Plandai Biotechnology, Inc.
Form 10-K
October 14, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2014

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-51206

PLANDAÍ BIOTECHNOLOGY, INC.
(Name of small business issuer in its charter)

Nevada	**20-1389815**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2226 Eastlake Avenue East #156, Seattle, WA	**98102**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(435) 881-8734**

Securities registered under Section 12(b) of the Exchange Act:	**None**
Securities registered under Section 12(g) of the Exchange Act:	**Common stock, par value $0.0001 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 issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the last 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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.

Large accelerated filer	¨Accelerated filer	¨
Non-accelerated filer	¨Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2014: $10,453,139.

As of October 10, 2014, the registrant had 134,220,536 outstanding shares of Common Stock.

Documents incorporated by reference: None.

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PART I

ITEM 1. BUSINESS.

Plandaí Biotechnology, Inc. (the "Company") and its subsidiaries focus on the production of proprietary botanical extracts for the nutriceutical and pharmaceutical industries. The company grows much of the live plant material used in its products on a 3,000 hectare estate it operates under a 49-year notarial lease in the Mpumalanga region of South Africa. Plandaí uses a proprietary extraction process that is designed to yield highly bioavailable products of pharmaceutical-grade purity. The first product to be brought to market is Phytofare™ Catechin Complex, a green-tea derived extract that has multiple potential wellness applications. The company's principle holdings consist of land, farms and infrastructure in South Africa.

The Company was incorporated, as Jerry's Inc., in the State of Florida on November 30, 1942. The company catered airline flights and operated coffee shops, lounges and gift shops at airports and other facilities located in Florida, Alabama and Georgia. The company's airline catering services included the preparation of meals in kitchens located at, or adjacent to, airports and the distribution of meals and beverages for service on commercial airline flights. The company also provided certain ancillary services, including, among others, the preparation of beverage service carts, the unloading and cleaning of plates, utensils and other accessories arriving on incoming aircraft, and the inventory management and storage of airline-owned dining service equipment. In March of 2004 we moved our domicile to Nevada and changed our name to Diamond Ranch Foods, Ltd. Diamond Ranch Foods, Ltd. was engaged in the meat processing and distribution industry. Operations consisted of packing, processing, custom meat cutting, portion controlled meats, private labeling, and distribution of our products to a diversified customer base, including, but not limited to; in-home food service businesses, retailers, hotels, restaurants and institutions, deli and catering operators, and industry suppliers. On November 17, 2011, the Company, through its wholly-owned subsidiary, Plandaí Biotechnologies, Inc. consummated a share exchange with Global Energy Solutions Corporation Limited, an Irish corporation. Under the terms of the Share Exchange, GES received 76,000,000 shares of Diamond Ranch that had been previously issued to Plandaí Biotechnologies, Inc. in exchange for 100% of the issued and outstanding capital of GES. On November 21, 2011, the Company filed an amendment to the articles of incorporation to change the name of the company to Plandaí Biotechnology, Inc. GES was subsequently folded up into Plandaí and the legal status terminated, leaving Plandaí Biotechnology, Inc. as the surviving entity.

The Company is actively pursuing additional financing and has had discussions with various third parties, although no firm commitments have been obtained. Management believes these efforts will generate sufficient cash flows from future operations to pay the Company's obligations and realize positive cash flow. There is no assurance any of these transactions will occur. In April 2012, through our subsidiary companies, we secured a 100 million Rand (approximately $13 million) financing with the Land and Agriculture Bank of South Africa which has been used to build infrastructure and further operations.

DISPOSITION OF SUBSIDIARY

On November 17, 2011, the Company sold its subsidiary, Diamond Ranch, Ltd., together with its wholly-owned subsidiary, Executive Seafood, Inc. to the former officer and director of Diamond Ranch. Under the terms of the sale, the purchaser assumed all associated debt as consideration. During the three and six months ended December 31, 2011, Diamond Ranch, Ltd. and Executive Seafood, Inc. had negligible revenues from operations, generated a net loss of $126,000, and as of the date of disposition, liabilities exceeded assets by over $5,000,000.

As a result of the Share Exchange Agreement and disposition of Diamond Ranch, Ltd., the Company's operations consist entirely of the operations of the former GES entity and its subsidiaries.

PRODUCTS AND SERVICES

Plandaí has a proprietary technology that extracts a high level of bio-available compounds and phytonutrients from polyphenols found in organic matter, including green tea leaves, citrus and many other plants. Various tests have been conducted over the past ten years using this technology to generate functional chemical compounds possessing nutritive properties that act effectively as preventive agents in the healthcare field. Polyphenols from green tea are an excellent source antioxidant and anti-carcinogenic substances. The Company leases 8,000 acres of agriculture land in Mpumalanga, South Africa, under a 49-year notarial lease, which includes over a thousand acres of cultivated green tea. In addition, the Company has recently completed a 30,000 sq. ft. state-of-the-art extraction facility on site which is expected to come online before the end of Year 2014. Plandaí intends to use its plantation leases to focus on the farming of whole fruits, vegetables and live plant material and the production of proprietary botanical extracts for the health and wellness industry using its proprietary extraction technology and the extraction facility.

Many botanical extracts have demonstrated varying degrees of health benefit, and many pharmaceutical drugs are either derived directly from plant extracts or are synthetic analogs of phytonutrient molecules. Green tea leaf, for example, has shown promising in-vitro results as an anti-oxidant, with hundreds of different published studies demonstrating its potential usefulness in weight loss, anti-viral, anti-cancer, and anti-parasitic applications, amongst others.

The company is presently developing for market two unique extracts: Phytofare™ Catechin Complex and Phytofare™ Limonoid Glycoside Complex. The catechin complex is derived from green tea harvested locally on the Senteeko Tea Estate in Mpumalanga, South Africa, and then processed on a state-of-the-art extraction facility constructed onsite using funds obtained from the Land and Agriculture Bank of South Africa. The facility is expected to become operational before the end of Year 2014, with initial sales commencing fourth quarter 2014. The limonoid glycoside product is extracted from lemons which are sourced from local plantations in South Africa and then produced in the same factory that makes the green tea product. The Phytofare™ Limonoid Glycoside Complex will be introduced to the market in July 2015.

On August 30, 2013, Plandaí entered into a license agreement with North-West University in Potchefstroom, South Africa, which granted the company the exclusive right to use the University's Pheroid™ technology to product nano-entrapped botanical extracts for human and animal use. The company believes that this technology will enable it to develop products with much higher absorption coefficients in both topical use and oral consumption.

The Company is actively pursuing research on additional botanical extracts that have known or suspected pharmaceutical properties. This research includes developing a non-psychoactive cannabinoid extract through the Company's wholly-owned subsidiary, Cannabis Biosciences, Inc. Cannabis Biosciences has concluded its investigative research on cannabis and developed a method of extraction which it believes can produce a complete cannabis complex in a highly bioavailable format but without psychoactive effects. The Company is actively seeking to obtain a license that will permit it to produce its cannabinoid extract and conduct laboratory research on live cannabis plant. Provided that the company can produce such an extract, the plan is to commence animal research on neural disorders such as Parkinson's, Alzheimer's, MS, epilepsy, and post-concussion syndrome in order to determine definitively if cannabis possesses medicinal properties meriting further human trials.

COMPETITION

The Company faces competition from a variety of sources. There are several large producers of farm products including green tea and there are numerous companies that develop and market nutriceutical products that include bio-available compounds including those from green tea and citrus extracts. Many of these competitors benefit from established distribution, market-ready products, and greater levels of financing. Plandaí intends to compete by producing higher quality and higher concentration extracts, producing at lower costs, and controlling a vertically integrated market that includes all stages from farming through production and marketing. The company's unique

patent-pending technology, combined with the patented Pheroid™ technology, should provide several unique market advantages in the form of higher absorption, increased bioavailability, and lower dosage requirements.

CUSTOMERS

Plandaí will market to nutriceutical and supplement companies that require high-quality bio-available extracts for their products. As pharmaceutical products clear their human clinical trials and receive market approval from the FDA, Plandaí will enlist distribution companies to sell to various end user outlets. In addition, the Company anticipates having surplus farm products including timber, fruits, and nuts which will be sold to local markets.

LICENSE AGREEMENT

During the year ended June 30, 2014, the Company entered into a license agreement with Oasix, Inc., a Canadian company that owns and operates medical centers specializing in dermatology and skin care. The terms of the license required and initial payment of $250,000 plus an additional payment of $250,000 following the favorable completion of certain clinical trials. The license covers the use of Phytofare™ Catechin Complex in topical formulation for anti-aging applications and is specific to North America and portions of Africa. Of the initial payment, the company received $190,000 which has been recorded as License Fees in the accompanying financial statements. The company has completed the clinical trials with favorable results and therefore deems the monies received to be earned as of June 30, 2014. The company is presently is discussion with Oasix regarding fulfillment of the remaining terms of the agreement. A total of $14,000 was spent on the clinical trials, which was recorded as research and development costs.

ITEM 1A. RISK FACTORS

An investment in our securities is highly speculative, involves a high degree of risk and is suitable only for investors with substantial means who can bear the economic risk of the investment for an indefinite period of time, have no need for liquidity of the investment, and have adequate means of providing for their current needs and contingencies. An investment in the securities should be made only by persons able to bear the risk in the event the investment results in a total loss.

We Have Historically Lost Money and Losses May Continue in the Future

We have historically lost money. The loss for the fiscal year June 30, 2014 was $9,828,797 and future losses are likely to occur. Accordingly, we may experience significant liquidity and cash flow problems if we are not able to raise additional capital as needed and on acceptable terms. No assurances can be given we will be successful in reaching or maintaining profitable operations.

We Will Need to Raise Additional Capital to Finance Operations

Our operations have thus far relied almost entirely on external financing to fund our operations. Such financing has historically come from a combination of borrowings and from the sale of common stock and assets to third parties. Until we reach a point where revenues exceed costs, we will need to raise additional capital to fund our anticipated operating expenses and future expansion. Among other things, external financing will be required to cover our operating costs. We cannot assure you that financing whether from external sources or related parties will be available if needed or on favorable terms. The sale of our common stock to raise capital may cause dilution to our existing shareholders. Our inability to obtain adequate financing will result in the need to curtail business operations. Any of these events would be materially harmful to our business and may result in a lower stock price.

There is Substantial Doubt About Our Ability to Continue as a Going Concern Due to Recurring Losses and Working Capital Shortages, Which Means that We May Not Be Able to Continue Operations Unless We Obtain Additional Funding

Our independent certified public accountant has stated in their report included in this filing that we have suffered recurring losses from operations that raise substantial doubt about our ability to continue as a going concern.

The Company has experienced recurring operating losses and we currently have a working capital deficiency. There is a possibility that our revenues will not be sufficient to meet our operating costs. To date our liabilities have greatly exceeded our current assets. There is a substantial doubt that we can continue as a going concern.

There can be no assurance that we will continue to generate revenues from operations or obtain sufficient capital on acceptable terms, if at all. Failure to obtain such capital or generate such operating revenues would have an adverse impact on our financial position and results of operations and ability to continue as a going concern. Our operating and capital requirements during the next fiscal year and thereafter will vary based on a number of factors, including the level of sales and marketing activities for our services and products. There can be no assurance that additional

private or public finances, including debt or equity financing, will be available as needed or, if available, on terms favorable to us. Any additional equity financing may be dilutive to stockholders and such additional equity securities may have rights, preferences or privileges that are senior to those of our existing common stock.

Furthermore, debt financing, if available, will require payment of interest and may involve restrictive covenants that could impose limitations on our operating flexibility. Our failure to successfully obtain additional future funding may jeopardize our ability to continue our business and operations.

Our Common Stock May Fluctuate Significantly

Our common stock has experienced, and is likely to experience in the future, significant price and volume fluctuations that could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially. Substantial fluctuations in our stock price could significantly reduce the price of our stock.

There is no Assurance of Continued Public Trading Market and Being a Low Priced Security may Affect the Market Value of Our Stock

Our common stock is currently quoted on the OTC. As a result, an investor may find it difficult to dispose of, or to obtain accurate quotations as to the market value of our stock. Our stock is subject to the low-priced security or so called "penny stock" rules that impose additional sales practice requirements on broker-dealers who sell such securities. The Securities Enforcement and Penny Stock Reform Act of 1990 requires additional disclosure in connection with any trades involving a stock defined as a penny stock (generally, according to recent regulations adopted by the SEC, any equity security that has a market price of less than $5.00 per share, subject to certain exceptions that we no longer meet). For example, brokers/dealers selling such securities must, prior to effecting the transaction, provide their customers with a document that discloses the risks of investing in such securities. Included in this document are the following:

- the bid and offer price quotes in and for the "penny stock," and the number of shares to which the quoted prices apply,

- the brokerage firm's compensation for the trade, and

- the compensation received by the brokerage firm's sales person for the trade.

In addition, the brokerage firm must send the investor:

- a monthly account statement that gives an estimate of the value of each "penny stock" in the investor's account, and

- a written statement of the investor's financial situation and investment goals.

If the person purchasing the securities is someone other than an accredited investor or an established customer of the broker/dealer, the broker/dealer must also approve the potential customer's account by obtaining information concerning the customer's financial situation, investment experience and investment objectives. The broker/dealer must also make a determination whether the transaction is suitable for the customer and whether the customer has sufficient knowledge and experience in financial matters to be reasonably expected to be capable of evaluating the risk of transactions in such securities. Accordingly, the Commission's rules may limit the number of potential purchasers of the shares of our common stock.

Resale restrictions on transferring "penny stocks" are sometimes imposed by some states, which may make transaction in our stock more difficult and may reduce the value of the investment. Various state securities laws pose restrictions on transferring "penny stocks" and as a result, investors in our common stock may have the ability to sell their shares of our common stock impaired.

There can be no assurance we will have market makers in our stock. If the number of market makers in our stock should decline, the liquidity of our common stock could be impaired, not only in the number of shares of common stock which could be bought and sold, but also through possible delays in the timing of transactions, and lower prices for the common stock than might otherwise prevail. Furthermore, the lack of market makers could result in persons being unable to buy or sell shares of the common stock on any secondary market.

We Could Fail to Retain or Attract Key Personnel

Our future success depends in significant part on the continued services of Roger Duffield, our President. We cannot assure we would be able to find an appropriate replacement for key personnel. Any loss or interruption of our key personnel's services could adversely affect our ability to develop our business plan.

Nevada Law and Our Charter May Inhibit a Takeover of Our Company That Stockholders May Consider Favorable

Provisions of Nevada law, such as its business combination statute, may have the effect of delaying, deferring or preventing a change in control of our company. As a result, these provisions could limit the price some investors might be willing to pay in the future for shares of our common stock.

We have a history of operating losses and expect to incur losses for the foreseeable future. We may never generate revenues or, if we are able to generate revenues, achieve profitability.

Thus far, our operations have been focused on product development and in bringing production capacity online, and our revenues to date have consisted of sales of timber, avocado and macadamia nuts from our farms in South Africa. We have incurred losses in each year of our operations, and we expect to continue to incur operating losses for the foreseeable future. These operating losses have adversely affected and are likely to continue to adversely affect our working capital, total assets and shareholders' equity.

The Company and its prospects should be examined in light of the risks and difficulties frequently encountered by new and early stage companies in new and rapidly evolving markets. These risks include, among other things, the speed at which we can scale up operations, our complete dependence upon development of products that currently have no market acceptance, our ability to establish and expand our brand name, our ability to expand our operations to meet the commercial demand of our clients, our development of and reliance on strategic and customer relationships and our ability to minimize fraud and other security risks.

The process of developing our products requires significant clinical, development and laboratory testing and clinical trials. In addition, commercialization of our product candidates will require that we obtain necessary regulatory approvals and establish sales, marketing and manufacturing capabilities, either through internal hiring or through contractual relationships with others. We expect to incur substantial losses for the foreseeable future as a result of anticipated increases in our research and development costs, including costs associated with conducting preclinical testing and clinical trials, and regulatory compliance activities.

Our ability to generate revenues and achieve profitability will depend on numerous factors, including success in:

- developing and testing product candidates;
- receiving regulatory approvals;
- commercializing our products;
- establishing a favorable competitive position.

Many of these factors will depend on circumstances beyond our control. We cannot assure you that we will ever have a product that we will bring to market or, if we are successful in doing so, that we will ever become profitable.

We expect to incur substantial additional operating expenses over the next several years as our research, development, pre-clinical testing, and clinical trial activities increase. The amount of future losses and when, if ever, we will achieve profitability are uncertain. We have no products that have generated any commercial revenue to date. Our ability to generate revenue and achieve profitability will depend on, among other things, successful completion of the development of our product candidates; the successful testing of our product in both in *in vitro* and *in vivo* trials; establishing manufacturing, sales, and marketing arrangements with third parties; and raising sufficient funds to finance our activities. We might not succeed at any of these undertakings. If we are unsuccessful at some or all of these undertakings, our business, prospects, and results of operations may be materially adversely affected.

We received a report from our independent registered public accounting firm with an explanatory paragraph for the year ended June 30, 2014 with respect to our ability to continue as a going concern. The existence of such a report may adversely affect our stock price and our ability to raise capital.

In their report dated October 7, 2014, our independent registered public accounting firm expressed substantial doubt about our ability to continue as a going concern as we have incurred losses since inception of development stage, have a negative cash flow from operations and have working capital and stockholders' deficiencies. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, increasing sales or obtaining loans and grants from various financial institutions where possible. Our continued net operating losses increase the difficulty in meeting such goals and there can be no assurances that such methods will prove successful.

We have no approved products on the market and have generated no product revenues to date.

To date, we have no approved product on the market and have generated no product revenues. Until and unless we receive approval from regulatory authorities for our product candidates, we cannot sell our products and will not have product revenues. We recently received a legal opinion stating that our Phytofare™ Catechin Complex with not require specific and separate approval to be sold in the United States; however, we have not yet commenced production or shipments to customers. Until have products on the market we will have to fund all of our operations and capital expenditures from cash on hand, licensing fees and grants and additional financings, to the extent such financings can be obtained.

We need additional capital. If additional capital is not available or is available at unattractive terms, we may be forced to delay, reduce the scope of or eliminate our research and development programs, reduce our commercialization efforts or curtail our operations.

In order to develop and bring our product candidates to market, we must commit substantial resources to costly and time-consuming production development, research, clinical trials and marketing activities. We anticipate that our existing cash and cash equivalents will enable us to maintain our current operations for at least the next six months. We anticipate using our cash and cash equivalents to fund further research and development with respect to our lead product candidates. We may, however, need to raise additional funding sooner if our business or operations change in a manner that consumes available resources more rapidly than we anticipate. Our requirements for additional capital will depend on many factors, including:

- successful commercialization of our product candidates;
- the time and costs involved in obtaining regulatory approval for our product candidates;
- costs associated with protecting our intellectual property rights;
- development of marketing and sales capabilities;
- payments received under future collaborative agreements, if any; and
- market acceptance of our products.

To the extent we raise additional capital through the sale of equity securities, the issuance of those securities could result in dilution to our shareholders. In addition, if we obtain debt financing, a substantial portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, thus limiting funds available for our business activities. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate our research and development programs, reduce our commercialization efforts or curtail our operations. In addition, we may be required to obtain funds through arrangements with collaborative partners or others that may require us to relinquish rights to technologies, product candidates or products that we would otherwise seek to develop or commercialize ourselves or license rights to technologies, product candidates or products on terms that are less favorable to us than might otherwise be available.

The Company will require substantial additional funds to support its research and development activities and eventual commercialization. Such additional sources of financing may not be available on favorable terms, if at all. If we do not succeed in raising additional funds on acceptable terms, we could be forced to discontinue product development, forego sales and marketing efforts and forego attractive business opportunities. Any additional sources of financing will likely involve the issuance of our equity securities, which will have a dilutive effect on our stockholders.

There is no assurance that we will be successful in raising the additional funds needed to fund our business plan. If we are not able to raise sufficient capital in the near future, our continued operations will be in jeopardy and we may be forced to cease operations and sell or otherwise transfer all or substantially all of our remaining assets.

We face intense competition in the markets targeted by our lead product candidates. Many of our competitors have substantially greater resources than we do, and we expect that all of our product candidates under development will face intense competition from existing or future drugs.

We expect that all of our product candidates under development will face intense competition from existing and future products marketed by large companies. These competitors may successfully market products that compete with our products, successfully identify and develop products earlier than we do, or develop products that are more effective or cost less than our products.

These competitive factors could require us to conduct substantial new research and development activities to establish new product targets, which would be costly and time consuming. These activities would adversely affect our ability to commercialize products and achieve revenue and profits.

Competition and technological change may make our product candidates and technologies less attractive or obsolete.

We compete with established pharmaceutical and food additive companies that are pursuing other products for the same indications we are pursuing and that have greater financial and other resources. Other companies may succeed in developing products earlier than us, or developing products that are more effective than our product candidates. Research and development by others may render our technology or product candidates obsolete or noncompetitive, or result in treatments or cures superior to any product we develop. We face competition from companies that internally develop competing technology or acquire competing technology from universities and other research institutions. As these companies develop their technologies, they may develop competitive positions that may prevent, make futile, or limit our product commercialization efforts, which would result in a decrease in the revenue we would be able to derive from the sale of any products.

There can be no assurance that any of our product candidates will be accepted by the marketplace as readily as these or other competing treatments. Even if our products are successfully developed and approved for use by all governing regulatory bodies, there can be no assurance that 3rd party manufacturers and consumers will prefer our products to those already in the market.

Furthermore, the food additive industry is diverse, complex, and rapidly changing. By its nature, the business risks associated therewith are numerous and significant. The effects of competition, intellectual property disputes, and market acceptance preclude us from forecasting revenues or income with certainty or even confidence.

If we fail to protect our intellectual property rights, our ability to pursue the development of our technologies and products would be negatively affected.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of our technologies and products. If we do not adequately protect our intellectual property, competitors may be able to use our technologies to produce and market drugs in direct competition with us and erode our competitive advantage. Some foreign countries lack rules and methods for defending intellectual property rights and do not protect proprietary rights to the same extent as the United States. Many companies have had difficulty protecting their proprietary rights in these foreign countries. We may not be able to prevent misappropriation of our proprietary rights.

We are currently seeking patent protection for numerous processes and finished products. However, the patent process is subject to numerous risks and uncertainties, and there can be no assurance that we will be successful in protecting our products by obtaining and defending patents. These risks and uncertainties include the following: patents that may be issued or licensed may be challenged, invalidated, or circumvented, or otherwise may not provide any competitive advantage; our competitors, many of which have substantially greater resources than us and many of which have made significant investments in competing technologies, may seek, or may already have obtained, patents that will limit, interfere with, or eliminate our ability to make, use, and sell our potential products either in the United States or in international markets; there may be significant pressure on the United States government and other international governmental bodies to limit the scope of patent protection both inside and outside the United States for treatments that prove successful as a matter of public policy regarding worldwide health concerns; countries other than the United States may have less restrictive patent laws than those upheld by United States courts, allowing foreign competitors the ability to exploit these laws to create, develop, and market competing products.

Moreover, any patents issued to us may not provide us with meaningful protection, or others may challenge, circumvent or narrow our patents. Third parties may also independently develop products similar to our products, duplicate our unpatented products or design around any patents on products we develop. Additionally, extensive time is required for development, testing and regulatory review of a potential product. While extensions of patent term due to regulatory delays may be available, it is possible that, before any of our product candidates can be commercialized, any related patent, even with an extension, may expire or remain in force for only a short period following commercialization, thereby reducing any advantages of the patent.

In addition, the United States Patent and Trademark Office (the "PTO") and patent offices in other jurisdictions have often required that patent applications concerning biotechnology-related inventions be limited or narrowed substantially to cover only the specific innovations exemplified in the patent application, thereby limiting the scope of protection against competitive challenges. Thus, even if we or our licensors are able to obtain patents, the patents may be substantially narrower than anticipated.

Our success depends on patent applications that are licensed exclusively to us and other patents to which we may obtain assignment or licenses. We may not be aware, however, of all patents, published applications or published literature that may affect our business either by blocking our ability to commercialize our product candidates, by preventing the patentability of our product candidates to us or our licensors, or by covering the same or similar technologies that may invalidate our patents, limit the scope of our future patent claims or adversely affect our ability to market our product candidates.

In addition to patents, we rely on a combination of trade secrets, confidentiality, nondisclosure and other contractual provisions, and security measures to protect our confidential and proprietary information. These measures may not adequately protect our trade secrets or other proprietary information. If they do not adequately protect our rights, third parties could use our technology, and we could lose any competitive advantage we may have. In addition, others may independently develop similar proprietary information or techniques or otherwise gain access to our trade secrets, which could impair any competitive advantage we may have.

Patent protection and other intellectual property protection is crucial to the success of our business and prospects, and there is a substantial risk that such protections will prove inadequate.

If testing or clinical trials for our product candidates are unsuccessful or delayed, we will be unable to meet our anticipated development and commercialization timelines.

We rely and expect to continue to rely on third parties, including clinical research organizations and outside consultants, to conduct, supervise or monitor some or all aspects of testing or clinical trials involving our product candidates. We have less control over the timing and other aspects of testing or clinical trials than if we performed the monitoring and supervision entirely on our own. Third parties may not perform their responsibilities for our testing or clinical trials on our anticipated schedule or, for clinical trials, consistent with a clinical trial protocol. Delays in preclinical and clinical testing could significantly increase our product development costs and delay product commercialization. In addition, many of the factors that may cause, or lead to, a delay in the clinical trials may also ultimately lead to denial of regulatory approval of a product candidate.

The commencement of clinical trials can be delayed for a variety of reasons, including delays in:

- demonstrating sufficient safety and efficacy to obtain regulatory approval to commence a clinical trial;
- reaching agreement on acceptable terms with prospective contract research organizations and trial sites;
- manufacturing sufficient quantities of a product candidate; and
- obtaining institutional review board approval to conduct a clinical trial at a prospective site.

Once a clinical trial has begun, it may be delayed, suspended or terminated due to a number of factors, including:

- ongoing discussions with the FDA or other regulatory authorities regarding the scope or design of our clinical trials;
- failure to conduct clinical trials in accordance with regulatory requirements;
- lower than anticipated recruitment or retention rate of patients in clinical trials;
- lack of adequate funding to continue clinical trials; or
- negative results of clinical trials

If clinical trials are unsuccessful, and we are not able to obtain regulatory approvals for our product candidates under development, we will not be able to commercialize these products, and therefore may not be able to generate sufficient revenues to support our business.

If we are unable to hire additional qualified personnel, our ability to grow our business may be harmed.

Over time we will need to hire additional qualified personnel with expertise in clinical testing, clinical research and testing, government regulation, formulation and manufacturing, financial matters and sales and marketing. We compete for qualified individuals with numerous biopharmaceutical companies, universities and other research institutions. Competition for such individuals is intense, and we cannot be certain that our search for such personnel will be successful. Attracting and retaining qualified personnel will be critical to our success.

Data provided by collaborators and others upon which we rely that has not been independently verified could turn out to be false, misleading, or incomplete.

We rely on third-party vendors, scientists, and collaborators to provide us with significant data and other information related to our projects, clinical trials, and our business. If such third parties provide inaccurate, misleading, or incomplete data, our business, prospects, and results of operations could be materially adversely affected.

Successful development of our products is uncertain.

Our development of current and future product candidates is subject to the risks of failure and delay inherent in the development of new biotech products, including: delays in product development, clinical testing, or manufacturing; unplanned expenditures in product development, clinical testing, or manufacturing; failure to receive regulatory approvals; emergence of superior or equivalent products; inability to manufacture on its own, or through any others, product candidates on a commercial scale; and failure to achieve market acceptance.

Because of these risks, our research and development efforts may not result in any commercially viable products. If a significant portion of these development efforts are not successfully completed, required regulatory approvals are not obtained or any approved products are not commercially successfully, our business, financial condition, and results of operations may be materially harmed.

We do not have, and may never obtain, the regulatory approvals we need to market our product candidates.

Following completion of clinical trials, the results are evaluated and, depending on the outcome, may be submitted to the FDA in the form of an NDA in order to obtain approval to commence commercial marketing using the desired claims. While FDA approval will not be required to sell our products, in order to make certain health-related claims, FDA approval may be required. In responding to an NDA, the FDA may require additional testing or information, may require that the product labeling be modified, may impose post-approval study or reporting requirements or other restrictions on product distribution, or may deny the application. The FDA has established performance goals for review of NDAs - six months for priority applications and ten months for standard applications. However, the FDA is not required to complete its review within these time periods. The timing of final FDA review and action varies greatly, but can take years in some case and may involve the input of an FDA advisory committee of outside experts. Product sales in the United States may commence only when an NDA is approved.

To date, we have not applied for or received the regulatory approvals required for the commercial sale of any of our products in the United States or in any foreign jurisdiction. None of our product candidates has been determined to be safe and effective, and we have not submitted an NDA to the FDA or an equivalent application to any foreign regulatory authorities for any of our product candidates.

It is possible that none of our product candidates will be approved for marketing. Failure to obtain regulatory approvals, or delays in obtaining regulatory approvals, may adversely affect the successful commercialization of any products we develop, may impose additional costs on us or our collaborators, may diminish any competitive advantages that we or our partners may attain, and/or may adversely affect our receipt of revenues or royalties.

Even if we obtain regulatory approval to market our product candidates, our product candidates may not be accepted by the market.

Even if we receive regulatory approval to market one or more of our product candidates, consumers may not accept it or use it. Acceptance and use of our products will depend upon a number of factors including: perceptions by members of the health care community, including physicians, about the safety and effectiveness of our products; cost-effectiveness of our product relative to competing products; and effectiveness of marketing and distribution efforts by us and our licensees and distributors, if any.

If we fail to establish marketing, sales and distribution capabilities, or fail to enter into arrangements with third parties, we will not be able to create a market for our product candidates.

Our strategy with our lead product candidates is to control, directly or through contracted third parties, all or most aspects of the product development process, including marketing, sales and distribution. Currently, we do not have any sales, marketing or distribution capabilities. In order to generate sales of any product candidates, we must either acquire or develop an internal marketing and sales force with technical expertise and with supporting distribution capabilities or make arrangements with third parties to perform these services for us. The acquisition or development of a sales and distribution infrastructure would require substantial resources, which may divert the attention of our management and key personnel and defer our product development efforts. To the extent that we enter into marketing and sales arrangements with other companies, our revenues will depend on the efforts of others. These efforts may not be successful. If we fail to develop sales, marketing and distribution channels, or enter into arrangements with third parties, we will experience delays in product sales and incur increased costs.

The establishment of a marketing, sales, and distribution capability would significantly increase our costs, possibly requiring substantial additional capital. In addition, there is intense competition for proficient sales and marketing personnel, and we may not be able to attract individuals who have the qualifications necessary to market, sell, and

distribute our products. There can be no assurance that we will be able to establish internal marketing, sales, or distribution capabilities. If we are unable to, or choose not to establish these capabilities, or if the capabilities we establish are not sufficient to meet our needs, we will be required to establish collaborative marketing, sales, or distribution relationships with third parties.

We face the risk of product liability claims and may not be able to obtain insurance.

Our business exposes us to the risk of product liability claims that are inherent in the development of consumer products. If the use of one of our products harms people, we may be subject to costly and damaging product liability claims brought against us by clinical trial participants, consumers, or others selling our products. Our inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of products we develop, alone or with collaborators. We currently do not carry clinical trial insurance or product liability insurance. We intend to obtain such insurance in the future. We cannot predict all of the possible harms or side effects that may result and, therefore, the amount of insurance coverage we hold now or in the future may not be adequate to cover all liabilities we might incur. If we are unable to obtain insurance at an acceptable cost or otherwise protect against potential product liability claims, we will be exposed to significant liabilities, which may materially and adversely affect our business and financial position. If we are sued for any injury allegedly caused by our or our collaborators' products, our liability could exceed our total assets and our ability to pay the liability. A product liability claim or series of claims brought against us would decrease our cash and could cause our stock price to fall.

EMPLOYEES

The Company, including subsidiaries, currently employs approximately 100 full time employees, of which 80 are engaged in farming, 5 in research and development, and 15 in management and operations. Once the Company has completed testing on its Phytofare™ products and has its production facility nearing completion, management expects to increase the number of employees engaged in farming, production, and operations significantly. We assess employee relations to be excellent.

ITEM 1 B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company, through its subsidiary, Dunn Roman Holdings, controls notarial leases in South Africa encompassing 8,000 acres of tea plantations, farms and associated buildings. The Company also leases office space in London, England and White River, Mpumalanga, South Africa.

We believe that our existing facilities are suitable and adequate to meet our current business requirements.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINING SAFETY DISCLOSURES

Not applicable.

PART II

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

Shares of the Company's common stock are quoted and traded from time to time on the OTC.BB with the trading symbol "PLPL."

The following table sets forth the high and low bid information for the Company’s common stock for each quarter within the two fiscal years. The prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Quarter Ending	Quarterly High	Quarterly Low
9/30/2012	$0.22	$0.12
12/31/2012	$0.15	$0.06
3/31/2013	$0.08	$0.04
6/30/2013	$0.54	$0.05
9/30/2013	$0.82	$0.40
12/31/2013	$0.60	$0.12
3/31/2014	$3.12	$0.21
6/30/2014	$1.08	$0.28

Secondary trading of our shares may be subject to certain state imposed restrictions.

The ability of individual shareholders to trade their shares in a particular state may be subject to various rules and regulations of that state. A number of states require that an issuer's securities be registered in their state or appropriately exempted from registration before the securities are permitted to trade in that state.

From time-to-time we may grant options or warrants, or promise registration rights to certain shareholders. We have no control over the number of shares of our common stock that our shareholders sell. The price of our common stock may be adversely affected if large amounts are sold in a short period of time.

Our shares most likely will be subject to the provisions of Section 15(g) and Rule 15g-9 of the Exchange Act, commonly referred to as the "penny stock" rule.

Section 15(g) sets forth certain requirements for transactions in penny stocks and Rule 15g-9(d)(1) incorporates the definition of penny stock as that used in Rule 3a51-1 of the Exchange Act.

The SEC generally defines penny stock to be any equity security that has a market price less than $5.00 per share, subject to certain exceptions. Rule 3a51-1 provides that any equity security is considered to be a penny stock unless that security is: registered and traded on a national securities exchange meeting specified criteria set by the SEC; authorized for quotation on

The NASDAQ Stock Market; issued by a registered investment company; excluded from the definition on the basis of price (at least $5.00 per share) or the issuer's net tangible assets; or exempted from the definition by the SEC. Broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally persons with assets in excess of $1,000,000 or annual income exceeding $200,000, or $300,000 together with their spouse), are subject to additional sales practice requirements.

For transactions covered by these rules, broker-dealers must make a special suitability determination for the purchase of such securities and must have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the first transaction, of a risk disclosure document relating to the penny stock market. A broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, and current quotations for the securities. Finally, monthly statements must be sent to clients disclosing recent price information for the penny stocks held in the account and information on the limited market in penny stocks. Consequently, these rules may restrict the ability of broker-dealers to trade and/or maintain a market in our common stock and may affect the ability of shareholders to sell their shares.

As of June 30, 2014, there were approximately 265 holders of record of our common stock. This number does not include an indeterminate number of shareholders whose shares are held by brokers in street name.

TRANSFER AGENT

We have appointed Signature Stock Transfer, Inc., with offices at 2301 Ohio Drive, Suite 100, Plano, TX 75093, phone number 972-612-4120, as transfer agent for our shares of common stock. The transfer agent is responsible for all record-keeping and administrative functions in connection with the common shares and stock warrants.

DIVIDEND POLICY

We don't plan to pay dividends at this time or anytime soon. The board of directors will decide on any future payment of dividends, depending on our results of operations, financial condition, capital requirements, and any other relevant factors. However, we expect to use any future earnings for operations and in the business.

RECENT SALES OF UNREGISTERED SECURITIES.

During the year ended June 30, 2013, the company sold a total of 525,460 shares of restricted common stock for cash proceeds of $140,500. The shares were issued under Rule 144 of the Securities Act of 1933.

During the year ended June 30, 2013, the company received back 250,000 shares of stock that had been previously issued for services valued at $80,000. The company and the service provided determined that the services had not been fully rendered, thus the shares were returned to the company and cancelled. The company also purchased 4,900,000 shares of common stock from a former director of the company in exchange for $125,000, which represented a discount of 50% off the closing bid price on the date of purchase. These shares were subsequently cancelled.

During the three months ended September 30, 2013, the Company sold 50,000 shares of unregistered, restricted common stock for proceeds of $15,000. The shares were issued under an exemption from registration provided by Rule 144 of the Securities Act of 1933.

During the three months ended December 31, 2013, the Company sold 50,000 shares of unregistered, restricted common stock for proceeds of $15,000. Each of the recipients of those shares was an accredited investor, and each of the issuances of these shares was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act.

During the three months ended December 31, 2013, the Company also issued a total of 5,000,000 shares of unregistered, restricted common stock to satisfy a credit line obligation and accrued interest totaling $907,503. The recipient of those shares was an accredited investor, and the issuances of these shares was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act.

On January 15, 2014, the Company issued a total of 2,036,000 shares of unregistered restricted common stock to satisfy a loan obligation of $482,958. The recipient of those shares was an accredited investor, and the issuances of these shares was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act.

On January 30, 2014, the Company issued a total of 2,717,035 shares of unregistered restricted common stock satisfy loan obligations of $150,000. Each of the recipients of those shares was an accredited investor, and each of the issuances of these shares was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act.

In February 2014, the company issued a total of 8,640,000 shares of unregistered restricted common stock to employees, including officers of the company, under compensation agreements entered into in prior years. The value of these shares was accrued as Common Stock Issuable in the accompanying financial statements. Each of the recipients of those shares was an accredited investor, and each of the issuances of these shares was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act.

During the quarter ended March 31, 2014, the company issued a total of 540,000of unregistered restricted common stock to a third party as consideration for executing a stock purchase agreement. Each of the recipients of those shares was an accredited investor, and each of the issuances of these shares was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act.

During the quarter ended March 31, 2014, the company issued a total of 1,180,033 shares of unregistered restricted common stock to various third parties in exchange for cash totaling $600,000. Each of the recipients of those shares was an accredited investor, and each of the issuances of these shares was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act.

During the quarter ended March 31, 2014, the company issued a total of 1,100,000 shares of restricted common stock in exchange for 15% interest in Dunn Roman Holdings-Africa (Pty) Ltd. and 10% interest in Green Gold Biotechnologies, (Pty) Ltd. In April 2014, the company agreed to issue an additional 70,000 shares to acquire the remaining 2% interest in Dunn Roman, bringing its total ownership in that entity to 100%. These shares were issued subsequent to June 30, 2014. Each of the recipients of those shares was an accredited investor, and each of the issuances of these shares was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act.

During the quarter ended June 30, 2014, the Company had the following issuances of unregistered securities:

- 86,800 shares of restricted common stock were sold to unaffiliated third parties in exchange for cash proceeds of $40,000. Each of the recipients of those shares was an accredited investor, and each of the issuances of these shares was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act.

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280,000 shares of unregistered common stock were issued to an unaffiliated third party on the conversion of $55,368 in debentures and associated interest. The recipient of the shares was an accredited investor, and each of the issuances of these shares was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act.

- 618,000 shares of restricted common stock were issued to employees of the Company's subsidiary, Dunn Roman Holdings-Africa, for services previously rendered. At the time of issuance, these shares had a value of $247,200 based on the closing bid price on the date of issuance. Each of the issuances of these shares was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act.
- 1,500,000 shares of restricted common were issued to former officers and directors of the Company's subsidiary, Dunn Roman Holdings-Africa, as part of a settlement in connection with terminating their employment and resignation from the subsidiary board of directors. At the time of issuance, the shares had a value of $600,000 based on the closing bid price on the date of issuance. Each of the issuances of these shares was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act.
- 500,000 shares restricted common stock were issued to extend the lease and purchase option on the Company's White River, South Africa, office space, by an additional five years. At the time of issuance, the shares had a value of $200,000 based on the closing bid price on the date of issuance. Each of the issuances of these shares was exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act.

ITEM 6. SELECTED FINANCIAL DATA.

Not Applicable.

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

ANALYSIS OF OPERATIONS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

SALES

For the fiscal year ended June 30, 2014, sales were $265,748 compared to sales of $359,143 for the fiscal year ended June 30, 2013. Sales during fiscal 2014 included $190,000 attributed to a license sold to Oasix with the balance attributable to timber sales. Sales during 2013 consistedONT FACE="TIMES NEW ROMAN, TIMES, SERIF" SIZE="1">March 31, 2012

Customer A		
	16%	*
Customer B		
	*	26%
Customer C		
	*	10%

* Amounts are less than 10%

As of March 31, 2013, Customer A, Customer B and Customer C accounted for approximately 30%, 11% and 7% of accounts receivable, respectively. As of December 31, 2012, Customer B and Customer C accounted for approximately 32% and 11% of accounts receivable, respectively.

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The following suppliers accounted for 10% or more of Andrea s purchases during the periods presented below:

	For the Three Months Ended

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
Supplier A	99%	42%
Supplier B	*	19%
Supplier C	*	16%

At March 31, 2013 and December 31, 2012, Supplier A accounted for approximately 66% and 58% of trade accounts payable, 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 of inventory is based on the respective cost of materials. Andrea reviews its inventory reserve for obsolescence on a quarterly basis and establishes reserves on inventories based on the specific identification method as well as a general reserve. Andrea records changes in inventory reserves as part of cost of revenues.

	March 31, 2013	December 31, 2012
Raw materials	$ 25,462	$ 25,484
Finished goods	1,187,066	1,262,535
	1,212,528	1,288,019
Less: reserve for obsolescence	(650,678)	(654,950)
	$ 561,850	$ 633,069

Intangible and Lived Assets - Andrea accounts for its long-lived assets in accordance with ASC 360 Property, Plant and Equipment for purposes of determining and measuring impairment of its long-lived assets (primarily intangible assets) other than goodwill. Andrea s policy is to periodically review the value assigned to its long-lived assets to determine if they have been permanently impaired by adverse conditions which may affect Andrea. If Andrea identifies a permanent impairment such that the carrying amount of Andrea s long lived assets are not recoverable using the sum of an undiscounted cash flow projection (gross margin dollars from product revenues), a new cost basis for the impaired asset will be established. If required, an impairment charge is recorded based on an estimate of future discounted cash flows. This new cost basis will be net of any recorded impairment. At March 31, 2012 Andrea concluded that the Andrea DSP Microphone and Audio Software Products business segment was not required to be tested for recoverability. At March 31, 2013, Andrea compared the sum of 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 and concluded that the Andrea DSP Microphone and Audio Software Products business segment was not impaired.

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 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.

Subsequent to March 31, 2013, one of the Company s customers determined that certain royalties related to their licensing agreement were not reported for 2012 and for the quarter ended March 31, 2013. The Company and the customer are in the process of determining the amount of unreported royalty revenue due to the Company. Since the Company is unable to estimate this amount, the Company has not recorded any revenue related to the unreported royalty revenue. The Company will record the unreported royalty revenue once the amount can be reasonably estimated.

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Income Taxes - Andrea accounts for income taxes in accordance with ASC 740, Income Taxes (ASC 740). ASC 740 requires an asset and liability approach for financial accounting and reporting for income taxes and establishes for all entities a minimum threshold for financial statement recognition of the benefit of tax positions, and requires certain expanded disclosures. The provision for income taxes is based upon income or loss after adjustment for those permanent items that are not considered in the determination of taxable income. Deferred income taxes represent the tax effects of differences between the financial reporting and tax bases of the Company s assets and liabilities at the enacted tax rates in effect for the years in which the differences are expected to reverse. The Company evaluates the recoverability of deferred tax assets and establishes a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Andrea expects it will reduce its valuation allowance in future periods to the extent that it can demonstrate its ability to utilize the assets. Management makes judgments as to the interpretation of the tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. In management s opinion, adequate provisions for income taxes have been made for all years. If actual taxable income by tax jurisdiction varies from estimates, additional allowances or reversals of reserves may be necessary. Income tax expense consists of 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. Based on the Company s evaluation, it has been concluded that there are no significant uncertain tax positions requiring recognition in the Company s condensed consolidated interim financial statements. The Company s evaluation was performed for tax years ended 2009 through 2012. The Company believes that its income tax positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position.

Stock-Based Compensation - At March 31, 2013, Andrea had two stock-based employee compensation plans, which are described more fully in Note 6. Andrea accounts for stock-based compensation in accordance with ASC 718, Compensation Stock Compensation (ASC 718). ASC 718 establishes accounting for stock-based awards exchanged for employee services. Under the provisions of ASC 718, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the employee s requisite service period (generally the vesting period of the equity grant). The fair value of the Company s common stock options are estimated using the Black Scholes option-pricing model with the following assumptions: expected volatility, dividend rate, risk free interest rate and the expected life. The Company expenses stock-based compensation by using the straight-line method. In accordance with ASC 718, excess tax benefits realized from the exercise of stock-based awards are classified in cash flows from financing activities. The future realization of the reserved deferred tax assets related to these tax benefits associated with the exercise of stock options will result in a credit to additional paid in capital if the related tax deduction reduces taxes payable. The Company has elected the with and without approach regarding ordering of windfall tax benefits to determine whether the windfall tax benefit did reduce taxes payable in the current year. Under this approach, the windfall tax benefit would be recognized in additional paid-in-capital only if an incremental tax benefit is realized after considering all other benefits presently available.

Use of Estimates - The preparation of condensed consolidated interim 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 condensed consolidated interim 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 interim financial statements in the period that they are determined to be necessary. Actual results could differ from those estimates and assumptions.

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation. The reclassifications did not have any effect on reported consolidated net loss for the periods presented.

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

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 a

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

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

As of March 31, 2013, there were 44.231432 shares of Series C Preferred Stock outstanding, which were convertible into 2,023,658 shares of Common Stock and remaining accrued dividends of $73,921.

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. These warrants were exercisable at any time after August 17, 2004, at an exercise price of $0.38 per share. On February 23, 2009, these warrants expired without being exercised.

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

The shares of Series D Preferred Stock are also subject to antidilution provisions, which are triggered in the event of certain stock splits, recapitalizations, or other dilutive transactions. In addition, issuances of common stock at a price below the conversion price then in effect (currently $0.25), or the issuance of warrants, options, rights, or convertible securities which have an exercise price or conversion price less than that conversion price, other than for certain previously outstanding securities and certain excluded securities (as defined in the certificate of amendment), require the adjustment of the conversion price to that lower price at which shares of common stock have been issued or may be acquired. In the event that Andrea issues securities in the future which have a conversion price or exercise price which varies with the market price and the terms of such variable price are more favorable than the conversion price in the Series D Preferred Stock, the purchasers may elect to substitute the more favorable variable price when making conversions of the Series D Preferred Stock. In addition, the Company is required to use its best efforts to secure the inclusion for quotation on the Over the Counter Bulletin Board for the common stock issuable under the Series D Preferred Stock and to arrange for at least two market makers to register with the Financial Industry Regulatory Authority. In the event that the holder of the Series D Preferred Stock and related warrants is unable to convert these securities into Andrea Common Stock, the Company shall pay to each such holder a Registration Delay Payment. This payment is to be paid in cash and is equal to the product of (i) the stated value

of such Preferred Shares multiplied by (ii) the product of (1) .0005 multiplied by (2) the number of days that sales cannot be made pursuant to the Registration Statement (excluding any days during that may be considered grace periods as defined by the Registration Rights Agreement).

In accordance with Sub Topic 815-40, Andrea evaluated the Series D Preferred Stock and concluded that it is not considered to be indexed to the Company s stock because of the conversion price adjustment feature described above. Accordingly, under the provisions of ASC 815, Andrea evaluated the Series D Preferred Stock embedded conversion feature. The Company has concluded

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that the embedded conversion feature would be classified in shareholders equity if it were a freestanding instrument as the Series D Preferred Stock is more akin to equity and as such it should not be bifurcated from the Series D instrument and accounted for separately.

As of March 31, 2013, there were 907,144 shares of Series D Preferred Stock outstanding which were convertible into 3,628,576 shares of Common Stock.

Note 5. Commitments And Contingencies

Leases

Andrea leases its corporate headquarters located in Bohemia, New York. The lease from an unrelated party, which currently expires in April 2015, is for approximately 11,000 square feet and houses Andrea s warehousing, sales and executive offices. Rent expense under this operating lease was approximately $23,729 and $23,038 for the three months ended March 31, 2013 and 2012, respectively.

As of March 31, 2013, the minimum annual future lease payments, under this lease and all other noncancellable operating leases, are as follows:

2013 (April 1 December 31)	$ 84,896
2014	112,575
2015	37,749
Total	$235,220

Employment Agreements

In July 2012, the Company entered into an employment agreement with Mr. Andrea. The effective date of the employment agreement is August 1, 2012 and the agreement expires July 31, 2013 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 $350,000 (which was identical to Mr. Andrea s salary for the period from August 1, 2011 to July 31, 2012) through July 31, 2013. In December 2012, Mr. Andrea voluntarily agreed to a $50,000 decrease of his annual salary for the remainder of the term of his 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. 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 two times his base salary with continuation of health and medical benefits for two years in the event of a change in control. In the event of his termination without cause or resignation with the Company s consent, Mr. Andrea is also entitled to a severance payment equal to six months of his base salary and a continuation for 12 months of health insurance coverage for Mr. Andrea, his spouse and his dependents. At March 31, 2013, the future minimum cash commitments under this agreement aggregate $100,000.

In November 1999, as amended August 2008, the Company entered into a change in control agreement with the Chief Financial Officer, Corisa L. Guiffre. This agreement provides for a change in control payment equal to three times her average annual compensation for the five preceding taxable years, with continuation of health and medical benefits for three years in the event of a change in control of the Company, as defined in

the agreement, and subsequent termination of employment other than for cause.

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. We cannot predict the outcome of this litigation although the Company believes the lawsuit is without merit.

Note 6. Stock Plans and Stock Based Compensation

In 1998, the Board adopted the 1998 Stock Option Plan (1998 Plan), which was subsequently approved by the shareholders. The 1998 Plan, as amended, authorized 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 could take the form of stock options, stock

ANDREA ELECTRONICS CORPORATION AND SUBSIDIARIES
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appreciation rights, restricted stock, deferred stock, stock reload options or other stock-based awards. Awards could be granted to key employees, officers, directors and consultants. No further awards will be granted 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, as amended, authorizes the granting of awards, the exercise of which would allow up to an aggregate of 18,000,000 shares of Andrea s Common Stock to be acquired by the holders of those awards. 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 March 31, 2013, there were 4,386,436 shares available for further issuance under the 2006 Plan.

The stock option awards granted under these plans have been granted with an exercise price equal to the market price of the Company s stock at the date of grant; with vesting periods of up to four years and 10-year contractual terms.

The fair values of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model that uses weighted-average assumptions. Expected volatilities are based on implied volatilities from historical volatility of the Company s stock. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

There were no options granted during the three months ended March 31, 2013 and 2012.

Option activity during 2013 is summarized as follows:

	Options Outstanding				Options Exercisable			
	Options Outstanding	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Contractual Life	Options Exercisable	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Contractual Life
At January 1, 2013	17,270,321	$0.08	$0.08	4.95 years	16,635,237	$0.08	$0.08	4.85 years
Expired	(64,500)	$0.09	$0.07					
At March 31, 2013	17,205,821	$0.08	$0.08	4.71 years	16,570,737	$0.08	$0.08	4.60 years

Based on the March 31, 2013 fair market value of the Company s common stock of $0.06, the aggregate intrinsic value for the 17,205,821 options outstanding and 16,570,737 shares exercisable is $122,800.

Total compensation expense recognized related to stock option awards was $5,873 and $20,316 for the three months ended March 31, 2013 and 2012, respectively. In the accompanying condensed consolidated statement of operations for the three months ended March 31, 2013, $5,094 of expense is included in general, administrative and selling expenses, $675 is included in research and development expenses and $104 is included in cost of revenues. In the accompanying condensed consolidated statement of operations for the three months ended March 31, 2012, $16,554 of expense is included in general, administrative and selling expenses, $2,607 is included in research and development expenses and $1,155 is included in cost of revenues.

As of March 31, 2013, there was $8,673 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 during 2013.

Note 7. Segment Information

Andrea follows the provisions of ASC 280 Segment Reporting (ASC 280). Reportable operating segments are determined based on Andrea s management approach. The management approach, as defined by ASC 280, is based on the way that the chief operating decision-maker organizes the segments within an enterprise for making operating decisions and assessing performance. While Andrea s results of operations are primarily reviewed on a consolidated basis, the chief operating decision-maker 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.

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The following represents selected condensed consolidated financial information for Andrea s segments for the three-month periods ended March 31, 2013 and 2012.

2013 Three Month Segment Data	Andrea DSP Microphone and Audio Software Products	Andrea Anti-Noise Products	2013 Three Month Segment Data
Net revenues from external customers	$ 43,395	$ 482,766	$ 526,161
License Revenues	149,419		149,419
Loss from operations	152,354	247,203	399,557
Depreciation and amortization	124,064	17,540	141,604
Assets	1,714,713	1,614,257	3,328,970
Property and equipment and intangibles	633,280	244,226	877,506

2012 Three Month Segment Data	Andrea DSP Microphone and Audio Software Products	Andrea Anti-Noise Products	2012 Three Month Segment Data
Net revenues from external customers	$ 120,167	$ 427,082	$ 547,249

2012 Three Month Segment Data	Andrea DSP Microphone and Audio Software Products	Andrea Anti-Noise Products	2012 Three Month Segment Data
License Revenues	217,832		217,832
Loss from operations	(106,514)	(253,854)	(360,368)
Depreciation and amortization	119,997	20,932	140,929
Purchases of patents and trademarks	766	247	1,013

December 31, 2012 Year End Segment Data	Andrea DSP Microphone and Audio Software Products	Andrea Anti-Noise Products	2012 Year End Segment Data
Assets	$1,946,597	$1,783,161	$3,729,758
Property and equipment and intangibles	759,273	259,837	1,019,110

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 March 31, 2013 and 2012, and as of each respective period-end, net revenues and accounts receivable by geographic area were as follows:

Geographic Data	March 31, 2013	March 31, 2012
Net revenues:		
United States	$470,730	$621,490
Foreign[(1)]	204,850	143,591
	$675,580	$765,081

(1) Net revenue from the People s Republic of China and Singapore represented 16% of total net revenues for the three months ended March 31, 2013. Net revenues to any one foreign country did not exceed 10% of total net revenues for the three months ended March 31, 2012.

As of March 31, 2013 and December 31, 2012, accounts receivable by geographic area were as follows:

Geographic Data	March 31, 2013	December 31, 2012
Accounts receivable:		
United States	$218,151	$206,575
Foreign	135,726	22,450
	$353,877	$229,025

ITEM 2. 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 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 benefits 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 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.

Our Critical Accounting Policies

Our unaudited condensed consolidated interim financial statements and the notes to our unaudited condensed consolidated interim financial statements contain information that is pertinent to management s discussion and analysis. The preparation of unaudited condensed consolidated interim 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-K for the year ended December 31, 2012. 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-K for the year ended December 31, 2012. 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 Annual Report on Form 10-K for the year ended December 31, 2012.

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 , proje similar expressions. The Company s ability to predict 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 I, *Item 1A Risk Factors* in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. 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; 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 net revenues for the three months ended March 31, 2013 were $675,580 compared to $765,081 for the three months ended March 31, 2012. Net loss for the three months ended March 31, 2013 was $397,428, or $0.01 per share on a basic and diluted basis, and $358,147, or $0.01 per share on a basic and diluted basis for the three months ended March 31, 2012. 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.

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, 63,721,035 were outstanding as of May 10, 2013. The number of shares outstanding does not include an aggregate of 27,244,491 shares of common stock that are issuable. This number of issuable common shares is equal to approximately 43% of the 63,721,035 outstanding shares. These issuable common shares are comprised of: a) 17,205,821 shares of our common stock reserved for issuance upon exercise of outstanding awards granted under our 1998 Stock Plan and 2006 Stock Plan; b) 4,386,436 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.

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 I, *Item 1A Risk Factors* in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, 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-K 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

Three Months ended March 31, 2013 compared to Three Months ended March 31, 2012

Net Revenues

	For the Three Months Ended March 31,		
	2013	2012	% Change
Andrea Anti-Noise Products net Product revenues			

	For the Three Months Ended March 31,		%	
Sales of products to OEM customers for use with educational software	$ 21,293	$ 7,979	167	(a)
All other Andrea Anti-Noise net product revenues	461,473	419,103	10	(b)
Total Andrea Anti-Noise Products net Product revenues	$482,766	$427,082	13	
Andrea DSP Microphone and Audio Software Products revenues				
Sales of automotive array microphone products		39,140	(100)	(c)
All other Andrea DSP Microphone and Audio product revenues	43,395	81,027	(46)	(d)
License revenues	149,419	217,832	(31)	(e)
Total Andrea DSP Microphone and Audio Software Products revenues	192,814	337,999	(43)	
Total Revenues	$675,580	$765,081	(12)	

(a) The increase of approximately $13,000 represents increased product sales to our educational customers for use with their distance learning products as compared to the three months ended March 31, 2012.

(b) The increase of approximately $42,000 in all other Andrea Anti-noise product revenues is related to increased demand from our distributor and reseller customers when compared to the same period in 2012.

(c) The approximate $39,000 decrease in sales of automotive array microphone products is the result of no product sales to integrators of public safety vehicle solutions during the quarter ended March 31, 2013.

(d) The approximate $38,000 decrease in all other Andrea DSP Microphone and Audio product revenues is related to timing of shipments to some of our OEM customers.

(e) The $68,000 decrease in license revenues is a result of decreased royalties reported for the three months ended March 31, 2013 as compared to the same period last year. We believe this decrease is related to timing of revenues reported for PC models which feature our technology and unreported revenues from one of our customers for certain royalties for which we are unable to estimate the amount at March 31, 2013.

Cost of Revenues

Cost of revenues as a percentage of net revenues for the three months ended March 31, 2013 increased to 46% from 42% for the three months ended March 31, 2012. This increase is the result of decreased licensing revenue. The cost of revenues as a percentage of net revenues for the three months ended March 31, 2013 for Andrea Anti-Noise Products was 59% compared to 61% for the three months ended March 31, 2012. The cost of revenues as a percentage of net revenues for the three months ended March 31, 2013 for the Andrea DSP Microphone and Audio Software Products was 14% compared to 18% for the three months ended March 31, 2012. The decrease in cost of revenues as a percentage of revenues for the Andrea Anti-Noise Products for the three months ended March 31, 2013 was a result of an increase in revenues in this segment. The decrease in cost of revenues as a percentage of revenues for Andrea DSP Microphone and Audio Software Products for the three months ended March 31, 2013 was a result of the of decreased OEM revenues and decreased revenues of automotive array microphone products.

Research and Development

Research and development expenses for the three months ended March 31, 2013 decreased 5% to $178,867 from $188,042 for the three months ended March 31, 2012. For the three months ended March 31, 2013, the decrease in research and development

expenses reflects a 12% decrease in our Andrea Anti-Noise Headset Product efforts to $70,094, or 39% of total research and development expenses. Our Andrea DSP Microphone and Audio Software Technology efforts remained relatively flat at $108,773, or 61% 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 may provide Andrea with a competitive advantage.

General, Administrative and Selling Expenses

General, administrative and selling expenses decreased approximately 5% to $587,462 for the three months ended March 31, 2013 from $616,671 for the three months ended March 31, 2012. This decrease of approximately $29,000 is related to a decrease in compensation and promotion and marketing expenses. For the three months ended March 31, 2013, the Andrea DSP Microphone and Audio Software Technology general, administrative and selling expenses are $210,206, or 36% of total general, administrative and selling expenses and our Andrea Anti-Noise Headset Product general, administrative and selling expenses are $377,256, or 64% of total general, administrative and selling expenses.

Interest Income, net

Interest income, net for the three months ended March 31, 2013 was $2,129 compared to $2,221 for the three months ended March 31, 2012.

Provision for Income Taxes

There was no provision for income taxes for the three months ended March 31, 2013 or March 31, 2012.

Net loss

Net loss for the three months ended March 31, 2013 was $397,428 compared to a net loss of $358,147 for the three months ended March 31, 2012. The net loss for the three months ended March 31, 2013 and March 31, 2012 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 cash on hand. At March 31, 2013, we had cash of $1,460,491 compared with $1,746,363 at December 31, 2012. The decrease in our cash balance at March 31, 2013 was primarily a result of our cash used in operations.

Our working capital balance at March 31, 2013 was $2,012,338 compared to working capital of $2,262,623 at December 31, 2012. The decrease in working capital reflects a decrease in total current assets of $259,518 and a decrease in total current liabilities of $9,233. The decrease in total current assets reflects a decrease in cash of $285,872, an increase in accounts receivable of $124,852, a decrease in inventories of $71,219, and a decrease in prepaid expenses and other current assets of $27,279. The decrease in total current liabilities reflects an increase in trade accounts payable of $7,585, and a decrease of $16,818 in other current liabilities.

The decrease in cash of $285,872 reflects net cash used in operating activities.

The cash used in operating activities of $285,872, excluding non-cash charges for the three months ended March 31, 2013, was attributable to a $124,852 increase in accounts receivable, a $71,219 decrease in inventories, a $26,945 decrease in prepaid expenses, other current assets and other assets, a $7,585 increase in trade accounts payable, and a $16,818 decrease in other current liabilities. The changes in accounts receivable, inventories, prepaid expenses and other current assets 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 various product lines.

We plan to improve our cash flows in 2013 by aggressively pursuing additional licensing opportunities related to our Andrea DSP Audio Software and increasing the sales of our Andrea Anti-Noise Headset Products through the introduction of new products 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 May 10, 2013, Andrea has approximately $1,400,000 of cash deposits. We believe that we have sufficient liquidity available to continue in operation through at least March 2014. To the extent that we do not generate sufficient cash flows from our operations in the next twelve months, additional financing might be required. 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that all control issues and instances 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 that have materially affected, or are reasonable likely to materially affect the Company s internal controls over financial reporting during the period covered by this Quarterly Report.

PART II OTHER INFORMATION

ITEM 1. 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. We cannot predict the outcome of this litigation although the Company believes the lawsuit is without merit.

ITEM 1A. RISK FACTORS

Not applicable.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

Exhibit 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

Exhibit 32 Section 1350 Certifications

Exhibit 101.0* The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL: (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Operations; (iii) Condensed Consolidated Statements of Shareholders Equity; (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to the Condensed Consolidated Financial Statements.

* Furnished, not filed

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: May 15, 2013

/s/ DOUGLAS J. ANDREA **Douglas J. Andrea**	Chairman of the Board, President, Chief Executive Officer and Corporate Secretary	May 15, 2013
/s/ CORISA L. GUIFFRE **Corisa L. Guiffre**	Vice President, Chief Financial Officer and Assistant Corporate Secretary	May 15, 2013