ANDREA ELECTRONICS CORP
Form 10-K
March 29, 2016

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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, 2015

or

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

For the transition period from ___ to ___

Commission file number 1-4324

ANDREA ELECTRONICS CORPORATION

(Exact name of registrant as specified in its charter)

New York **(State or other jurisdiction of incorporation or organization)**	**11-0482020** **(I.R.S. employer identification no.)**
620 Johnson Avenue Suite 1b, Bohemia, New York **(Address of principal executive offices)**	**11716** **(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 X

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 X

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 X No _

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X 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. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller Reporting Company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes_ No X

The aggregate market value of the voting and non-voting common equity held by non-affiliates was $3,493,570 based upon the closing price of $0.07 per share as quoted on the OTC Bulletin Board on June 30, 2015.

The number of shares outstanding of the registrant s Common Stock as of March 24, 2016, was 64,416,035.

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:

- computer speech recognition applications;
- computer voice over the internet protocol (VoIP) applications; and
- OEM microphone components and assemblies.

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 and implemented into various form factors, including for example, into the monitor of a PC, a cloud-based digital assistant or a rear view mirror, and can be used individually or combined depending on particular customer requirements.

We are currently targeting our far-field technologies at: 1) the desktop and laptop computing market; 2) the video and audio conferencing market; and 3) the market for personal hands free communication designed for use in automobiles, trucks and buses to control PCs and cellular communication and OEM voice input applications. Our far-field, digital noise canceling technologies and related products, together with implementations of other high-end audio technologies (for example, our software noise cancellation technology) comprise our Andrea DSP Microphone and Audio Software line of business. Net revenues from such technologies and products during the years ended December 31, 2015 and 2014 was approximately 10% and 100%, 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 communication 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 and Note Purchase Agreement, the Company granted AND34 a perpetual predetermined share in the rights of the Company s specified future revenues from currently owned patents by the Company in exchange for $3,500,000. Under the Revenue Sharing Agreement, the Company agreed to issue and sell to AND34 an additional $6,500,000 in notes for an aggregate of $10,700,000 in notes. The proceeds of the notes will be used to pay preclose expenses and our patent monetization expenses. Total revenues from this segment during the years ended December 31, 2015 and 2014 was approximately 91% and 0%, 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 microphone and communication products. 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 to be used for these natural language, human/machine interfaces with:

- desktop, laptop and hand-held computers, mobile personal computing devices and cellular phones;
- video and audio conferencing systems; and
- automotive communication systems.

We believe that 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. Applications in this area include:

- continuous speech dictation to personal computers;
- multiparty video teleconferencing and software that allow participants to see and jointly communicate; and
- cellular hands free interfaces for automobiles, home and office automation.

We believe that an increasing number of these devices will be introduced into the marketplace during the next several years.

Our Strategy

Our strategy is to:

- maintain and extend 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 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. An example of this is a person using a notebook computer with embedded web cam and array microphone who wants to video conference using VoIP with a friend in another country. We have also engineered our Andrea DSP Microphone and Audio Software Products to be compatible with Universal Serial Bus, or USB, computer architecture. USB is an industry standard for connecting peripherals, such as microphones, earphones, headsets, keyboards, mice, joysticks, scanners and printers, to personal computers. 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 powers Andrea s SuperBeam microphone which 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 properties within an environment and adaptively identifies interfering noises that are extraneous to the voice signal, resulting in increased intelligibility of communications.

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, particularly in high noise environments. PureAudio is especially effective for use with speech recognition and mobile devices. PureAudio is a noise canceling algorithm that enhances applications that are controlled by 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 EchoStop provides a full duplex acoustic echo cancellation algorithm enabling both loudspeakers to broadcast and microphone to transmit simultaneously turning your PC into a high quality speakerphone. 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 algorithms 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.

SuperBeam®. SuperBeam is a highly accurate digital algorithm that forms an acoustic beam that extends from the microphone to the speech source in an environment. We believe SuperBeam provides a fixed noise reduction microphone solution for the typical acoustic environment found in room environments in which speech is used, such as in offices and homes. The microphone beam is generated by processing multiple microphone samples through pre-established digital filters and adding the outputs. The result is an optimum speech enhancement and noise reduction solution to a predefined setting. Because the beam is able to adapt to changes in the acoustic environment, this technology is called adaptive beamforming.

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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:

Speech recognition for word processing, database, and similar applications;

Audio/videoconferencing;

Internet telephony and Voice Chat;

Cellular and other wireless telecommunications; and

Telematics, or in-vehicle computing (the use of computer-controlled systems in automobiles and trucks).

We market and sell our products directly to end users through our website, computer product distributors, through value-added resellers, to original equipment manufacturers and to software publishers. For more information about these collaborative arrangements, please refer to the information under the caption Our Collaborative Arrangements.

Andrea DSP Microphone and Audio Software Products

We develop our Andrea DSP Microphone and Audio Software Products primarily through customer-specific integration efforts, and we either license our related algorithms, sell a product incorporating our related algorithms, or both. For example, we have developed technologies that can be, or are, embedded into a PC, PC monitors, high-end videoconferencing units, IP telephony applications, automotive interiors and hand-held devices, among others. 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:

Andrea SuperBeam Array Microphone. Andrea s patented DSDA adaptive beam forming system powers Andrea s SuperBeam Array Microphone which enables more intelligible audio by forming a beam toward the speaker and eliminating background noises that are outside of the beam. DSDA is particularly effective for small office/home office use, providing an untethered noise cancelling microphone experience.

Andrea USB-SA External Digital Sound Card. Andrea s PureAudio USB-SA with patented noise reduction technology eliminates noise problems by utilizing high quality digital circuitry and state of the art noise reduction algorithm software. This format bypasses the desktop or laptop computer s sound system, providing increased intelligibility and performance of stereo microphone input and stereo speaker output for all of a user s digital audio applications including VoIP and speech recognition programs.

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 AutoArray Microphone (AutoArray)*The AutoArray is a digital, high performance microphone system designed for computing applications in vehicles such as automobiles and trucks. It is the first super-directional audio input device designed specifically for in-vehicle computing. The AutoArray incorporates several technologies, including DSDA and PureAudio.

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, recitals, church services or precious family events and offers back ground noise reduction for crystal clear recordings of voice notes, lectures and interviews. With its almost unlimited recording time, you never have to worry about cutting off the end of a lecture or recital.

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 that any of these discussions will result in any definitive agreements.

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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 2016 to 2030. We also have other patent applications currently pending; however, we cannot assure that patents will be issued with respect to these currently pending or future applications which we may file, nor can we assure 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, 2015 and 2014, total research and development expenses for continuing operations were $767,680 and $487,858, respectively. During 2016, we expect research and development expenses to remain at the same level when compared to 2015. 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.

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 Original Equipment Manufacturers (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 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 2015 and 2014, 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 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.

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.

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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, 2015, we had 11 employees, of whom one was engaged in production and related operations, five were engaged in research and development, and four 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 five independent consultants (two are sales representatives, one is engaged for administration purposes and two are engaged in research and development activities).

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 to repay outstanding principal of notes payable to AND34. After the notes are paid off in full, Monetization Revenues received will be allocated to AND34 and the Company in accordance with certain predetermined percentages ranging from 100% until AND34 has received $3,500,000 to ultimately 20%. At December 31, 2015, there is $1,900,775 of accrued and unpaid interest and related outstanding principal notes and AND34 has received $3,187,933 of the $3,500,000 advance from the Revenue Sharing Agreement. 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, 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 or ancillary documents including the notes.

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 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 from continuing operations for the years ended December 31, 2015 and 2014 were approximately $13.2 million and $1.2 million, respectively. Net income from continuing operations for the year ended December 31, 2015 was approximately $2.5 million, or $0.04 per share on a basic and diluted basis, versus a net loss from continuing operations of approximately $2.5 million, or $0.04 net loss per share on a basic and diluted basis for the year ended December 31, 2014. On April 2, 2015, we sold our Andrea Anti-Noise Products Division. For the year ended December 31, 2015, the Anti-Noise Products business segment generated approximately $662,000 in revenue and a total operating loss of approximately $300,000 and we recorded a gain on the sale of the segment of approximately $880,000. For the year ended

December 31, 2014, the Anti-Noise Products business segment generated approximately $1.6 million in revenue and a total operating loss of approximately $365,000. We continue to explore opportunities to grow sales in other business areas and vigorously defend and monetize our intellectual property.

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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, 64,416,035 were outstanding as of March 24, 2016. The number of shares outstanding does not include an aggregate of 24,229,491 shares of common stock that are issuable. This number of issuable common shares is equal to approximately 38% of the 64,416,035 outstanding shares. These issuable common shares are comprised of: a) 16,899,821 shares of our common stock reserved for issuance upon exercise of outstanding awards granted under our 1998 Stock Plan and 2006 Stock Plan; b) 1,677,436 shares reserved for future grants under our 2006 Stock Plan; c) 2,023,658 shares of common stock that are issuable upon conversion of the Series C Preferred Stock; and d) 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 24, 2016, we had 44.231432 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 5,652,234 shares, which is equal to approximately 9% of the 64,416,035 outstanding shares.

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.

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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.

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.

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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.

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, 2015 and 2014, total revenues from sales to customers outside the United States accounted for approximately 81% and 84%, 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.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Andrea has a lease for its corporate headquarters, which is located in Bohemia, New York. The lease, which currently expires in October 2020, is for approximately 3,000 square feet of leased space is 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 to the accompanying Consolidated Financial Statements for further information concerning our property and equipment and leased facilities.

ITEM 3. LEGAL PROCEEDINGS

In December 2010, Audrey Edwards, Executrix of the Estate of Leon Leroy Edwards, filed a law suit in the Superior Court of Providence County, Rhode Island, against 3M Company and over 90 other defendants, including the Company, alleging that the Company processed, manufactured, designed, tested, packaged, distributed, marketed or sold asbestos containing products that contributed to the death of Leon Leroy Edwards. The Company received service of process in April 2011. The Company has retained legal counsel and has filed a response to the compliant. The Company believes the lawsuit is without merit and intends to file a Motion for Summary Judgment to that affect. Accordingly, the Company does not believe the lawsuit will have a material adverse effect on the Company s financial position or results of operations.

In July 2014, Andrea filed three complaints with the United States District Court for the Eastern District of New York, alleging patent infringement against Acer Inc. and related entities ("Acer"), Lenovo Group Ltd. and related entities ("Lenovo"), and Toshiba Corp. and related entities ("Toshiba"), and requesting monetary and injunctive relief. Acer, Lenovo, and Toshiba answered Andrea's complaints on October 20, 2014. Lenovo also asserted counterclaims which Andrea answered on November 10, 2014. Andrea also filed First Amended Complaints in these actions on November 10, 2014 which Acer, Lenovo, and Toshiba answered on November 24, 2014. Lenovo also asserted counterclaims which Andrea answered on December 15, 2014. All of these cases were stayed on March 23, 2015 due to Andrea s complaint with the International Trade Commission (ITC) against these parties. Andrea and Acer settled their disputes and filed a stipulation of dismissal which was granted on January 19, 2016.

In January 2015, Andrea filed seven complaints with the United States District Court for the Eastern District of New York, alleging patent infringement against Acer, ASUSTeK Computer Inc. and related entities ("Asus"), Dell Inc. ("Dell"), Hewlett-Packard Co. ("HP"), Lenovo, Realtek Semiconductor Corp. ("Realtek"), and Toshiba, and requesting monetary and injunctive relief. Lenovo answered Andrea's complaint on February 10, 2015. Lenovo also asserted counterclaims which Andrea answered on March 3, 2015. The other defendants have not yet answered Andrea's complaint. All of these cases except for the case against Realtek were also stayed on March 23, 2015 due to Andrea s complaint with the ITC against these parties. In October 2015, Andrea and Realtek reached a settlement agreement, resolving all disputes between the parties, and as a part of that agreement, Andrea and Realtek agreed to move for dismissal of Andrea s action against Realtek in the Eastern District of New York. Andrea and Realtek s stipulation of dismissal was granted on December 22, 2015. Andrea and Acer settled their disputes and filed a stipulation of dismissal which was granted on January 27, 2016. Andrea and HP settled their disputes and filed a stipulation of dismissal which was granted on February 5, 2016. Andrea and Asus settled their disputes and filed a stipulation of dismissal which was granted on February 23, 2016.

In February 2015, Andrea filed a complaint with the ITC, alleging patent infringement and unfair competition against Acer, Asus, Dell, HP, Lenovo, Realtek, and Toshiba (the ITC Respondents), and requesting injunctive relief. The ITC instituted an investigation on March 12, 2015. The ITC Respondents answered Andrea's complaint on April 6, 2015. On July 2, 2015, Conexant Systems, Inc. (Conexant) filed a motion to intervene in the Investigation. On July 14, 2015, Waves Audio, Ltd. (Waves) filed a motion to intervene in the investigation. The Administrative Law Judge (ALJ) granted Conexant and Waves motions to intervene on August 7, 2015. In October 2015, Andrea and Realtek reached a settlement agreement, resolving all disputes between the parties, and as a part of that agreement, Andrea and Realtek moved to partially terminate the ITC Investigation with respect to certain of Andrea s claims pertaining to Realtek and its products. That motion was granted by the ALJ on November 6, 2015. The ITC chose not to review the ALJ s initial determination granting that motion. Andrea and Acer settled their disputes and filed a motion to terminate Acer from the investigation, which was granted by the ALJ on November 25, 2015. The ITC chose not to review the ALJ s initial determination granting that motion. Andrea and HP settled their disputes and filed a motion to terminate HP from the investigation, which was granted by the ALJ on January 12, 2016. The ITC chose not to review the ALJ s initial determination granting that motion. Andrea and Asus settled their disputes and filed a motion to terminate Asus from the investigation, which was granted by the ALJ on February 4, 2016. The ITC chose not to review the ALJ s initial determination granting that motion. Andrea and Lenovo settled their disputes and filed a motion to terminate Lenovo from the investigation, which was granted by the ALJ on February 23, 2016. The ITC has not yet decided whether to review the ALJ s initial determination granting that motion. Andrea and Conexant settled their disputes and filed a motion to terminate Conexant from the investigation, which was granted by the ALJ on March 7, 2016. The ITC has not yet decided whether to review the ALJ s initial determination granting that motion. Andrea and Waves settled their disputes and filed a motion to terminate Waves and Dell from the investigation, which was granted by the ALJ as to Waves only on March 18, 2016. The ITC has not yet decided where to review the ALG s initial determination partially granted that motion. Andrea and Toshiba settled their disputes and filed a motion to terminate Toshiba from the investigation, which was granted by the ALJ on March 18, 2016. The ITC has not yet decided whether to review the ALJ s initial determination granting that motion. Andrea filed a motion to terminate Dell from the investigation on March 25, 2016, which has not yet been ruled upon by the ALJ.

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In July 2015, Realtek filed six (6) petitions for inter partes review of the Andrea patents asserted in the District Court and ITC litigation proceedings with the United States Patent and Trademark Office (PTO). Also in July 2015, Realtek filed a Complaint with the United States District Court for the Northern District of California, alleging breach of contract and seeking declaratory judgment against Andrea. In October 2015, Andrea and Realtek reached a settlement agreement, resolving all disputes between the parties, and as a part of that agreement, Andrea and Realtek agreed to move for termination of those proceedings. Andrea and Realtek have since filed motions to terminate all six (6) inter partes review proceedings, and on November 3, 2015, the PTO granted all six (6) of those motions and terminated all six (6) of the inter partes reviews of Andrea s patents.

In January 2016, Waves filed three (3) petitions for inter partes review of certain Andrea patents asserted in the District Court and ITC litigation proceedings with the PTO. Andrea and Waves have since filed motions to terminate all three (3) inter partes review proceedings. The PTO has not yet ruled on those motions.

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

The table below sets forth the high and low sales prices for Andrea s Common Stock as reported by the Over the Counter Bulletin Board for the eight fiscal quarters ended December 31, 2015. Andrea s common stock is currently quoted on the OTCQB tier of the OTC Market Group s quotation platform. On March 24, 2016, there were approximately 363 holders of record of Andrea s Common Stock.

Quarter Ended	High	Low
March 31, 2014	$ 0.15	$ 0.04
June 30, 2014	$ 0.15	$ 0.07
September 30, 2014	$ 0.14	$ 0.07
December 31, 2014	$ 0.10	$ 0.06
March 31, 2015	$ 0.09	$ 0.07
June 30, 2015	$ 0.09	$ 0.05
September 30, 2015	$ 0.08	$ 0.04
December 31, 2015	$ 0.08	$ 0.04

No cash dividends were paid on Andrea s Common Stock in 2015 or 2014.

During the three months ended December 31, 2015, 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 Non software-related revenue, which is generally comprised of microphones and microphone connectivity product revenues, is recognized when title and risk of loss pass to the customer, which is generally upon shipment. With respect to licensing revenues, Andrea recognizes revenue in accordance with Financial Accounting Standards Board Accounting Standards Codification (the ASC) 985, Software and ASC 605 Revenue Recognition. License revenue is recognized based on the terms and conditions of individual contracts. In addition, fee based services, 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, 2015 and 2014, our allowance for doubtful accounts was $5,415.

Inventory We are required to state our inventories at the lower of cost or market. 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. Inventories of $58,028 and $216,336 at December 31, 2015 and 2014, respectively, are net of reserves of $115,275 and $129,756, 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, 2015 and 2014.

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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 asset 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, 2015 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 identif 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 wish to 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. These factors include the risks noted in Item 1A.

Results Of Continuing Operations

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Total Revenues

	For the Year Ended December 31 2015		2014	% Change	
Patent Monetization revenues					
License revenues	$ 12,104,958	$	4,557	265,534	(a)
Total Patent Monetization revenues	12,104,958		4,557		
Andrea DSP Microphone and Audio Software Products revenues					
Revenue from automotive array microphone products	28,469		38,110	(25)	(b)
Revenue from customized digital product	237,896		97,476	144	(c)
All other Andrea DSP Microphone and Audio Software Product revenues	121,933		191,061	(36)	(d)

License revenues		741,626		892,358	(17)	(e)
Total Andrea DSP Microphone and Audio Software Products revenues		1,129,924		1,219,005	(7)	
Total revenues	$	13,234,882	$	1,223,562	982	

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(a) The increase of approximately $12,100,000 in license revenues, is the result of revenue recognized for patent licensing agreements entered into during 2015.

(b) The decrease of approximately $10,000 for the year ended December 31, 2015 as compared to the same period in 2014 in revenues of automotive array microphone products is primarily the result of decreased product revenues from integrators of public safety vehicle solutions.

(c) The increase of approximately $140,000 for year ended December 31, 2015 as compared to same period in 2014 in customized digital product revenues is related to increased product revenues to an OEM customer for a customized digital product.

(d) The decrease of approximately $69,000 for year ended December 31, 2015 as compared to same period in 2014 in all other Andrea DSP Microphone and Audio Software product revenues is related to decreased product revenues to OEM customers for digital products.

(e) The decrease of approximately $151,000 for the year ended December 31, 2015, as compared to the same period in 2014, is the primarily the result of decreased royalties reported as a result of a decrease in sales of PC models which feature our technology.

Cost of Revenues

Cost of revenues as a percentage of total revenues, from continuing operations, for the year ended December 31, 2015 decreased to 1% from 16% for the year ended December 31, 2014. There was no cost of revenues associated with the Patent Monetization revenues of $12,104,958 and $4,557, for the year ended December 31, 2015 and 2014, respectively. The cost of revenues as a percentage of total revenues for the year ended December 31, 2015 for Andrea DSP Microphone and Audio Software Products was 10% compared to 16% for the year ended December 31, 2014. These changes are primarily the result of the changes in revenue as described under Total Revenues above.

Patent Monetization Expenses

Patent monetization expenses for the year ended December 31, 2015 increased by 387% to $8,216,749 from $1,687,802. These expenses are a result of our continuing efforts to pursue patent monetization, including the filing of the complaints disclosed under Part II, Item 1 Legal Proceedings in this Form 10-Q.

Research and Development

Research and development expenses, from continuing operations, for the year ended December 31, 2015 increased by 57% to $767,680 from $487,858 for the year ended December 31, 2014. These expenses primarily relate to costs associated with the development of new products. For the year ended December 31, 2015, research and development expenses reflected a 67% decrease in our Patent Monetization efforts to $28,881 or 4% of total research and development expenses and an 84% increase in our Andrea DSP Microphone and Audio Software Technology efforts to $738,799, or 96% 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 increased by approximately 24% to $1,446,205 for the year ended December 31, 2015 from $1,162,782 for the year ended December 31, 2014. For the year ended December 31, 2015, there was a 62% decrease in our Patent Monetization efforts to $263,683, or 18% of total general, administrative and selling expenses and a 152% increase in general, administrative and selling expenses in our Andrea DSP Microphone and Audio Software Technology to $1,182,522, or 82% of total general, administrative and selling expenses. The overall 24% increase of approximately $283,000 is related to an increase of expenses now being allocated to continuing operations in 2015 offset in part by the decrease in the costs associated with consummating the Revenue Sharing Agreement in 2014.

Interest Expense, net

Interest expense, net for the year ended December 31, 2015 was $65,006, compared to interest expense, net of $274 for the year ended December 31, 2014. The changes in this line item are attributable to an increase of interest expense related to long-term debt in conjunction with the Revenue Sharing Agreement partially offset from the interest income on the note receivable related to the sale of the Andrea Anti-Noise Products Division.

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Provision for Income Taxes

The income tax provision for the year ended December 31, 2015 was $154,513, compared to $214,136 for the year ended December 31, 2014. The provision for income taxes for the year ended December 31, 2015 is comprised of approximately $146,000 as a 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 and approximately $8,000, net of certain alternative minimum taxes. Although the provisions could be offset by future tax benefits, the Company does not record the benefit as it is unlikely that the Company will be able to use these types of foreign tax credits or alternative minimum tax credits. The Company records a full valuation against deferred tax assets until such benefits will be utilized. The $8,000 of alternative minimum taxes is a result of the Company s expectation to have taxable income as a result of the net income for the year ended December 31, 2015. The Company will offset the taxable income by utilization of their net operating loss carry forwards and reduce its valuation allowance by approximately $187,000. This reduction will be offset by the same reduction of the deferred tax asset resulting in no additional benefit or provision for the year ended December 31, 2015. The provision for income taxes for the year ended December 31, 2014 was comprised of approximately $176,000 as a 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 and approximately $38,000 of certain alternative minimum taxes. Although the provisions could be offset by future tax benefits, the Company does not record the benefit as it is unlikely that the Company will be able to use these types of foreign tax credits or alternative minimum tax credits. The Company records a full valuation against deferred tax assets until such benefits will be utilized. The $38,000 of alternative minimum taxes is a result of the Company s expectation to have taxable income as a result of the $3,500,000 advance from the Revenue Sharing Agreement. The Company will offset the taxable income by utilization of their net operating loss carry forwards and reduce its valuation allowance by approximately $300,000. This reduction will be offset by the same reduction of the deferred tax asset resulting in no additional benefit or provision for the year ended December 31, 2014.

Net income (loss)

Net income for the year ended December 31, 2015 was $3,044,170 compared to a net loss $2,892,593 for the year ended December 31, 2014. The net income for the year ended December 31, 2015 principally reflects the factors described above.

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, 2015, we had cash of $5,592,554 compared to $3,574,530 at December 31, 2014. The cash balance at December 31, 2015 was primarily a result of the $3,500,000 received in connection with the Revenue Sharing Agreement offset in part by our cash used in operations.

Our working capital balance at December 31, 2015 was $2,116,111 compared to working capital of $3,255,298 at December 31, 2014. The decrease in working capital reflects an increase in total current assets of $3,683,423 and an increase in total current liabilities of $4,822,610. The increase in total current assets reflects an increase in cash of $2,018,024, an increase in accounts receivable of $1,663,574, a decrease in inventories of $158,308, a decrease in prepaid expenses and other current assets of $492 and an increase in current portion of note receivable of $406,522 and a decrease in current assets from discontinued operations of $245,897. The increase in total current liabilities reflects an increase in trade accounts payable of $1,655,932, an increase in taxes payable of $7,000, a decrease of $2,712 in short-term deferred revenue, an increase in other current liabilities of $1,176,357, a decrease of $111,219 in liabilities from discontinued operations, an increase of $196,477 in short-term advance from revenue sharing agreement and an increase of $1,900,775 in current portion of long term debt.

The increase in cash of $2,018,024 reflects $731,382 of net cash provided by operating activities, $356,960 of net cash provided by investing activities and $929,682 of net cash provided by financing activities.

The cash provided by operating activities of $731,382, excluding non-cash charges, is primarily attributable to the $3,044,170 net income for the year ended December 31, 2015, a $1,749,979 increase in accounts receivable, a $470,022 decrease in inventories, a $8,475 decrease in prepaid expenses and other current assets and other assets, an increase of $7,000 in taxes payable, a $1,548,704 increase in trade accounts payable, a $3,187,933 decrease in Advance from Revenue Sharing Agreement, a $2,712 decrease in short-term deferred revenue and an increase of $1,172,366 in 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.

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The cash provided by investing activities of $356,960 reflects purchases of property and equipment of $18,443, an increase in patents and trademarks of $28,868, proceeds from the sale of the Anti-Noise Products Division of $300,000, and interest and principal repayments of notes receivable of $104,271. The increase in patents and trademarks reflects capital expenditures associated with our intellectual property.

The cash provided by financing activities of $929,682, reflects proceeds from the exercise of stock options of $34,750 and net proceeds from long-term debt.

We plan to improve our cash flows in 2016 by aggressively pursuing monetization of our patents related to our Andrea DSP Microphone Audio Software, 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 24, 2016, Andrea had approximately $7,900,000 of cash deposits. We cannot assure 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. 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.

(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 Annual 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, 2015 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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ITEM 9B. OTHER INFORMATION

None.

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, 2015. 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 53, 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, which position him well to continue to serve as a member of the Board.

Gary A. Jones, age 70, 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.

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, which position him well to continue to serve as a member of the Board.

Louis Libin, age 57, has been a Director of the Company since February 2002. He is President of Broad Comm, Inc., a consulting group specializing in advanced television broadcast, interactive TV, Internet Protocol and wireless communications. Mr. Libin is also the executive director of the Advanced Television Broadcasting Alliance (the ATBA). 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. Prior to his tenure at Broad Comm, 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 65, 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.

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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 59, has been a Director of the Company since 2003. He currently is Vice President of Networks Sales for Sinclair Broadcasting, 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 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.

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 43, 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 as the Chief Financial Officer 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, 2015 and Forms 5 and amendments thereto furnished to the Company with respect to the year ended December 31, 2015, 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, 2015.

Code of Business Ethics and Conduct

Andrea has adopted a Code of Business Ethics and Conduct. See 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. The Board of Directors has designated Mr. Migliozzi as an audit committee financial expert under the rules of the Securities and Exchange

Commission.

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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 two most highly compensated executive officers whose total compensation was over $100,000 during the years ended December 31, 2015, and 2014.

Name and Principal Position	Year	Salary	Bonus	Option Awards	Total
Douglas J. Andrea, Chairman of the Board, Chief Executive Officer, and Corporate Secretary	2015	$ 300,000	$ 239,418	$ 30,000	$ 569,418
	2014	300,000	-	50,000	350,000
Corisa L. Guiffre, Vice President, Chief Financial Officer and Assistant Corporate Secretary	2015	$ 170,000	$ 115,584	$ -	$ 285,584
	2014	156,104	-	28,000	184,104

Outstanding Equity Awards at December 31, 2015

The following table provides information concerning outstanding unexercised options as of December 31, 2015 for each named executive officer. None of the named executive officers had stock awards that have not vested or unearned equity incentive plan awards at December 31, 2015.

	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	-	$ 0.12	11-02-2016
	1,000,000	-	$ 0.12	11-16-2016
	1,000,000	-	$ 0.11	9-12-2017
	2,000,000	-	$ 0.04	8-8-2018
	1,000,000	-	$ 0.04	8-8-2018
	1,000,000	-	$ 0.11	7-24-2019
	1,000,000	-	$ 0.13	8-01-2020
	166,500	333,500	$ 0.10	9-02-2024
	-	500,000	$ 0.06	8-07-2025
Corisa L. Guiffre	400,000	-	$ 0.12	11-16-2016
	350,000	-	$ 0.11	9-12-2017
	500,000	-	$ 0.04	8-8-2018
	200,000	-	$ 0.11	7-24-2019
	250,000	-	$ 0.08	9-22-2020
	116,500	233,500	$ 0.08	10-21-2024

Employment Agreements

In August 2014, the Company entered into an employment agreement with Mr. Andrea. The effective date of the employment agreement is August 1, 2014 and expires July 31, 2016 and is subject to renewal as approved by the Compensation Committee of the Board of Directors. Pursuant to his employment agreement, Mr. Andrea will receive an annual base salary of $300,000. 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. Mr. Andrea is also entitled to a change in control payment equal to three times the three year average of the cash incentive compensation paid or accrued as of the date of termination, continuation of health and medical benefits for three years 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 two years 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 six months of his base salary, plus the six months prorated portion of his most recent annual and quarterly bonuses, and a continuation of health insurance coverage for Mr. Andrea, his spouse and his dependents for 12 months. At December 31, 2015, the future minimum cash commitments under this agreement aggregate $398,863.

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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.

Director Compensation

The following table provides the compensation received by individuals who served as non-employee directors of the Company during the 2015 fiscal year.

Director	Fees Earned or Paid in Cash	Stock Option Awards	Total
Gary A Jones	$ 7,000	$ -	$ 7,000
Louis Libin	7,000	-	7,000
Joseph J. Migliozzi	8,750	-	8,750
Jonathan D. Spaet	7,250	-	7,250

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 2015. Employee directors do not receive any retainers or fees for their services on the Boards 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 24, 2016, 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	361,014 (2)	8,166,500	11.7%
Corisa L. Guiffre	102,750	1,816,550	2.9%
Gary A. Jones	437,472	308,031	1.2%

Louis Libin	352,149	223,132	*
Joseph J. Migliozzi	926,261	466,027	2.2%
Jonathan D. Spaet	29,261	207,981	*
Current directors and executive officers as a group (6 persons)	2,205,031	11,188,221	17.7%

* Less than 1%

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(1) Percentages with respect to each person or group of persons have been calculated on the basis of 64,416,035 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 24, 2016, 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.

The following table sets forth certain information as of March 24, 2016, 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)]	8.2%
Nickolas W. Edwards 937 Pine Ave, Long Beach, CA 90813	5,390,000 [(4)]	-	8.4%

(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 64,416,035 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 24, 2016. As of March 24, 2016, Alpha Capital has 3,585,731 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 commons 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, 2015, 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	16,929,821	$ 0.09	1,677,436
Equity compensation plans not approved by security holders	-	-	-
Total	16,929,821	$ 0.09	1,677,436

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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.

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, 2015 and 2014 by Marcum LLP:

	2015	2014
Audit Fees	$ 109,500	$ 114,500
Audit-related fees	1,500	5,175
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, 2015, all services were approved, in advance, by the Audit Committee in compliance with these procedures.

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, 2015 and 2014

Consolidated Statements of Operations Years Ended December 31, 2015 and 2014

Consolidated Statements of Shareholders Equity Deficit Years Ended December 31, 2015 and 2014

Consolidated Statements of Cash Flows Years ended December 31, 2015 and 2014

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	Amended and 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, 1992)
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 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)
3.5	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 October 12, 2000)
3.6	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)
3.7	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)
3.8	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)
3.9	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	*1998 Stock Plan of the Registrant, as amended (incorporated by reference to Exhibit 4.1 of the Registrant s Registration Statement on Form S-8, No. 333-82375, filed July 7, 1999)
10.2	*Change in Control Agreement, dated as of November 22, 1999, by and between Corisa L. Guiffre and the Registrant (incorporated by reference to Exhibit 10.3 of the Registrant s Form 10-KSB for the year ended December 31, 2006)
10.3	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)
10.4	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)
10.5	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)