet**	Director	March 29, 2019