XCEL ENERGY INC
Form 4
March 29, 2006

FORM 4

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
HEMMINGHAUS ROGER R

(Last) (First) (Middle)

15750 IH 10 WEST, SUITE 200

(Street)

SAN ANTONIO, TX 78249

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
XCEL ENERGY INC [XEL]

3. Date of Earliest Transaction (Month/Day/Year)
03/28/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock								6,681.37 (1)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Phantom Stock	$ 0 (2)	03/28/2006		A		1,186.74		(3)	(3)	Common Stock	1,186.74

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HEMMINGHAUS ROGER R 15750 IH 10 WEST SUITE 200 SAN ANTONIO, TX 78249	X			

Signatures

Carol J. Peterson, Attorney-in-Fact for Roger R. Hemminghaus	03/29/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Includes 9.96 shares of stock acquired pursuant to reinvestment of dividends.

(2) Security converts to common stock on a one-for-one basis.

(3) Shares of phantom stock are payable in shares of common stock following termination of reporting person's service. Partial shares are payable in cash.

(4) Includes 529.72 shares of stock acquired pursuant to reinvestment of dividends.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. %" style="BORDER-BOTTOM: black 2px solid"> 1,697 1,576 4,571 404

Loss before provision for income taxes
(7,248) (110,882) (366,447) (90,191)
Provision for income taxes
1,643 8,252 3,716 28,454
Net loss
$(8,891) $(119,134) $(370,163) $(118,645)
Basic and diluted weighted average shares
59,861,193 59,611,981 59,861,193 59,327,389
Basic and diluted net loss per share
$(.00) $(.00) $(.01) $(.00)

See Notes to Condensed Consolidated Financial Statements.

ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2008
(UNAUDITED)

	Series C Convertible Preferred Stock Outstanding	Series C Convertible Preferred Stock	Series D Convertible Preferred Stock Outstanding	Series D Convertible Preferred Stock	Common Stock Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Equity
Balance, January 1, 2008	90.701477	$ 1	1,192,858	$ 11,929	59,861,193	$ 598,612	$ 76,568,825	$ (72,293,558)	$ 4,885,809
Stock-based Compensation Expense related to Stock Grants to Outside Directors	-	-	-	-	-	-	10,002	-	10,002
Stock-based Compensation Expense related to Stock Option Grants	-	-	-	-	-	-	106,637	-	106,637
Net loss	-	-	-	-	-	-	-	(370,163)	(370,163)
Balance, June 30, 2008	90.701477	$ 1	1,192,858	$ 11,929	59,861,193	$ 598,612	$ 76,685,464	$ (72,663,721)	$ 4,632,285

See Notes to Condensed Consolidated Financial Statements.
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ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months Ended June 30, 2008	June 30, 2007
Cash flows from operating activities:		
Net loss	$ (370,163)	$ (118,645)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	251,655	243,700
Stock -based compensation expense	116,639	128,193
Provision for bad debt	-	(113)
Inventory reserve	22,979	2,234
Change in:		
Accounts receivable	460,776	348,250
Inventories	(79,084)	323,405
Prepaid expenses and other current assets	348	255,772
Trade accounts payable	(148,978)	(335,655)
Other current liabilities	3,890	(157,623)
Net cash provided by operating activities	258,062	689,518
Cash flows from investing activities:		
Purchases of property and equipment	(19,042)	-
Purchases of patents and trademarks	(34,714)	(6,270)
Net cash used in investing activities	(53,756)	(6,270)
Cash flows from financing activities:		
Payments under capital lease	-	(3,541)
Net cash used in financing activities	-	(3,541)
Net increase in cash and cash equivalents	204,306	679,707
Cash and cash equivalents, beginning of period	811,403	303,678
Cash and cash equivalents, end of period	$ 1,015,709	$ 983,385
Non-cash investing and financing activities:		
Conversion of Series C Convertible Preferred Stock into common stock	$ -	$ 16,712
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$ -	$ 1,189
Income Taxes	$ 12,796	$ 43,509

See Notes to Condensed Consolidated Financial Statements.
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ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation and Management's Liquidity Plans

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

These unaudited, condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In addition, the December 31, 2007 balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for any other interim period or for the fiscal year.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2007 included in the Company's Form 10-KSB for the fiscal year ended December 31, 2007, filed on March 31, 2008. The accounting policies used in preparing these unaudited condensed consolidated interim financial statements are consistent with those described in the December 31, 2007 audited consolidated financial statements.

Management's Liquidity Plans - As of June 30, 2008, Andrea had working capital of $1,781,896 and cash on hand of $1,015,709. Andrea's loss from operations was $8,945 for the three months ended June 30, 2008. Andrea incurred a loss from operations of $371,018 for the six months ended June 30, 2008. Andrea plans to continue to improve its cash flows during 2008 by aggressively pursuing additional licensing opportunities related to Andrea DSP Audio Software and increasing its Andrea Anti-Noise Headset Products sales through the introduction of refreshed product line scheduled to be introduced in the second half of 2008 as well as the increased efforts the Company is dedicating to its sales and marketing efforts. However, there can be no assurance that Andrea will be able to successfully execute the aforementioned plans.

As of August 8, 2008, Andrea has approximately $1,000,000 of cash. Management projects that Andrea has sufficient liquidity available to operate through at least June 2009.While Andrea explores opportunities to increase revenues in new business areas, the Company also continues to examine additional opportunities for cost reduction and further diversification of its business. Since the third quarter of 2006, Andrea has had generated cash from operations. Although these steps are encouraging, if Andrea fails to develop additional revenues from sales of its products and licensing of its technology or to generate adequate funding from operations, or if Andrea fails to obtain additional financing through a capital transaction or other type of financing, Andrea will be required to continue to significantly reduce its operating expenses and/or operations or Andrea may have to relinquish its products, technologies or markets which could have a materially adverse effect on revenue and operations. Andrea has no commitment for additional financing and may experience difficulty in obtaining additional financing on favorable terms, if at all.

Note 2. Summary of Significant Accounting Policies

(Loss) Earnings Per Share - Basic (loss) earnings per share is computed by dividing the net (loss) income by the weighted average number of common shares outstanding during the period. Diluted (loss) earnings per share adjusts basic (loss) earnings per share for the effects of convertible securities, stock options and other potentially dilutive financial instruments, only in the periods in which such effect is dilutive. Securities that could potentially dilute basic (loss) earnings per share ("EPS") in the future that were not included in the computation of the diluted EPS because to do so would have been anti-dilutive for the periods presented, consist of the following:

	For the Three and Six Months Ended	
	June 30, 2008	June 30, 2007
Total potential common shares as of:		
Options to purchase common stock (Note 7)	9,691,820	7,440,001
Series C Convertible Preferred Stock and related accrued dividends (Note 3)	4,149,736	4,149,736
Series D Convertible Preferred Stock and related warrants (Note 4)	9,929,776	9,929,776
Total potential common shares	23,771,332	21,519,513

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ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Cash and Cash Equivalents - Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less. The Company has cash deposits in excess of the maximum amounts insured by the Federal Deposit Insurance Corporation at June 30, 2008 and December 31, 2007. The Company mitigates its risk by investing in or through major financial institutions.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Customer A	*	17%	*	14%
Customer B	*	*	*	17%
Customer C	14%	14%	16%	11%
Customer D	*	12%	11%	*
Customer E	24%	*	13%	*

* Amounts are less than 10%

As of June 30, 2008, one customer accounted for approximately 29% of accounts receivable and as of December 31, 2007, two customers account for approximately 20% and 15% of accounts receivable.

Andrea purchases a substantial portion of its finished goods from three suppliers. Purchases from these three suppliers amounted to 55%, 1% and 26% of total purchases for the three months ended June 30, 2008 and 40%, 13% and 47% for the three months ended June 30, 2007. Purchases from these three suppliers amounted to 58%, 5% and 27% of total purchases for the six months ended June 30, 2008 and 77%, 8% and 9% for the six months ended June 30, 2007. At June 30, 2008, the amounts due to these suppliers in accounts payable was $4,466, $0 and $6,517, respectively. At December 31, 2007, the amounts due to these suppliers in accounts payable were $191,411, $0 and $104,760 respectively.

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

Inventories - Inventories are stated at the lower of cost (on a first-in, first-out) or market basis. The cost elements of inventories include materials, labor and overhead. Andrea reviews its inventory reserve for obsolescence on a quarterly basis and establishes reserves on inventories when the cost of the inventory is not expected to be recovered. Andrea's policy is to reserve for inventory that shows slow movement over the preceding six consecutive quarters. Andrea records charges in inventory reserves as part of cost of revenues.

	June 30, 2008	December 31, 2007
Raw materials	$ 98,719	$ 62,834
Finished goods	1,262,170	1,218,971
	1,360,889	1,281,805
Less: reserve for slow moving and obsolescence	(589,920)	(566,941)
	$ 770,969	$ 714,864

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ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Intangible and Long-Lived Assets - Andrea accounts for its long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" for purposes of determining and measuring impairment of its long-lived assets (primarily intangible assets) other than goodwill. Andrea's policy is to periodically review the value assigned to its long-lived assets to determine if they have been permanently impaired by adverse conditions which may affect Andrea. If Andrea identifies a permanent impairment such that the carrying amount of Andrea's long lived assets are not recoverable using the sum of an undiscounted cash flow projection (gross margin dollars from product revenues), a new cost basis for the impaired asset will be established. If required, an impairment charge is recorded based on an estimate of future discounted cash flows. This new cost basis will be net of any recorded impairment.

At June 30, 2008, because the business segment was operating at a loss for the six months ended June 30, 2008, management compared the sum of Andrea's undiscounted cash flow projections (gross margin dollars from product sales) of the Andrea DSP Microphone and Audio Software core technology to the carrying value of that technology. The results of this test indicated that there was not an impairment. This process utilized probability weighted undiscounted cash flow projections which include a significant amount of management's judgment and estimates as to future revenue. If these probability weighted projections do not come to fruition, the Company could be required to record an impairment charge in the near term and such impairment could be material.

At June 30, 2007, because the revenues from the Andrea DSP Microphone and Audio Software Products business segment were lower than expected and this business segment was still operating at a loss, management compared the sum of Andrea's undiscounted cash flow projections (gross margin dollars from product sales) of the Andrea DSP Microphone and Audio Software core technology to the carrying value of that technology. The results of this test indicated that there was not an impairment. This process utilized probability weighted undiscounted cash flow projections which include a significant amount of management's judgment and estimates as to future revenue. If these probability weighted projections do not come to fruition, the Company could be required to record an impairment charge in the near term and such impairment could be material.

Andrea amortizes its core technology, patents and trademarks on a straight-line basis over the estimated useful lives of its intangible assets that range from 15 to 17 years. For the three-month periods ended June 30, 2008 and 2007, amortization expense was $119,177 and $118,043, respectively. For the six-month periods ended June 30, 2008 and 2007, amortization expense was $237,491 and $235,997, respectively.

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 Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended, and Staff Accounting Bulletin Topic 13 "Revenue Recognition in Financial Statements." License revenue is recognized based on the terms and conditions of individual contracts (see Note 5). 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.

Income Taxes - The provision for income taxes is a result of certain licensing revenues that are subject to withholding of income tax as mandated by the foreign jurisdiction in which the revenues are earned. For all other income taxes, Andrea accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" and Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). SFAS No. 109 requires an asset and liability approach for financial accounting and reporting for income taxes. FIN 48 establishes for all entities a minimum threshold for financial statement recognition of the benefit of tax positions, and requires certain expanded disclosures. Using both of the guidelines set forth in these statements, the provision for income taxes is based upon income or loss after adjustment for those permanent items that are not considered in the determination of taxable income. Deferred income taxes represent the tax effects of differences between the financial reporting and tax bases of the Company’s assets and liabilities at the enacted tax rates in effect for the years in which the differences are expected to reverse. The Company evaluates the recoverability of deferred tax assets and establishes a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Since cumulative losses weigh heavily in the overall assessment, Andrea provides a full valuation allowance on future tax benefits until it can sustain a level of profitability that demonstrates its ability to utilize the assets, or other significant positive evidence arises that suggests Andrea’s ability to utilize such assets. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reversed. Management makes judgments as to the interpretation of the tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. In management’s opinion, adequate provisions for income taxes have been made for all years. If actual taxable income by tax jurisdiction varies from estimates, additional allowances or reversals of reserves may be necessary. Income tax expense consists of the tax payable for the period and the change during the period in deferred tax assets and liabilities. The Company has identified its federal tax return and its state tax return in New York as "major" tax jurisdictions, as defined in FIN 48. Based on the Company's evaluation, it has concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements. The Company's evaluation was performed for tax years ended 2003 through 2007. The Company believes that its income tax positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position.

ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Stock-Based Compensation - At June 30, 2008, Andrea had three stock-based employee compensation plans, which are described more fully in Note 7. Andrea accounts for stock based compensation in accordance with SFAS No. 123R, "Share-Based Payment." SFAS No. 123R establishes accounting for stock-based awards exchanged for employee services. Under the provisions of SFAS No. 123R, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the employee's requisite service period (generally the vesting period of the equity grant). The fair value of the Company's common stock options are estimated using the Black Scholes option-pricing model with the following assumptions: expected volatility, dividend rate, risk free interest rate and the expected life. The Company expenses stock-based compensation by using the straight-line method. In accordance with SFAS No. 123R, excess tax benefits realized from the exercise of stock-based awards are classified in cash flows from financing activities. The future realization of the reserved deferred tax assets related to these tax benefits associated with the exercise of stock option will result in a credit to additional paid in capital if the related tax deduction reduces taxes payable. The Company has elected the "with and without approach" regarding ordering of windfall tax benefits to determine whether the windfall tax benefit did reduce taxes payable in the current year. Under this approach the windfall tax benefit would be recognized in additional paid-in-capital only if an incremental tax benefit is realized after considering all other benefits presently available.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" ("SFAS 141R"), which replaces SFAS No. 141, "Business Combinations." SFAS 141R establishes principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including noncontrolling interests, contingent consideration, and certain acquired contingencies. SFAS 141R also requires acquisition-related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. SFAS 141R will be applicable to the Company for fiscal 2009.. SFAS 141R would have an impact on accounting for any businesses acquired after the effective date of this pronouncement.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (previously referred to as minority interests). SFAS 160 also requires that a retained noncontrolling interest upon the deconsolidation of a subsidiary be initially measured at its fair value. Upon adoption of SFAS 160, the Company would be required to report any noncontrolling interests as a separate component of stockholders' equity. The Company would also be required to present any net income allocable to noncontrolling interests and net income attributable to the stockholders of the Company separately in its consolidated statements of operations. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 shall be applied prospectively. SFAS 160 would have an impact on the presentation and disclosure of the noncontrolling interests of any non wholly-owned businesses acquired in the future.

On February 12, 2008, the FASB issued FASB Staff Position (FSP) No. SFAS 157-2, "Effective Date of FASB Statement No. 157" (FSP SFAS 157-2). FSP SFAS 157-2 amends SFAS No. 157, to delay the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for the items that are recognized or disclosed at fair value in the financial statements on a recurring basis. For items within its scope, FSP SFAS 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS 157 and FSP SFAS 157-2 on its consolidated financial statements.

In March 2008, the FASB issued SFAS 161, “Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133”, which amends and expands the disclosure requirements of SFAS 133 to require qualitative disclosure about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This statement will be effective for the Company beginning on January 1, 2009. The adoption of this statement will change the disclosures related to derivative instruments held by the Company.

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation.

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ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

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

Note 3. Series C Redeemable Convertible Preferred Stock

On October 10, 2000, Andrea issued and sold in a private placement $7,500,000 of Series C Redeemable Convertible Preferred Stock (the "Series C Preferred Stock"). Each of these shares of Series C Preferred Stock had a stated value of $10,000 plus $671.23 increase in the stated value, which sum is convertible into Common Stock at a conversion price of $0.2551. On February 17, 2004, Andrea announced that it had entered into an Exchange and Termination Agreement and an Acknowledgment and Waiver Agreement, which eliminated the dividend of 5% per annum on the stated value. The additional amount of $671.23 represents the 5% per annum from October 10, 2000 through February 17, 2004.

On April 11, 2007, 10 shares of Series C Preferred Stock, together with related accrued dividends of $16,712, were converted into 457,516 shares of Common Stock at a conversion price of $0.2551.

As of June 30, 2008, there were 90.701477 shares of Series C Preferred Stock outstanding, which were convertible into 4,149,736 shares of Common Stock and remaining accrued dividends of $151,583.

Note 4. Series D Redeemable Convertible Preferred Stock

On February 17, 2004, Andrea entered into a Securities Purchase Agreement (including a Registration Rights Agreement) with certain holders of the Series C Preferred Stock and other investors (collectively, the "Buyers") pursuant to which the Buyers agreed to invest a total of $2,500,000. In connection with this agreement, on February 23, 2004, the Buyers purchased, for a purchase price of $1,250,000, an aggregate of 1,250,000 shares of a new class of preferred stock, the Series D Preferred Stock, convertible into 5,000,000 shares of Common Stock (an effective conversion price of $0.25 per share) and Common Stock warrants exercisable for an aggregate of 2,500,000 shares of Common Stock. The warrants are exercisable at any time after August 17, 2004 and before February 23, 2009 at an exercise price of $0.38 per share.

In addition, on June 4, 2004, the Buyers purchased for an additional $1,250,000, an additional 1,250,000 shares of Series D Preferred Stock convertible into 5,000,000 shares of Common Stock (an effective conversion price of $0.25 per share) and Common Stock warrants exercisable for an aggregate of 2,500,000 shares of Common Stock. The warrants are exercisable at any time after December 4, 2004 and before June 4, 2009 at an exercise price of $0.17 per share.

Knightsbridge Capital served as a financial advisor to Andrea in connection with the aforementioned transactions and the initial issuance of the Series D Preferred Stock and related warrants. In connection with these transactions, Andrea agreed to pay Knightsbridge Capital $350,000 in cash and to issue warrants exercisable for an aggregate of 439,594 shares of Common Stock. 377,094 of the warrants are exercisable at any time after August 17, 2004 and before February 23, 2009 at an exercise price of $0.38 per share and 62,500 of the warrants at any time after December 4, 2004 and before June 4, 2009 at an exercise price of $0.17 per share. Through June 30, 2008, 281,250 shares of common stock have been issued as a result of exercises of the Series D Preferred Stock Warrants.

The Company is required to maintain an effective registration statement from the time of issuance through June 4, 2010. In the event that the holder of the Series D Preferred Stock and related warrants is unable to convert these securities into Andrea Common stock the Company shall pay to each such holder of such registrable securities a Registration Delay Payment. This payment is to be paid in cash and is equal to the product of (i) the stated value of such Preferred Shares multiplied by (ii) the product of (1) .0005 multiplied by (2) the number of days that sales cannot be made pursuant to the Registration Statement (excluding any days during that may be considered grace periods as defined by the Registration Rights Agreement).

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ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

During 2007, 50,000 shares of Series D Preferred Stock were converted into 200,000 shares of Common Stock at a conversion price of $0.25. There were no Series D Preferred Stock Warrant exercises during the six months ended June 30, 2008 or the year ended December 31, 2007.

As of June 30, 2008, there are 1,192,858 shares of Series D Preferred Stock and 5,158,344 related warrants outstanding, which are convertible and exercisable into 9,929,776 shares of Common Stock.

Note 5. Licensing Agreements

The Company has entered into various licensing, production and distribution agreements with manufacturers of personal computers ("PC") and related components. These agreements provide for revenues based on the terms of each individual agreement. The Company's three largest licensing customers accounted for $284,288, $91,621 and $14,106 of revenues for the three months ended June 30, 2008 and $0, $63,490 and $59,321 of revenues for the three months ended June 30, 2007. The Company's three largest licensing customers accounted for $285,674, $193,997 and $34,833 of revenues for the six months ended June 30, 2008 and $0, $131,944 and $238,629 of revenues for the six months ended June 30, 2007.

Note 6. Commitments And Contingencies

Leases

In March 2005, Andrea entered into a lease for its corporate headquarters located in Bohemia, New York, where Andrea leases space for warehousing, sales and executive offices from an unrelated party. The lease is for approximately 11,000 square feet and expires in April 2010. Rent expense under this operating lease was $21,083 and $41,552 for the three and six-month periods ended June 30, 2008, respectively. Rent expense under this operating lease was $20,469 and $40,516 for the three and six-month periods ended June 30, 2007, respectively.

As of June 30, 2008, the future minimum annual lease payments under this lease and all non-cancelable operating leases are as follows:

2008 (July 1 to December 31)	$ 51,470
2009	93,541
2010	29,171
Total	$ 174,182

Employment Agreements

The Board of Directors expects to enter into a new employment contract with Mr. Andrea on substantially similar terms as the expired employment agreement described below. On August 8, 2008, the Board granted Mr. Andrea 3,000,000 stock options with a fair value of $120,000 (fair value was estimated using the Black-Scholes option-pricing model). This grant provides for a four year vesting period (666,000 from and after August 1, 2009, 999,000 from and after August 1, 2010, 1,001,000 from and after August 1, 2011 and 334,000 from and after August 1, 2012) the stock options have an exercise price of $0.04 per share, which was fair market value at the date of grant, and a term of 10 years.

In November 2006, the Company entered into an employment agreement with the Chairman of the Board, Douglas J Andrea. The employment agreement expired July 31, 2008 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 per annum. In addition, upon execution of the employment agreement, Mr. Andrea was entitled to a salary adjustment from August 1, 2006 through the date of the employment agreement. The employment agreement provides for quarterly bonuses equal to 25% of the Company's pre-bonus net after tax quarterly earnings in excess of $25,000 for a total quarterly bonus amount not to exceed $12,500; and annual bonuses equal to 10% of the Company's annual pre-bonus net after tax earnings in excess of $300,000. 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. On November 2, 2006, in accordance with his employment agreement, Mr. Andrea was granted 1,000,000 stock options with a fair value of $100,000. This grant provides for a three year vesting period, an exercise price of $0.12 per share, which was fair market value at the date of grant, and a term of 10 years. On November 16, 2006, in accordance with his employment agreement, Mr. Andrea was granted an additional 1,000,000 stock options with a fair value of $100,000. This grant provides for a three year vesting period, an exercise price of $0.12 per share, which was fair market value at the date of grant, and a term of 10 years. Mr. Andrea is also entitled to a change in control payment equal to two times his salary with continuation of health and medical benefits for two years in the event of a change in control. At June 30, 2008, the future minimum cash commitments under this agreement aggregate $25,000.

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Legal Proceedings

Andrea is involved in routine litigation incidental to the normal course of business. While it is not feasible to predict or determine the final outcome of claims, Andrea believes the resolution of these matters will not have a material adverse effect on Andrea's financial position, results of operations or liquidity.

Note 7. Stock Plans and Stock Based Compensation

In 1991, the Board of Directors of Andrea (the "Board") adopted the 1991 Performance Equity Plan ("1991 Plan"), which was approved by the shareholders. The 1991 Plan, as amended, authorizes the granting of awards, the exercise of which would allow up to an aggregate of 4,000,000 shares of Andrea's Common Stock to be acquired by the holders of those awards. Stock options granted to employees and directors under the 1991 Plan were granted for terms of up to 10 years at an exercise price equal to the market value at the date of grant. No further awards will be granted under the 1991 Plan.

In 1998, the Board adopted the 1998 Stock Option Plan ("1998 Plan"), which was subsequently approved by the shareholders. The 1998 Plan, as amended, authorizes the granting of awards, the exercise of which would allow up to an aggregate of 6,375,000 shares of Andrea's Common Stock to be acquired by the holders of those awards. The awards can take the form of stock options, stock appreciation rights, restricted stock, deferred stock, stock reload options or other stock-based awards. Awards may be granted to key employees, officers, directors and consultants. At June 30, 2008, there were 149,984 shares available for further issuance under the 1998 Plan.

In October 2006, the Board adopted the Andrea Electronics Corporation 2006 Equity Compensation Plan ("2006 Plan"), which was subsequently approved by the shareholders. The 2006 Plan authorizes the granting of awards, the exercise of which would allow up to an aggregate of 10,000,000 shares of Andrea's Common Stock to be acquired by the holders of those awards. The awards can take the form of stock options, stock appreciation rights, restricted stock or other stock-based awards. Awards may be granted to key employees, officers, directors and consultants. At June 30, 2008, there were 5,436,361 shares available for further issuance under the 2006 Plan.

During 2006, the Board granted 400,000 stock options to the Vice President and Chief Financial Officer and 755,000 stock options to employees of the Company. Each option grant provides for vesting periods of up to three years, a weighted average exercise price of $0.12 per share, which was the fair market value of the Company's common stock at the date of grant, and a term of 10 years. The compensation expense related to these awards was $7,641 and $20,097 for the three months ended June 30, 2008 and 2007, respectively. The compensation expense related to these awards was $15,282 and $40,399 for the six months ended June 30, 2008 and 2007, respectively.

On November 16, 2006, the Board granted 16,667 stock options to each chairperson on the Nominating and Compensation Committees and 41,667 stock options to the chairperson on the Audit Committee. The grants provide for an eighteen-month vesting period, an exercise price of $0.12 per share, which was the fair market value of the Company's common stock at the date of grant, and a term of 10 years. The compensation expense related to these awards was $139 and $1,749 for the three months ended June 30, 2008 and 2007, respectively. The compensation expense related to these awards was $556 and $4,498 for the six months ended June 30, 2008 and 2007, respectively.

On September 12, 2007, the Board granted 1,000,000 stock options to the President and Chief Executive Officer, 350,000 stock options to the Vice President and Chief Financial Officer, 60,000 stock options to the Board of Directors and 760,000 stock options to employees and consultants of the Company. Each option grant provides for vesting periods of up to three years, an exercise price of $0.11 per share, which was the fair market value of the

Company's common stock at the date of grant, and a term of 10 years. The compensation expense related to these awards was $29,823 and $0 for the three months ended June 30, 2008 and 2007, respectively. The compensation expense related to these awards was $59,646 and $0 for the six months ended June 30, 2008 and 2007, respectively.

On September 12, 2007, the Board granted 18,182 stock options to each chairperson on the Nominating and Compensation Committees and 45,455 stock options to the chairperson on the Audit Committee. The grants provide for an eighteen-month vesting period, an exercise price of $0.11 per share, which was the fair market value of the Company's common stock at the date of grant, and a term of 10 years. The compensation expense related to these awards was $1,023 and $0 for the three months ended June 30, 2008 and 2007, respectively. The compensation expense related to these awards was $3,068 and $0 for the six months ended June 30, 2008 and 2007, respectively.

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In June 2008, the Board granted 200,000 stock options, 100,000 to an employee and 100,000 to an outside consultant. The grants provide for a three year vesting period, an exercise price of $0.05 per share, which was the fair market value of the Company's common stock at the date of grant, and a term of 10 years. The compensation expense related to these awards was $305 for the three and six months ended June 30, 2008.

Total compensation expense recognized related to all stock option awards was $52,821 and $58,494 for the three months ended June 30, 2008 and 2007, respectively. In the accompanying consolidated statement of operations for the three months ending June 30, 2008, $40,890 of expense is included in general, administrative and selling expenses, $11,550 is included in research and development expenses and $381 is included in cost of revenues. In the accompanying consolidated statement of operations for the three months ending June 30, 2007, $48,108 of expense is included in general, administrative and selling expenses, $9,927 is included in research and development expenses and $459 is included in cost of revenues. Total compensation expense recognized related to all stock option awards was $106,637 and $118,193 for the six months ended June 30, 2008 and 2007, respectively. In the accompanying consolidated statement of operations for the six months ending June 30, 2008, $82,775 of expense is included in general, administrative and selling expenses, $23,100 is included in research and development expenses and $762 is included in cost of revenues. In the accompanying consolidated statement of operations for the six months ending June 30, 2007, $97,256 of expense is included in general, administrative and selling expenses, $20,004 is included in research and development expenses and $933 is included in cost of revenues.

The fair values of the stock options granted were estimated on the date of grant using the Black-Scholes option-pricing model that uses the following weighted-average assumptions for the three and six-month periods ended June 30, 2008:

	Three months ended June 30, 2008	Six months ended June 30, 2008
Expected life in years	8	8
Risk-free interest rates	4.14%	4.14%
Volatility	138.58%	138.58%
Dividend yield	0%	0%

There were no options granted during the three or six-month periods ended June 30, 2007.

Option activity during 2008 and 2007 is summarized as follows:

	Options Outstanding			Options Exercisable		
	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
At January 1, 2007	7,590,001	$ 1.05	8.01 years	4,397,500	$ 1.72	6.26 years
Granted	2,251,819	$ 0.11				
Cancelled	(155,000)	$ 5.20				
At December 31, 2007	9,686,820	$ 0.76	7.79 years	5,355,590	$ 1.29	6.57 years
Granted	200,000	$ 0.05				

Cancelled	(195,000)	$	14.28				
At June 30, 2008	9,691,820	$	0.48	7.50 years	5,212,888	$	0.79	6.33 years

During the three months ended June 30, 2008, 25,051 options vested with a weighted average exercise price of $0.12 and a weighted average fair value of $0.10 per option. During the six months ended June 30, 2008, 52,298 options vested with a weighted average exercise price of $0.11 and a weighted average fair value of $0.10 per option.

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Based on the June 30, 2008, fair market value of the company's common stock of $0.05, the aggregate intrinsic value for both the 9,691,820 options outstanding and 5,212,888 shares exercisable is $3,100.

As of June 30, 2008, there was $161,571 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the 1998 and 2006 Plans. This unrecognized compensation cost is expected to be recognized over the next 3 years ($71,312 in 2008, $72,498 in 2009, $17,207 in 2010 and $554 in 2011).

Pursuant to Andrea's compensation policy for outside directors, Andrea granted 181,820 shares of Common Stock with a fair market value of $0.11, 166,668 shares of Common Stock with a fair market value of $0.12 and 400,000 shares of Common Stock with a fair market value of $0.05, respectively. These stock grants were fully vested on the date of grant. Compensation expense related to these awards was $5,001 and $5,000 for the three months ended June 30, 2008 and 2007, respectively. Compensation expense related to these awards was $10,002 and $10,000 for the six months ended June 30, 2008 and 2007, respectively.

On August 8, 2008, pursuant to Andrea's compensation policy for outside directors, Andrea granted 500,000 shares of Common Stock with a fair market value of $0.04 and granted 50,000 stock options to each chairperson on the Nominating and Compensation Committees and 125,000 stock options to the chairperson on the Audit Committee. The grants provide for an eighteen-month vesting period, an exercise price of $0.04 per share, which was the fair market value of the Company's common stock at the date of grant, and a term of 10 years. The fair value of these 225,000 stock options was $9,000 (fair value was estimated on the date of grant using the Black-Scholes option-pricing model).

Also, on August 8, 2008 the Board granted 3,000,000 stock options to the President and Chief Executive Officer, 500,000 stock options to the Vice President and Chief Financial Officer, 60,000 stock options to the Board of Directors and 1,200,000 stock options to employees of the Company. Each option grant provides for vesting periods of up to four years, an exercise price of $0.05 per share, which was the fair market value of the Company's common stock at the date of grant, and a term of 10 years. The fair value of these 4,760,000 stock options was $190,400 (fair value was estimated on the date of grant using the Black-Scholes option-pricing model).

Note 8. Segment Information

Andrea follows the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Reportable operating segments are determined based on Andrea's management approach. The management approach, as defined by SFAS No. 131, is based on the way that the chief operating decision-maker organizes the segments within an enterprise for making operating decisions and assessing performance. While Andrea's results of operations are primarily reviewed on a consolidated basis, the chief operating decision-maker also manages the enterprise in two segments: (i) Andrea DSP Microphone and Audio Software Products and (ii) Andrea Anti-Noise Products. Andrea DSP Microphone and Audio Software Products primarily include products based on the use of some, or all, of the following technologies: Andrea Digital Super Directional Array microphone technology (DSDA), Andrea Direction Finding and Tracking Array microphone technology (DFTA), Andrea PureAudio noise filtering technology, and Andrea EchoStop, an advanced acoustic echo cancellation technology. Andrea Anti-Noise Products include noise cancellation and active noise cancellation computer headset products and related computer peripheral products.

The following represents selected condensed consolidated financial information for Andrea's segments for the three-month periods ended June 30, 2008 and 2007:

2008 Three Month Segment Data	Andrea DSP Microphone and Audio Software Products	Andrea Anti-Noise Products	Total 2008 Three Month Segment Data
Net revenues from external customers	$ 196,666	$ 620,470	$ 817,136
License Revenues	390,115	-	390,115
Income (loss) from operations	45,047	(53,992)	8,945
Depreciation and amortization	117,545	9,086	126,631
Purchases of property and equipments	2,531	9,581	12,112
Purchases of patents and trademarks	-	23,569	23,569
Assets	3,681,633	1,577,761	5,259,394
Total long lived assets	2,624,235	226,154	2,850,389

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2007 Three Month Segment Data	Andrea DSP Microphone and Audio Software Products	Andrea Anti-Noise Products	Total 2007 Three Month Segment Data
Net revenues from external customers	$ 328,601	$ 533,692	$ 862,293
License Revenues	140,171	-	140,171
Loss from operations	(108,048)	(4,410)	(112,458)
Depreciation and amortization	117,166	4,729	121,895
Purchases of patents and trademarks	510	5,760	6,270

The following represents selected condensed consolidated financial information for Andrea's segments for the six-month periods ended June 30, 2008 and 2007:

2008 Six Month Segment Data	Andrea DSP Microphone and Audio Software Products	Andrea Anti-Noise Products	Total 2008 Six Month Segment Data
Net revenues from external customers	$ 462,209	$ 1,151,349	$ 1,613,558
License Revenues	520,333	-	520,333
Loss from operations	(192,456)	(178,562)	(371,018)
Depreciation and amortization	234,888	16,767	251,655
Purchases of property and equipments	5,995	13,047	19,042
Purchases of patents and trademarks	6,155	28,559	34,714

2007 Six Month Segment Data	Andrea DSP Microphone and Audio Software Products	Andrea Anti-Noise Products	Total 2007 Six Month Segment Data
Net revenues from external customers	$ 796,085	$ 1,371,030	$ 2,167,115
License Revenues	407,901	-	407,901
(Loss) income from operations	(110,304)	19,709	(90,595)
Depreciation and amortization	234,325	9,375	243,700
Purchases of patents and trademarks	510	5,760	6,270

The following represents selected condensed consolidated financial information for Andrea's segments as of December 31, 2007.

2007 Year End Segment Data	Andrea DSP Microphone and Audio Software Products	Andrea Anti-Noise Products	Total 2007
Assets	4,021,688	1,611,318	5,633,006
Total long lived assets	2,858,713	189,575	3,048,288

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Management assesses non-operating income statement data on a consolidated basis only. International revenues are based on the country in which the end-user is located. For the three-month periods ended June 30, 2008 and 2007, and as of each respective period-end, net revenues and accounts receivable by geographic area are as follows:

Geographic Data	June 30, 2008	June 30, 2007
Net revenues:		
United States	$ 1,036,123	$ 724,567
Foreign(1)	171,128	277,897
	$ 1,207,251	$ 1,002,464

(1) Net revenues to any one foreign country did not exceed 10% of total net revenues for the three months ended June 30, 2008. Net revenue to the People's Republic of China and Singapore represented 17% and 4%, respectively of total net revenues for three months ended June 30, 2007.

For the six-month periods ended June 30, 2008 and 2007, by geographic area, net revenues are as follows:

Geographic Data	June 30, 2008	June 30, 2007
Net revenues:		
United States	$ 1,758,771	$ 1,837,746
Foreign(2)	375,120	737,270
	$ 2,133,891	$ 2,575,016

(2) Net revenues to any one foreign country did not exceed 10% of total net revenues for the six months ended June 30, 2008. Net revenue to the People's Republic of China and Singapore represented 15% and 9%, respectively of total net revenues for six months ended June 30, 2007.

As of June 30, 2008 and December 31, 2007, accounts receivable by geographic area is as follows:

Geographic Data	June 30, 2008	December 31, 2007
Accounts receivable:		
United States	$ 504,792	$ 736,122
Foreign	28,878	258,324
	$ 533,670	$ 994,446

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDIDTION AND RESULTS OF OPERATIONS

Overview

Our mission is to provide the emerging "voice interface" markets with state-of-the-art communications products that facilitate natural language, human/machine interfaces.

Examples of the applications and interfaces for which Andrea DSP Microphone and Audio Software Products and Andrea Anti-Noise Products provide benefit include: Internet and other computer-based speech; telephony communications; multi-point conferencing; speech recognition; multimedia; multi-player Internet and CD ROM interactive games; 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 devises, 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.

We outsource to Asia high volume assembly for most of our products from purchased components. We assemble some low volume Andrea DSP Microphone and Audio Software Products from purchased components. As sales of any particular Andrea DSP Microphone and Audio Software Product increases, assembly operations are transferred to a subcontractor in Asia.

Our Critical Accounting Policies

Our unaudited condensed consolidated financial statements and the notes to our unaudited condensed 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 and disclosures of contingent assets and liabilities. 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. Our significant accounting policies are described in Note 2 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-KSB for the year ended December 31, 2007. A discussion of our critical accounting policies and estimates are included in Management's Discussion and Analysis or Plan of Operation in our Annual Report on Form 10-KSB for the year ended December 31, 2007. Management has discussed the development and selection of these policies with the Audit Committee of the Company's Board of Directors, and the Audit Committee of the Board of Directors has reviewed the Company's disclosures of these policies. There have been no material changes to the critical accounting policies or estimates reported in the Management's Discussion and Analysis section of the 10KSB for the year ended December 31, 2007 as filed with the Securities and Exchange Commission.

Cautionary Statement Regarding Forward-Looking Statements

This report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words “believe”, “expect”, “intend”, “anticipate”, “estimate”, “project” or similar expressions. The Company’s ability to predi results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, changes in economic, competitive, governmental, technological and other factors that may affect our business and prospects. Additional factors are discussed below under “Risk Factors” and in Part II, “Item 6. Management’s Discussion and Analysis or Plan of Operation—Risk Factors” in the Company’s Annual Report on Form 10-KSB for the year ended December 31, 2007. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Risk Factors

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;

– 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 net revenues for the three months ended June 30, 2008 were $1,207,251 versus $1,002,464 for the three months ended June 30, 2007. Net loss for the three months ended June 30, 2008 was $8,891, or $0.00 loss per share on a basic and diluted basis, versus net loss of $119,134, or $0.00 loss per share on a basic and diluted basis for the three months ended June 30, 2008. Our revenues for the six months ended June 30, 2008 were $2,133,891 versus $2,575,016 for the six months ended June 30, 2007. Net loss for the six months ended June 30, 2008 was $370,163 or $.01 loss per share on a basic and diluted basis, versus net loss of $118,645, or $.00 loss per share on a basic and diluted basis for the six months ended June 30, 2007. We continue to explore opportunities to grow sales in other business areas; we are also examining additional opportunities for cost reduction, production efficiencies and further diversification of our business. Although we have improved cash flows by reducing overall expenses, if our revenues continue to decline we may not continue to generate positive cash flows and our net income or loss may be affected.

If we fail to obtain additional capital or maintain access to funds sufficient to meet our operating needs, we may be required to significantly reduce, sell, or refocus our operations and our business, results of operations and financial condition could be materially and adversely effected.

In order to be a viable entity we need to maintain and increase profitable operations. To achieve profitable operations we need to maintain/increase current net revenues and continue to look for ways to control expenses. We might also need to sell additional assets or raise capital as a means of funding continued operations. We may have to raise capital from external sources. These sources may include private or public financings through the issuance of debt, convertible debt or equity, or collaborative arrangements. Such additional capital and funding may not be available on favorable terms, if at all. Additionally, we may only be able to obtain additional capital or funds through arrangements that require us to relinquish rights to our products, technologies or potential markets, in whole or in part, or result in our sale. As a result of past few years of performance, we believe that we have sufficient liquidity to continue our operations at least through June 2009, provided our net revenues do not continue to decline and our operating expenses do not continue to increase. Although we have revised our business strategies to reduce our expenses and capital expenditures, we cannot assure you that we will be successful in generating positive cash flows or obtaining access to additional sources of funding in amounts necessary to continue our operations. Failure to maintain sufficient access to funding may also result in our inability to continue operations.

Shares Eligible For Future Sale May Have An Adverse Effect On Market Price and 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, 60,361,193 were outstanding as of August 8, 2008. The number of shares outstanding does not include an aggregate of 28,857,677 shares of common stock that are issuable. This number of issuable common shares is equal to approximately 48% of the 60,361,193 outstanding shares. These issuable common shares are comprised of: a)14,676,820 shares of our common stock reserved for issuance upon exercise of outstanding awards granted under our 1991 Performance Equity Plan, 1998 Stock Plan and 2006 Stock Plan; b) 101,345 shares reserved for future grants under our 2006 Stock Plan; c) 4,149,736 shares of common stock that are issuable upon conversion of the Series C Preferred Stock; d) 4,771,432 shares of common stock issuable upon conversion of the Series D Preferred Stock; and e) 5,158,344 of common stock issuable upon exercise of warrants relating to the Series D Preferred stock.

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

We generate revenues to regions outside the United States, particularly in Asia. For the three months ended June 30, 2008 and 2007, net revenues to customers outside the United States accounted for approximately 14% and 28%, respectively, of our net sales. 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.

In addition to the risk factors set forth above and the other information set forth in this report, you should carefully consider the factors discussed in Part II, “Item 6. Management’s Discussion and Analysis or Plan of Operation—Risk Factors” in the Company’s Annual Report on Form 10-KSB for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-KSB are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Results Of Operations

Quarter ended June 30, 2008 compared to Quarter ended June 30, 2007

Net Revenues

	For the Three Months Ended June 30		%	For the Six Months Ended June 30		%
	2008	2007	Change	2008	2007	Change
Andrea Anti-Noise Products net Product revenues						
Sales of products to an OEM customer for use	$ 98,310	$ -	100	$ 123,100	$ 131,361	(6) (a)

with speech recognition software													
All other Andrea Anti-Noise net product revenues		522,160		530,692	(2	)		1,028,249		1,239,669	(5	)	
Total Andrea Anti-Noise Products net Product revenues	$	620,470	$	533,692	16		$	1,151,349	$	1,371,030	(16	)	
Andrea DSP Microphone and Audio Software Products revenues													
Sales of array microphone products to an OEM customer		9,800		171,140	(94	)		107,800		372,110	(71	)	(b)
All other Andrea DSP Microphone and Audio product revenues		186,866		157,461	19			354,409		423,975	(16	)	(c)
License revenues		390,115		140,171	178			520,333		407,901	28		(d)
Total Andrea DSP Microphone and Audio Software Products revenues		586,781		468,772	25			982,542		1,203,986	(18	)	
Total Revenues	$	1,207,251	$	1,002,464	20		$	2,133,891	$	2,575,016	(17	)	

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(a) The significant increase of revenues of Andrea Anti-Noise Products is directly related to an OEM customer for use with speech recognition software and was a result of the OEM's increased demand for our products during the three month ended June 30, 2008 as compared to the same period in 2007. The slight decrease of revenues of Andrea Anti-Noise Products is directly related to an OEM customer for use with speech recognition software and was a result of the OEM's decreased demand for our products during the six month ended June 30, 2008 as compared to the same period in 2007. We believe that our annual revenues for 2008 associated with this customer will be approximately $250,000.

(b) The significant decrease of 94% and 71% of revenues of microphone array products to an OEM customer for the three month and six month period ending June 30, 2008, respectively, relates to the decreased demand from the OEM customer. We believe that this decrease is result of the OEM deciding not to continue including a microphone array with all applicable product models. The revenues in 2007 were a result of the OEM's introduction of the OEM's product and the OEM customer's need to supply all of its customers for the initial launch.

(c) The 19% increase in all other Andrea DSP Microphone and Audio product revenues for the three month period ended June 30, 2008 and 16% decrease for the six months ended June 30, 2008 is a result of timing of shipments for both the three month and six month periods.

(d) The majority of the increase in licensing revenues for the three and six month periods ended June 30, 2008 is a result of licensing revenue from one customer in the PC Audio market. The significant increase for the three month period was a result of the customer's initial implementation of our technology and, as a result, we do not expect licensing revenue from this customer to continue to increase during the second half of 2008. However, we do expect our 2008 twelve month licensing revenues to be slightly higher than 2007 licensing revenues primarily as a result of the revenues generated during the six months ended June 30, 2008.

Cost of Revenues

Cost of revenues as a percentage of net revenues for the three months ended June 30, 2008 decreased to 39% from 47% for the three months ended June 30, 2007. The cost of revenues as a percentage of net revenues for the three months ended June 30, 2008 for Andrea Anti-Noise Products is 63% compared to 55% for the three months ended June 30, 2007. The cost of revenues as a percentage of net revenues for the three months ended June 30, 2008 for Andrea DSP Microphone and Audio Software Products is 15% compared to 37% for the three months ended June 30, 2007. Cost of revenues as a percentage of net revenues for the six months ended June 30, 2008 decreased to 45% from 49% for the six months ended June 30, 2007. The cost of revenues as a percentage of net revenues for the six months ended June 30, 2008 for Andrea Anti-Noise Products is 63% compared to 59% for the six months ended June 30, 2007. The cost of revenues as a percentage of net revenues for the six months ended June 30, 2008 for Andrea DSP Microphone and Audio Software Products is 24% compared to 37% for the six months ended June 30, 2007. The changes are primarily the result of the changes in revenue as described under "Net Revenues" above.

Research and Development

Research and development expenses for the three months ended June 30, 2008 increased 19% to $185,341 from $156,101 for the three months ended June 30, 2007. This increase primarily relates to increases in employee compensation and related benefit costs. For the three months ended June 30, 2008, the increase in research and development expenses reflects a 10% increase in our Andrea DSP Microphone and Audio Software Technology efforts to $125,599, or 68% of total research and development expenses and a 41% increase in our Andrea Anti-Noise Headset Product efforts to $59,742, or 32% of total research and development expenses. Research and development expenses for the six months ended June 30, 2008 increased 15% to $378,745 from $328,860 for the six months ended June 30, 2007. This increase primarily relates to increases in employee compensation and related benefit costs. For the six months ended June 30, 2008, the increase in research and development expenses reflects a 9% increase in our Andrea DSP Microphone and Audio Software Technology efforts to $258,570, or 68% of total research and development expenses and a 30% increase in our Andrea Anti-Noise Headset Product efforts to $120,175, or 32% 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 provide Andrea with a competitive advantage.

General, Administrative and Selling Expenses

General, administrative and selling expenses increased approximately 13% to $556,273 for the three months ended June 30, 2008 from $491,071 for the three months ended June 30, 2007. For the three months ended June 30, 2008, the increase reflects a 15% increase in our Andrea DSP Microphone and Audio Software Technology efforts to $330,892, or 60% of total general, administrative and selling expenses and an 11% increase in our Andrea Anti-Noise Headset Product efforts to $225,381, or 40% of total general, administrative and selling expenses. General, administrative and selling expenses increased approximately 8% to $1,166,447 for the six months ended June 30, 2008 from $1,079,832 for the six months ended June 30, 2007. For the six months ended June 30, 2008, the increase reflects a 9% increase in our Andrea DSP Microphone and Audio Software Technology efforts to $681,450, or 58% of total general, administrative and selling expenses and a 7% increase in our Andrea Anti-Noise Headset Product efforts to $484,997, or 42% of total general, administrative and selling expenses. These increases relate to increases in employee compensation and related benefit costs as well as increases in sales and marketing efforts.

Interest income, net

Interest income, net for the three months ended June 30, 2008 was $1,697 compared to $1,576 for the three months ended June 30, 2007. Interest income, net for the six months ended June 30, 2008 was $4,571 compared to $404 for the six months ended June 30, 2007. The year to date increase in other income is the result of interest earned on higher cash balances in 2008.

Provision for Income Taxes

The provision for income taxes is a result of certain licensing revenues that are subject to withholding of income tax as mandated by the foreign jurisdiction in which the revenues are earned. Amounts are based on net revenues and are therefore subject to change.

Net loss

Net loss for the three months ended June 30, 2008 was $8,891 compared to a net loss of $119,134 for the three months ended June 30, 2007. Net loss for the six months ended June 30, 2008 was $370,163 compared to a net loss of $118,645 for the six months ended June 30, 2007. The net loss for the three and six month periods ended June 30, 2008 and the net loss for the three months and six months ended June 30, 2007 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 effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Liquidity And Capital Resources

Andrea’s principal sources of funds are and are expected to continue to be gross cash flows from operations. At June 30, 2008, we had cash and cash equivalents of $1,015,709 compared with $811,403 at December 31, 2007. The balance of cash and cash equivalents at June 30, 2008 is primarily a result of our cash provided from operations during the six months ended June 30, 2008.

Working capital balance at June 30, 2008 was $1,781,896 compared to a working capital balance of $1,837,521 at December 31, 2007. The decrease in working capital reflects a decrease in total current assets of $200,713 coupled with a decrease in total current liabilities of $145,088. The decrease in total current assets reflects an increase in cash and cash equivalents of $204,306, a decrease in accounts receivable of $460,776, an increase in inventory of $56,105, and a decrease in prepaid expenses and other current assets of $348. The decrease in total current liabilities reflects a decrease in trade accounts payable of $148,978, and an increase of $3,890 in other current liabilities. The increase in cash and cash equivalents of $204,306 reflects $258,062 of net cash provided by operating activities, and $53,756 of net cash used in investing activities.

The cash provided by operating activities of $258,062, excluding non-cash charges for the quarter ended June 30, 2008, is attributable to a $460,776 decrease in accounts receivable, a $79,084 increase in inventory, a $348 decrease in prepaid expenses and other current assets, a $148,978 decrease in accounts payable, and a $3,890 increase in other current liabilities. The changes in receivables, inventory and 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 various product lines.

The cash used by investing activities of $53,756 reflects an increase in property and equipment of $19,042 and an increase in patents and trademarks of $34,714. The increase in property and equipment reflects capital expenditures associated with computer purchases and tooling for some of new products. The increase in patents and trademarks reflects capital expenditures associated with our intellectual property.

We plan to continue to improve our cash flows during 2008 by aggressively pursuing additional licensing opportunities related to our Andrea DSP Audio Software and increasing our Andrea Anti-Noise Headset Products through the introduction of refreshed product line scheduled to be introduced in the second half of 2008 as well as the increased efforts we are putting into our sales and marketing efforts. However, there can be no assurance that we will be able to successfully execute the aforementioned plans. As of August 8, 2008, Andrea has approximately $1,000,000 of cash and cash equivalents. We believe that we have sufficient liquidity available to continue in operation through at least June 2009. To the extent that we do not generate sufficient cash flows from our operations in the next twelve months, additional financing might be required. Although we have improved cash flows by reducing overall expenses, if our revenues decline, these reductions may impede our ability to be cash flow positive and our net income or loss may be disproportionately affected. We have no commitment for additional financing and may experience difficulty in obtaining additional financing on favorable terms, if at all. Any financing we obtain may contain covenants that restrict our freedom to operate our business or may have rights, preferences or privileges senior to our common stock and may dilute our current shareholders' ownership interest in Andrea. 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.

Recently Issued Accounting Pronouncements

For a discussion of the impact of recent accounting pronouncements, see Note 2 of the accompanying condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Andrea's management, including its 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, Andrea's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that it files or submits under the Exchange Act with the Securities and Exchange Commission (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 Andrea's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that all control issues and instance of fraud, if any, within a company have been detected. Andrea's disclosure controls and procedures are designed to provide reasonable assurance of achieving its objectives.

There have been no changes in the Company's internal controls over financial reporting during the period covered by this Quarterly Report that have materially affected, or are reasonable likely to materially affect the Company's internal controls over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Not Applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

None

.ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

a) Exhibits

Exhibit 31 – Rule 13a-14(a)/15d-14(a) Certifications*

Exhibit 32 – Section 1350 Certifications*

* Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ANDREA ELECTRONICS CORPORATION	
By:	/s/ DOUGLAS J. ANDREA Name: Douglas J. Andrea Title: Chairman of the Board, President, Chief Executive Officer and Corporate Secretary

Date: August 14, 2008

/s/ DOUGLAS J. ANDREA Douglas J. Andrea	Chairman of the Board, President, Chief Executive Officer and Corporate Secretary	August 14, 2008
/s/ CORISA L. GUIFFRE Corisa L. Guiffre	Vice President, Chief Financial Officer and Assistant Corporate Secretary	August 14, 2008

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