ANDREA ELECTRONICS CORP
Form DEF 14A
April 29, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No. __)

Filed by the Registrant þ

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Under Rule 14a-12

Andrea Electronics Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, If Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

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1) Title of each class of securities to which transactions applies:

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3) Filing Party:

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4) Date Filed:

N/A

April 29, 2004

Dear Stockholders:

You are cordially invited to attend the 2004 annual meeting of stockholders of Andrea Electronics Corporation (the Company) which will be held on Friday, May 21, 2004 at 2:00 p.m. local time, at the Company s main office located at 45 Melville Park Road, Melville, New York.

The attached notice of annual meeting and the proxy statement describe the business to be transacted at the annual meeting. Directors and officers of the Company as well as a representative of Marcum & Kliegman LLP, the Company s independent auditors, will be present at the annual meeting to respond to any questions that our stockholders may have regarding the business to be transacted.

Please sign and return the enclosed proxy card promptly. Your cooperation is appreciated since a majority of the outstanding common stock must be represented, either in person or by proxy, to constitute a quorum for the conduct of business at the annual meeting.

On behalf of the Board of Directors and all of the employees of the Company, I thank you for your continued interest and support.

Sincerely yours,

Douglas J. Andrea

Chairman of the Board

and Corporate Secretary

ANDREA ELECTRONICS CORPORATION

45 Melville Park Road

Melville, New York 11747

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD FRIDAY, MAY 21, 2004

On Friday, May 21, 2004, Andrea Electronics Corporation will hold its annual meeting of shareholders at the Company s main office located at 45 Melville Park Road, Melville, New York. The meeting will begin at 2:00 p.m., local time. At the meeting, shareholders will consider and act on the following:

1. The election of eight directors to hold office until the next annual meeting of shareholders;

2. The ratification of the selection of Marcum & Kliegman LLP as the Company s independent accountants for the year ending December 31, 2004;

3. The ratification and approval of the issuance of 1,250,000 shares of Series D Convertible Preferred Stock and related warrants, including the terms and provisions of the Series D Convertible Preferred Stock providing for adjustment to the number of shares of common stock into which a share of Series D Convertible Preferred Stock may be converted.

4. The approval of the issuance of an additional 1,250,000 shares of Series D Convertible Preferred Stock and related warrants.

5. The approval of an amendment to Andrea Electronics restated certificate of incorporation, as amended, to eliminate a limitation on the conversion of the Series C Convertible Preferred Stock.

6. Such other business as may properly come before the meeting.

Note: As of the date of this notice, the board of directors is not aware of any other business to come before the meeting.

Only shareholders of record as the close of business on April 20, 2004 are entitled to receive notice of the meeting and to vote at the meeting and any adjournment or postponement of the meeting.

Please complete and sign the enclosed form of proxy, which is solicited by the Board of Directors, and mail it promptly in the enclosed envelope. The proxy will not be used if you attend the meeting and vote in person.

BY ORDER OF THE BOARD OF DIRECTORS

Douglas J. Andrea

Chairman of the Board and

Corporate Secretary

Melville, New York

April 29, 2004

IMPORTANT: The prompt return of proxies will save the Company the expense of further requests for proxies in order to ensure a quorum. A self-addressed envelope is enclosed for your convenience. No postage is required if mailed in the United States.

ANDREA ELECTRONICS CORPORATION

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Andrea Electronics Corporation (Andrea Electronics or the Company) to be used at the 2004 annual meeting of shareholders of the Company. The annual meeting will be held at the Company s main office located at 45 Melville Park Road, Melville, New York on Friday, May 21, 2004 at 2:00 p.m., local time. This proxy statement and the enclosed proxy card are being first mailed to shareholders of record on or about April 29, 2004.

General Information about Voting

Who Can Vote at the Meeting

You are entitled to vote your Company common stock only if the records of the Company show that you held your shares as of the close of business on April 20, 2004. As of the close of business on April 20, 2004, a total of 47,796,277 shares of Andrea Electronics common stock were outstanding and 213.760331 shares of Series C Convertible Preferred Stock were outstanding. Each share of common stock and each share of Series C Convertible Preferred Stock has one vote.

Attending the Meeting

If you are a beneficial owner of Company common stock held by a broker, bank or other nominee (i.e., in street name), you will need proof of ownership to be admitted to the meeting. A recent brokerage statement or letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of Company common stock held in street name in person at the meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

Vote Required

The annual meeting will be held only if there is a quorum present. A quorum exists if a majority of the outstanding shares of common stock entitled to vote is represented at the meeting. If you return valid proxy instructions or attend the meeting in person, your shares will be counted for purposes of determining whether there is a quorum, even if you abstain from voting. Broker non-votes also will be counted for purposes of determining the existence of a quorum. A broker non-vote occurs when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

Directors must be elected by a plurality of the votes cast by holders of common stock at the annual meeting. This means that the nominees receiving the greatest number of votes will be elected. Votes that are withheld and broker non-votes will have no effect on the election of directors. The affirmative vote of a majority of the votes cast by holders of common stock is required to approve (i) the appointment of Marcum & Kliegman LLP as independent auditors; (ii) the issuance of 1,250,000 shares of Series D Convertible Preferred Stock and related warrants, including the terms and provisions of the Series D Convertible Preferred Stock providing for adjustment to the number of shares of common stock into which a share of Series D Convertible Preferred Stock may be converted; and (iii) the issuance of an additional 1,250,000 shares of Series D Convertible Preferred Stock and the related warrants. Abstentions and broker non-votes will have no effect on these proposals. The affirmative vote of a majority of all the outstanding shares of common stock entitled to vote thereon is required to approve the amendment to Andrea Electronics restated certificate of incorporation, as amended, to eliminate a limitation on the conversion of the Series C Convertible Preferred Stock. The amendment to Andrea Electronics restated certificate of incorporation, as amended, to eliminate a limitation on the conversion of the Series C Convertible Preferred Stock also requires approval by two-thirds of the outstanding shares of Series C Convertible Preferred Stock. Abstentions and broker non-votes will have the same effect as a vote against this proposal.

Voting by Proxy

The board of directors of the Company is sending you this proxy statement for the purpose of requesting that you allow your shares of Company common stock to be represented at the annual meeting by the persons named in the enclosed proxy card. All shares of Company common stock represented at the annual meeting by properly executed and dated proxies will be voted according to the instructions indicated on the proxy card. If you sign, date and return a proxy card without giving voting instructions, your shares will be voted as recommended by the Company s Board of Directors. **The Board of Directors recommends a vote FOR each of the nominees for director, FOR ratification of Marcum & Kliegman LLP as independent auditors, FOR the issuance of 1,250,000 shares of Series D Convertible Preferred Stock and the related warrants, including the terms and provisions of the Series D Convertible Preferred Stock providing for adjustment to the number of shares of common stock into which a share of Series D Convertible Preferred Stock may be converted, FOR the issuance of an additional 1,250,000 shares of Series D Convertible Preferred Stock and the related warrants; and FOR the amendment to Andrea Electronics certificate of incorporation, as amended, to eliminate a limitation on the conversion of the Series C Convertible Preferred Stock.**

If any matters not described in this proxy statement are properly presented at the annual meeting, the persons named in the proxy card will use their own best judgment to determine how to vote your shares. This includes a motion to adjourn or postpone the annual meeting in order to solicit additional proxies. If the annual meeting is postponed or adjourned, your Company common stock may be voted by the persons named in the proxy card on the new annual meeting date as well, unless you have revoked your proxy. The Company does not know of any other matters to be presented at the annual meeting.

You may revoke your proxy at any time before the vote is taken at the meeting. To revoke your proxy you must either advise the Secretary of the Company in writing before your Company common stock has been voted at the annual meeting, deliver a later dated proxy, or attend the meeting and vote your shares in person. Attendance at the annual meeting will not in itself constitute revocation of your proxy.

If your Company common stock is held in street name, you will receive instructions from your broker, bank or other nominee that you must follow in order to have your shares voted. Your broker, bank or other nominee may allow you to deliver your voting instructions via the telephone or the Internet. Please see the instruction form provided by your broker, bank or other nominee that accompanies this proxy statement. If you wish to change your voting instructions after you have returned your voting instruction form to your broker or bank, you must contact your broker or bank.

Corporate Governance

General

Andrea Electronics periodically reviews its corporate governance policies and procedures to ensure that Andrea Electronics meets the highest standards of ethical conduct, reports results with accuracy and transparency and maintains full compliance with the laws, rules and regulations that govern Andrea Electronics operations. As part of this periodic corporate governance review, the Board of Directors reviews and adopts best corporate governance policies and practices for Andrea Electronics.

Corporate Governance Policy

Andrea Electronics has adopted a corporate governance policy to govern certain activities, including:

(1) the duties and responsibilities of the Board of Directors and each director;

(2) the composition and operation of the Board of Directors;

(3) the establishment and operation of Board committees;

(4) convening executive sessions of independent directors;

(5) succession planning;

(6) the Board of Directors interaction with management and third parties; and

(7) the evaluation of the performance of the Board of Directors and of the chief executive officer.

Code of Business Ethics and Conduct

Andrea Electronics has adopted a Code of Business Ethics and Conduct that is designed to ensure that the Company s directors, executive officers and employees meet the highest standards of ethical conduct. The Code of Business Ethics and Conduct requires that the Company s directors, executive officers and employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in the Company s best interest. Under the terms of the Code of Business Ethics and Conduct, directors, executive officers and employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code.

As a mechanism to encourage compliance with the Code of Business Ethics and Conduct, the Company has established procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls or auditing matters. These procedures ensure that individuals may submit concerns regarding questionable accounting or auditing matters in a confidential and anonymous manner. The Code of Business Ethics and Conduct also prohibits the Company from retaliating against any director, executive officer or employee who reports actual or apparent violations of the Code.

Meetings of the Board of Directors and Fees

The Company conducts business through meetings and activities of its Board of Directors and their committees. During the year ended December 31, 2003, the Board of Directors of the Company held 10 regular meetings and 7 special meetings. No director attended fewer than 75% of the total meetings of the Board of Directors and the committees on which he served during the year ended December 31, 2003, except for John R. Croteau. Independent directors each receive an annual retainer of $5,000 in the form of Company common stock and are paid $500 for attendance at Board meetings and $250 for attendance at committee meetings. The Chairperson of each committee receives 25,000 stock options for his or her past year s service. These stock option grants will have an exercise price equal to the fair market value of the Company s common stock on the date of grant, a 6-month vesting period and a term of 10 years.

Committees of the Board of Directors

Audit Committee. The Board of Directors has a separately-designated standing Audit Committee established in accordance with Section-3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee consists of Joseph J. Migliozzi (chairman), Gary A. Jones and Jonathan D. Spaet. The Audit Committee meets with management and Company financial personnel, as well as with the Company s independent accountants, to consider the adequacy of the internal controls of the Company and the objectivity of the Company s financial reporting. The Audit Committee met 4 times during the fiscal year ended December 31, 2003. Each member of the Audit Committee is independent in accordance with the listing standards of the American Stock Exchange. The Board of Directors has determined that Joseph J. Migliozzi is an audit committee financial expert under the rules of the Securities and Exchange Commission. The Audit Committee acts under a written charter adopted by the Board of Directors, a copy of which is included as Appendix A to this proxy statement. The report of the audit committee required by the rules of the Securities and Exchange Commission is included in this proxy statement. See *Proposal 2 - Ratification of Independent Auditors - Report of the Audit Committee.*

Compensation Committee. The Compensation Committee consists of Scott M. Koondel (chairman), Louis Libin and Jonathan D. Spaet. The Compensation Committee administers the Company s stock option plans and makes recommendations to the Board of Directors with respect to the compensation of management. The Compensation Committee met 3 times during the fiscal year ended December 31, 2003. Each member of the Compensation Committee is independent under the listing standards of the American Stock Exchange.

Nomination and Governance Committee. The Nomination and Governance Committee consists of Louis Libin (chairman), John R. Croteau and Scott M. Koondel and takes a leadership role in shaping Andrea Electronics governance policies and practices, including recommending to the Board of Directors the corporate governance policies and guidelines applicable to Andrea Electronics and monitoring compliance with these policies and guidelines. In addition, the Nomination and Governance Committee is responsible for identifying individuals qualified to become Board members and recommending to the Board the director nominees for election at the next annual meeting of stockholders. This committee also leads the Board in its annual review of the Board s performance and recommends to the Board director candidates for each committee for appointment by the Board. The Nomination and Governance Committee, previously designated as the Nominating Committee, met twice during the fiscal year ended December 31, 2003. Each member of the Nomination and Governance Committee is independent in accordance with the listing standards of the American Stock Exchange definition of independence qualifications for nominating committee members. The Nomination and Governance Committee acts under a written charter adopted by the Board of Directors, a copy of which is included as *Appendix B* to this proxy statement. The procedures of the Nomination and Governance Committee required to be disclosed by the rules of the Securities and Exchange Commission are included in this proxy statement. See *Nomination and Governance Committee Procedures.*

Attendance at the Annual Meeting. The Board of Directors encourages directors to attend the annual meeting of stockholders. All directors attended the 2003 annual meeting of stockholders.

Stock Ownership

The following table sets forth certain information as of April 20, 2004, with respect to the common stock ownership of (i) each director or nominee for director of the Company, (ii) each executive officer named in the Summary Compensation Table and (iii) all directors and executive officers of the Company as a group.

Name of Beneficial Owner	Number of Shares Owned (excluding options)	Number of Shares that May Be Acquired Within 60 days by Exercising Options	Percent of Common Stock Outstanding(1)
Douglas J. Andrea	261,014(2)	925,000	2.4%
John R. Croteau	25,625	35,000	*
Paul E. Donofrio		350,000	*
Corisa L. Guiffre	2,750	80,000	*
Gary A. Jones	27,625	70,000	*
Scott M. Koondel	10,000	205,000	*
Louis Libin	25,625	35,000	*
Joseph J. Migliozzi	10,000		*
Jonathan D. Spaet	10,000	35,000	*
Directors and executive officers as a group (9 persons)	372,639	1,735,000	4.3%

* Less than 1%

(1) Percentages with respect to each person or group of persons have been calculated on the basis of 47,796,277 shares of Company common stock, plus the number of shares of Company common stock which such person or group of persons has the right to acquire within 60 days from April 20, 2004, by the exercise of options. The information concerning the shareholders is based upon information furnished to the Company by such shareholders. Except as otherwise indicated, all of the shares next to each identified person or group are owned of record and beneficially by such person or each person within such group and such persons have sole voting and investment power with respect thereto.

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

The following table sets forth certain information as of April 20, 2004, with respect to the stock ownership of beneficial owners of more than 5% of the Company s outstanding common:

Name and Address	Number of Shares Owned	Percent of Common Stock Outstanding(1)
HFTP Investment L.L.C. 750 Lexington Avenue, 22nd Floor New York, New York 10022	3,079,449(2)	6.4%

(1) Percentages with respect to each person or group of persons have been calculated on the basis of 47,796,277 shares of Company common stock.

(2) Based on information filed with the Securities and Exchange Commission in a Schedule 13G on February 20, 2004. HFTP Investment L.L.C., Promethean Asset Management, L.L.C., James F. O Brien, Jr., Promethean Investment Group, L.L.C., HFTP Managers LLC, Heracles Fund, Promethean Managers LLC, Themis Managers LLC and Themis Qualified Partners L.P. are each deemed to be beneficial owners of 3,079,449 of these shares.

The following table sets forth certain information as of April 20, 2004, with respect to the stock ownership of beneficial owners of more than 5% of the Company s outstanding Series C Preferred Stock:

Name and Address	Number of Shares Owned	Percent of Series C Preferred Stock Outstanding(1)
Alpha Capital Aktiengesellschaft. Pradafant 79490 Furstentums Vaduz, Lichtenstein	84.904533	39.7%
Stonestreet Limited Partnership c/o Canaccord Capital Corporation 320 Bay Street, Suite 1300 Toronto, Ontario M5H 4A6, Canada	41.634845	19.5%
Ellis International Ltd. 53rd Street Urbanizacion Obarrio Swiss Tower, 16th Floor, Panama Republic of Panama	19.777665	9.3%
Enable Growth Partners One Sansome Street, Suite 2900	37.470045	17.5%

San Francisco, CA 94104		
Gamma Opportunity Capital Partners, LP 1325 Howard Avenue #422 Burlingame, CA 94010	18.319445	8.6%

(1) Percentages with respect to each person or group of persons have been calculated on the basis of shares of Company Series C Preferred Stock.

Proposal 1 - Election of Directors

The By-laws of the Company provide that the Board of Directors shall consist of not less than three and not more than ten directors as determined by the Board. The Board of Directors currently consists of eight directors, and the Board has determined that the number of directors to be elected at the annual meeting shall be eight. The persons listed below have been nominated by the Board for election as directors to serve until the next annual meeting of shareholders and until their respective successors have been elected and qualified.

Unless otherwise specified in the form of proxy, the proxies solicited by management will be voted FOR the election of these nominees.

The Board of Directors recommends that you vote FOR the election of these nominees.

In case any of these nominees become unavailable for election to the Board of Directors, an event which is not anticipated, the persons named as proxies, or their substitutes, shall have full discretion and authority to vote or refrain from voting for any other nominee in accordance with their judgment.

Board Nominees for Election as Directors

Information on director nominees of the Company follows (ages are as of December 31, 2003):

Douglas J. Andrea, age 41, has been Chairman of the Board of Directors since November 2001, a Director of the Company since 1991 and Corporate Secretary since 2003. He was Co-Chairman and Co-Chief Executive Officer of the Company from November 1998 until August 2001. He served as Co-President of the Company from November 1992 to November 1998, as Vice President - Engineering of the Company from December 1991 to November 1992, and as Secretary of the Company from 1989 to January 1993.

John R. Croteau, age 43, has been a Director of the Company since March 2002. Mr. Croteau, General Manager, Media Platform and Services Group at Analog Devices, Inc., is currently responsible for Analog Devices DSP and System Product businesses in PCs and peripherals. Mr. Croteau, having 19 years of semiconductor and technology marketing and business management experience, built a franchise in PC Audio at Analog Devices, servicing substantially all PC OEMs, including Intel, Dell, Compaq, Hewlett Packard, IBM, Sony, Fujitsu, FSC and NEC, among others. Since joining Analog Devices in 1983, Mr. Croteau held a variety of strategic marketing and planning positions, specializing in bringing new technologies and products to market.

Paul E. Donofrio, age 45, has been the President and Chief Executive Officer and Director of the Company since August 2003. Prior to joining the Company, Mr. Donofrio served as Executive Vice President of Corporate Development of DHB Industries Inc., a protective body armor manufacturer from 2002 to 2003. He served as Executive Vice President, Chief Financial Officer and Director of Chiliad, Inc., a contextual search and retrieval software firm from 2001 to 2002. Mr. Donofrio previously served in senior financial and operational positions and Director at Telemonde, Inc., an international supplier of global telecommunication equipments, and Microwave Power Devices, Inc., a microwave amplifier design and marketing company.

Gary A. Jones, age 58, has been a Director of the Company since April 1996. He has served as President of Digital Technologies, Inc. since 1994 and was Chief Engineer at Allied Signal Ocean Systems from 1987 to 1994. From March 1998 to December 2000, Mr. Jones was the Managing Director of Andrea Digital Technologies, Inc, a wholly-owned subsidiary of Andrea Electronics Corporation.

Scott M. Koondel, age 40, has been a Director of the Company since April 1995. He is the Senior Vice President, National Sales Manager of Domestic Television of Paramount Pictures, a subsidiary of Viacom International and has been employed with Paramount Pictures since June 1993, and was the National Sales Manager for WPIX-TV, a division of Tribune Broadcasting, from June 1990 to June 1993.

Louis Libin, age 45, has been a Director of the Company since February 2002. He is President of Broad Comm, Inc., a consulting group specializing in advanced television broadcast, interactive TV, Internet Protocol and wireless communications. Prior to his tenure at Broad Comm, Mr. Libin was Chief Technology Officer for NBC, and was responsible for all business and technical matters for satellite, wireless and communication issues for General Electric and NBC. Since 1989, Mr. Libin has represented the United States on satellite and transmission issues at the International Telecommunications Union (the ITU) in Geneva, Switzerland. Mr. Libin is a Senior Member of the Institute of Electrical and Electronic Engineers (IEEE), and is a member of the National Society of Professional Engineers.

Joseph J. Migliozzi, age 54, has been a Director of the Company since September 2003. He operates his own management consulting firm since 2001. From 1997 to 2001 Mr. Migliozzi was the Chief Operating and Financial Officer of Voyetra Turtle Beach. Prior to that, he served in various executive management positions in the electronics manufacturing industries, with both financial and operational responsibilities. Mr. Migliozzi is a Certified Public Accountant.

Jonathan D. Spaet, age 48, has been a Director of the Company since 2003. He is Vice-President of Advertising Sales for Westwood One Radio Networks since June of 2003, overseeing ad sales for one of the largest radio groups in the country. From 2002 to 2003, he was the Chief Operating Officer of MEP Media, a company that was starting a digital cable channel devoted to the music enthusiast. Prior to MEP, he was President of Ad Sales for USA Networks, supervising ad sales, marketing, research and operations for both USA and Sci-fi, two top-tier cable channels. Previously, he was President of Ad Sales for About.com. This followed 15 years at NBC, where Mr. Spaet s career included a six-year position in NBC Cable and nine years in the NBC Television Stations Group.

Information about Executive Officers Who Are Not Directors

The following information is provided for an executive officer, who is not also a director:

Corisa L. Guiffre, age 31, has been the Company s Vice President and Chief Financial Officer of the Company since June 2003 and Assistant Corporate Secretary since October 2003. Ms. Guiffre joined the Company in November 1999 and served as Vice President and Controller until June 2003. Prior to joining the Company she was part of the Audit, Tax and Business Advisory divisions at Arthur Andersen LLP. She is a Certified Public Accountant, a member of the American Institute of Certified Public Accountants and a member of the New York State Society of Certified Public Accountants.

The executive officers of the Company are elected annually and hold office until their successors have been elected and qualified or until they are removed or replaced.

Executive Compensation

The following table sets forth information for the last three fiscal years relating to compensation earned by each person who served as chief executive officer and the other most highly compensated executive officers who received salary and bonuses over $100,000 during the year ended December 31, 2003.

Name and Principal Position	Year	Salary	Bonus	Restricted Stock Awards	Stock Options (#)
Douglas J. Andrea, Chairman of the	2003	$ 179,030	$	$	
Board, Corporate Secretary and	2002	178,685	125,000	102,000(1)	250,000

former Co-Chairman and Co-Chief Executive Officer(2)	2001	241,724		44,500	
Paul E. Donofrio, Director, President and Chief Executive Officer(3)	2003	$ 73,723	$ 20,833	$	350,000
Corisa L. Guiffre, Vice-President, Chief Financial Officer and Assistant Corporate Secretary(4)	2003	$ 113,770	$	$	
	2002	99,000			25,000
	2001	84,000	15,000		10,000
Christopher P. Sauvigne, former President and Chief Executive Officer and Chief Operating Officer(5)	2003	$ 109,232	$	$	
	2002	178,675	125,000	102,000(1)	250,000
	2001	243,723		44,500	

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(1) Includes 150,000 shares of stock granted to each of Christopher P. Sauvigne and Douglas J. Andrea, which vested on the day of the grant.
(2) Effective August 2001, Douglas J. Andrea relinquished his duties as a Co-Chairman and Co-Chief Executive Officer of the Company and became sole Chairman of the Board.
(3) Mr. Donofrio joined the Company in August 2003.
(4) Ms. Guiffre joined the Company in November 1999 and served as Vice President and Controller until June 2003. Since June 2003, Ms. Guiffre has served as the Company s Vice President and Chief Financial Officer
(5) Mr. Sauvigne s employment terminated as President and Chief Executive Officer of the Company in August 2003 and Director in November 2003. Mr. Sauvigne became President and Chief Executive Officer of the Company in August 2001

The following table summarizes for each of the executive officers named in the Executive Compensation table the number of shares covered by options granted during 2003.

Option Grants in Last Fiscal Year

Name	Date of grant	Individual Grants: Number of securities underlying options granted (#)	Individual Grants: Percentage of total options granted to employees in fiscal year	Exercise price ($/share)	Expiration Date
Paul E. Donofrio	8/4/03	350,000(1)	74.5%	$ 0.31	8/4/13

(1) Of the shares covered by this option grant, none can be purchased during the six-months following the grant; 100% can be purchased after the first six-months of the grant.

The following table summarizes for each of the executive officers named in the Executive Compensation table the number of shares acquired and value realized upon exercise of options during fiscal 2003 and the aggregate dollar value of in-the-money, unexercised options at December 31, 2003. None of the executive officers exercised or held any SARs during the year.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End Exercisable/ Unexercisable	Value of Unexercisable In-the-Money Options at Fiscal Year End Exercisable/ Unexercisable(1)

Douglas J. Andrea	$	925,000/	$	/$
Paul E. Donofrio	$	/350,000	$	/$35,000
Corisa L. Guiffre	$	80,000/	$	/$
Christopher P. Sauvigne	$	/	$	/$

(1) Values were based on a closing trade price for Andrea s Common Stock on December 31, 2003 of $0.41 per share. Options are in-the-money only if the market value of shares covered by options is greater than the exercise price.

Employment Agreements

In August 2003, Paul E. Donofrio, President and Chief Executive Officer, and the Company entered into a Memorandum of Understanding regarding the terms of Mr. Donofrio s employment. Pursuant to the Memorandum of Understanding, Mr. Donofrio will receive an initial annual base salary of $175,000, an initial stock grant of 350,000 options and a minimum annual bonus of $50,000. Mr. Donofrio would also be entitled to a change in control payment equal to one times his base salary with continuation of health and medical benefits for one year in the event of a change in control and subsequent termination of employment other than for cause. The term of this agreement can be extended for two additional one year terms and, if so, Mr. Donofrio s base salary would be $200,000 and $225,000 in years two and three, respectively, and additional grants of stock options each year. The Company is currently in the process of finalizing an employment agreement for Paul E. Donofrio, that incorporates all of the terms and conditions of the Memorandum of Understanding.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company s directors and officers and persons who beneficially own more than ten percent of the Company s Common Stock to file with the Securities and Exchange Commission (SEC) and the American Stock Exchange initial reports of ownership and reports of changes in ownership of Common Stock in the Company. Officers, directors and greater-than-ten percent shareholders are also required to furnish the Company with copies of all Section 16(a) reports they file. To the Company s knowledge, based solely on review of the copies of such reports furnished to the Company and written representation that no other reports were required, during the fiscal year ended December 31, 2003, the Company s directors and officers met all applicable SEC filing requirements, except that one transaction by Louis Libin and one transaction by Scott M. Koondel was not filed on a Form 4 on a timely basis, due to administration error.

Proposal 2 -

Ratification of Appointment of Independent Auditors

The Board of Directors has appointed Marcum & Kliegman LLP to be the Company s independent auditors for the fiscal year ending December 31, 2004, subject to the ratification by stockholders. A representative of Marcum & Kliegman LLP is expected to be present at the annual meeting to respond to appropriate questions from stockholders and will have the opportunity to make a statement should he or she desire to do so.

Unless marked to the contrary, the shares represented by the enclosed proxy card will be voted FOR ratification of the appointment of Marcum & Kliegman LLP as the independent auditors of the Company.

The Board of Directors recommends that you vote FOR the ratification of the appointment of Marcum & Kliegman LLP as the independent auditors of the Company.

Change in Independent Auditors

On July 1, 2002, the Company s Board of Directors, at the recommendation of its Audit Committee, determined not to engage Arthur Andersen LLP as the Company s independent accountants for the fiscal year ending December 31, 2002. However, no action was taken on this date to formally dismiss Arthur Andersen LLP as the Company s independent accountants. On July 29, 2002, the Company s Board of Directors, at the recommendation of its Audit Committee, determined to engage PricewaterhouseCoopers LLP as the Company s independent accountants, however no action was taken on this date to formally engage PricewaterhouseCoopers LLP as the Company s independent accountants. On August 6, 2002, the Securities and Exchange Commission informed the Company that Arthur Andersen LLP had notified the Securities and Exchange Commission that it was unable to perform future audit services for the Company and, as a result, its relationship with the Company was effectively terminated. Arthur Andersen LLP did not notify the Company of this directly, however, the Securities and Exchange

Commission stated in its letter that Arthur Andersen LLP s notification was consistent with widely disseminated press reports of the wind-down of Arthur Andersen s business. As a result, on August 6, 2002, Arthur Andersen LLP was dismissed as the Company s independent accountant.

The report of Arthur Andersen LLP on the financial statements of the Company for each of the years ended December 31, 2001 and 2000 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles. During each of the years ended December 31, 2001 and 2000 and the subsequent interim period preceding August 6, 2002, the Company was not in disagreement with Arthur Andersen LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of

Arthur Andersen LLP, would have caused Arthur Andersen LLP to make reference to the subject matter of the disagreement in connection with its report.

On August 6, 2002, the Company s Board of Directors, at the recommendation of its Audit Committee, engaged PricewaterhouseCoopers LLP as the Company s independent accountants. During the years ended December 31, 2001 and 2000 and through the date of the Board s decision, the Company did not consult PricewaterhouseCoopers LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company s consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

On August 14, 2002, the Company s Board of Directors, at the recommendation of its Audit Committee, dismissed PricewaterhouseCoopers LLP as the Company s independent accountants. During the term of its engagement, PricewaterhouseCoopers LLP did not audit or review any financial statements of the Company as of any date or for any period, nor issue any reports relating thereto. However, PricewaterhouseCoopers LLP did commence, but did not complete a review of the Company s interim financial statements for the quarter ended June 30, 2002.

During the term of its engagement, there were no disagreements with PricewaterhouseCoopers LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of PricewaterhouseCoopers LLP would have caused it to make reference thereto in any report on any audited financial statements of the Company.

During the term of PricewaterhouseCoopers LLP s engagement, there were no reportable events (as defined in Regulation S-K Item 304(a)(1)(v)), except that prior to its dismissal, PricewaterhouseCoopers LLP raised questions regarding the Company s ability to recover its deferred tax assets. PricewaterhouseCoopers LLP was dismissed prior to the matter being resolved. Members of the Board of Directors, one of which is a member of the Audit Committee, discussed this matter with PricewaterhouseCoopers LLP. The Company has authorized PricewaterhouseCoopers LLP to respond fully to the inquiries of the Company s successor accountant concerning this matter.

On August 15, 2002, the Company s Board of Directors, at the recommendation of its Audit Committee, engaged Marcum & Kliegman LLP as the Company s independent accountants. During the years ended December 31, 2001 and 2000 and through the date of the Board s decision, the Company did not consult Marcum & Kliegman LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company s consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Audit Fees

The following table sets forth the fees billed to the Company for the fiscal years ending December 31, 2003 and 2002 by Marcum & Kliegman LLP, PricewaterhouseCoopers LLP and Arthur Andersen LLP:

Marcum & Kliegman LLP	**2003**	**2002**
Audit Fees	$ 124,125	$ 153,419
Audit-related fees(1)	$ 20,323	$ 15,794
Tax fees	$	$
All other fees(2)	$	$ 10,918

PricewaterhouseCoopers LLP	**2003**	**2002**
Audit Fees	N/A	$ 32,500
Audit-related fees	N/A	$
Tax fees	N/A	$
All other fees	N/A	$

Arthur Andersen LLP	**2003**	**2002**