

ANDREA ELECTRONICS CORP
Form 10QSB
November 14, 2003

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2003

OR

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

For the transition period from _____ to _____

Commission file number 1-4324

ANDREA ELECTRONICS CORPORATION

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

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New York
(State or other jurisdiction of
incorporation or organization)

11-0482020
(I.R.S. employer
identification no.)

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

11747
(Zip Code)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days (check one) Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 11, 2003, there are 26,607,713 common shares outstanding.

Transitional Small Business Disclosure format (check one) Yes No

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

CONDENSED CONSOLIDATED BALANCE SHEETS

| | September 30, 2003 (unaudited) | December 31, 2002 (audited) |
|---|--|---------------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 2,352,532 | \$ 3,307,437 |
| Accounts receivable, net of allowance for doubtful accounts of \$59,465 and \$70,831 | 465,971 | 412,849 |
| Notes receivable | 709,970 | |
| Inventories, net | 1,505,629 | 2,222,450 |
| Prepaid expenses and other current assets | 173,635 | 309,705 |
| Assets from discontinued operations | | 1,487,482 |
| Total current assets | 5,207,737 | 7,739,923 |
| PROPERTY AND EQUIPMENT, net | 277,439 | 543,572 |
| INTANGIBLE ASSETS, net | 7,720,365 | 8,208,638 |
| OTHER ASSETS, net | 271,318 | 282,582 |
| Total assets | \$ 13,476,859 | \$ 16,774,715 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Trade accounts payable | \$ 609,196 | \$ 1,023,353 |
| Current portion of long-term debt | 20,488 | 21,056 |
| Accrued restructuring charges | 360,565 | 364,577 |
| Deferred revenue | 1,666,680 | 1,666,680 |
| Other current liabilities | 1,787,706 | 2,409,526 |
| Liabilities from discontinued operations | | 122,903 |
| Total current liabilities | 4,444,635 | 5,608,095 |
| LONG-TERM DEBT | 1,161 | 16,572 |
| DEFERRED REVENUE | 1,129,954 | 2,379,964 |
| OTHER LIABILITIES | 236,754 | 249,677 |
| Total liabilities | 5,812,504 | 8,254,308 |
| SERIES B REDEEMABLE CONVERTIBLE PREFERRED STOCK, net, \$.01 par value; authorized: 1,000 shares; issued and outstanding: 0 and 66 shares, respectively; liquidation value: \$0 and \$660,000, respectively | | 645,091 |
| SERIES C REDEEMABLE CONVERTIBLE PREFERRED STOCK, net, \$.01 par value; authorized: 1,500 shares; issued and outstanding: 730 and 749 shares, respectively; liquidation value: \$7,301,876 and \$7,491,876, respectively | 7,210,257 | 7,381,508 |

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS EQUITY:

| | | |
|---|---------------|---------------|
| Preferred stock, \$.01 par value; authorized: 4,997,500 shares; none issued and outstanding | | |
| Common stock, \$.01 par value and \$.50 par value, respectively; authorized: 200,000,000 shares; issued and outstanding: 25,149,166 and 21,127,918 shares, respectively | 251,492 | 10,563,959 |
| Additional paid-in capital | 65,033,999 | 54,074,247 |
| Deferred stock compensation | (5,700) | (23,099) |
| Accumulated deficit | (64,825,693) | (64,121,299) |
| | <hr/> | <hr/> |
| Total shareholders equity | 454,098 | 493,808 |
| | <hr/> | <hr/> |
| Total liabilities and shareholders equity | \$ 13,476,859 | \$ 16,774,715 |
| | <hr/> | <hr/> |

See Notes to Condensed Consolidated Financial Statements

ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|----------------|---|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| REVENUES | | (restated)* | | (restated)* |
| Net Product Revenues | \$ 749,888 | \$ 662,560 | \$ 2,440,802 | \$ 2,231,543 |
| License Revenues | 416,670 | 360,353 | 1,250,010 | 536,686 |
| Revenues | 1,166,558 | 1,022,913 | 3,690,812 | 2,768,229 |
| COST OF REVENUES | 653,251 | 458,326 | 1,941,979 | 1,702,545 |
| Gross margin | 513,307 | 564,587 | 1,748,833 | 1,065,684 |
| RESEARCH AND DEVELOPMENT EXPENSES | 667,207 | 780,006 | 2,177,978 | 2,370,278 |
| GENERAL, ADMINISTRATIVE AND SELLING EXPENSES | 949,938 | 1,308,236 | 2,959,623 | 4,052,469 |
| Loss from operations | (1,103,838) | (1,523,655) | (3,388,768) | (5,357,063) |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income (expense), net | 508 | (30,756) | 41,039 | (13,538) |
| Rent and miscellaneous income, net | 30,873 | 14,809 | 108,511 | 34,372 |
| Other income (expense) | 31,381 | (15,947) | 149,550 | 20,834 |
| LOSS FROM CONTINUING OPERATIONS | (1,072,457) | (1,539,602) | (3,239,218) | (5,336,229) |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS | | (54,685) | 2,534,824 | 320,698 |
| PROVISION FOR INCOME TAXES | | (1,806,615) | | (1,806,615) |
| CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE FOR GOODWILL, NET OF \$0 TAX | | | | (12,458,872) |
| Net loss | (1,072,457) | (3,400,902) | (704,394) | (19,281,018) |
| PREFERRED STOCK DIVIDENDS | 113,892 | 115,328 | 334,182 | 357,854 |
| Net loss attributable to common shareholders | \$ (1,186,349) | \$ (3,516,230) | \$ (1,038,576) | \$ (19,638,872) |
| PER SHARE INFORMATION | | | | |
| Loss from continuing operations Basic and Diluted | \$ (.04) | \$ (.17) | \$ (.14) | \$ (.39) |
| Income from discontinued operations Basic and Diluted | | | .11 | .02 |
| Cumulative effect of a change in accounting principle for goodwill Basic and Diluted | | | | (.68) |
| Net loss Basic and Diluted | (.04) | (.17) | (.03) | (1.05) |
| Preferred stock dividends Basic and Diluted | (.01) | (.01) | (.02) | (.02) |

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| | | | | | | | | |
|--|----|-------------------|----|-------------------|----|-------------------|----|-------------------|
| Net loss per share attributable to common shareholders Basic and Diluted | \$ | (.05) | \$ | (.18) | \$ | (.05) | \$ | (1.07) |
| | | <u> </u> | | <u> </u> | | <u> </u> | | <u> </u> |
| Shares used in computing net loss per share Basic and Diluted | | 24,310,003 | | 19,216,925 | | 22,785,111 | | 18,356,233 |
| | | <u> </u> | | <u> </u> | | <u> </u> | | <u> </u> |

See Notes to Condensed Consolidated Financial Statements.

* Restated to reflect cumulative effect of a change in accounting principle (Note 2) and to reflect discontinued operations relating to the Aircraft Communications Products Division (Note 9).

ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

(UNAUDITED)

| | Shares | Common | Additional Paid-In | Deferred Stock | Accumulated | Total |
|---|--------------------|---------------|-------------------------------|---------------------------|--------------------|--------------------------------|
| | Outstanding | Stock | Capital | Compensation | Deficit | Shareholders Equity |
| BALANCE, January 1, 2003 | 21,127,918 | \$ 10,563,959 | \$ 54,074,247 | \$ (23,099) | \$ (64,121,299) | \$ 493,808 |
| Change in Par Value | | (10,352,680) | 10,352,680 | | | |
| Adjustment for Previously Issued Shares | 38,352 | 384 | (384) | | | |
| Conversions of Series B Redeemable Convertible Preferred Stock | 3,256,695 | 32,567 | 730,948 | | | 763,515 |
| Conversions of Series C Redeemable Convertible Preferred Stock | 726,201 | 7,262 | | | | |