

ANDREA ELECTRONICS CORP
Form DEF 14A
October 17, 2006

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 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))

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)

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October 18, 2006

Dear Stockholders:

You are cordially invited to attend the 2006 annual meeting of stockholders of Andrea Electronics Corporation (the Company) which will be held on Thursday November 16, 2006 at 2:00 p.m. local time, at the La Quinta Inn & Suites Islip/MacArthur Airport, 10 Aero Road, Bohemia, 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,

/s/ Douglas J. Andrea
Douglas J. Andrea
*Chairman of the Board, President,
Chief Executive Officer and Corporate Secretary*

ANDREA ELECTRONICS CORPORATION

65 Orville Drive

Bohemia, New York 11716

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD THURSDAY, NOVEMBER 16, 2006

On Thursday, November 16, 2006, Andrea Electronics Corporation will hold its annual meeting of shareholders at La Quinta Inn & Suites Islip/MacArthur Airport, 10 Aero Road, Bohemia, 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 five directors to hold office until the next annual meeting of shareholders;
2. The approval of the Andrea Electronics Corporation 2006 Equity Compensation Plan;
3. The ratification of the selection of Marcum & Kliegman LLP as the Company's independent accountants for the year ending December 31, 2006;
4. 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 October 4, 2006 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

/s/ Douglas J. Andrea
Douglas J. Andrea
*Chairman of the Board, President,
Chief Executive Officer and Corporate Secretary*

Bohemia, New York

October 18, 2006

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 2006 annual meeting of shareholders of the Company. The annual meeting will be held at the La Quinta Inn & Suites Islip/MacArthur Airport, 10 Aero Road, Bohemia, New York on Thursday, November 16, 2006 at 2:00 p.m., local time. This proxy statement and the enclosed proxy card are being first mailed on or about October 18, 2006 to shareholders of record.

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 October 4, 2006. As of the close of business on October 4, 2006, a total of 58,512,333 shares of Andrea Electronics common stock were outstanding. Each share of common 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 Andrea Electronics Corporation 2006 Equity Compensation Plan; and (ii) the appointment of Marcum & Kliegman LLP as independent auditors. Abstentions and broker non-votes will have no effect on these proposals.

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 the approval of the Andrea Electronics Corporation 2006 Equity Compensation Plan; and FOR ratification of Marcum & Kliegman LLP as independent auditors.**

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

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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

The Company conducts business through meetings and activities of its Board of Directors and their committees. During the year ended December 31, 2005, the Board of Directors of the Company held 5 regular meetings. No incumbent 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, 2005. 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 stock options equivalent to \$2,000 (based on the close of Andrea's stock price on the date of the Annual Meeting 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.

Directors' Compensation

Annual Retainer and Meeting Fees for Non-Employee Directors. The following tables set forth the applicable retainers and fees that will be paid to non-employee directors for their service on the Board of Directors of the Company during 2006. Employee directors do not receive any retainers or fees for their services on the Boards of Directors.

Annual Retainer	\$5,000 (paid in the form of common stock)
Fee per Board Meeting (Regular or Special)	\$500
Fee per Committee Meeting	\$250
Additional Annual Retainer for the Chairperson of the Audit, Compensation and Nomination and Governance Committees	\$2,500 (paid in the form of stock options) ⁽¹⁾

- (1) 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 six-month vesting period and a term of 10 years.

Non-Employee Director Compensation. The following table sets forth the total cash and equity compensation paid to our non-employee directors for their service on the Board of Directors of the Company during 2005.

Director	Cash	Stock Awards ⁽¹⁾	Stock Option Awards ⁽²⁾
Gary A Jones	\$ 3,500	\$ 5,000	
Louis Libin	\$ 2,750	\$ 5,000	40,000
Joseph J. Migliozi	\$ 3,750	\$ 5,000	40,000
Jonathan D. Spaet	\$ 3,750	\$ 5,000	

- (1) The dollar amount set forth above represents the market value of the grant of 100,000 shares on the date of grant (November 1, 2005).
(2) All stock options have an exercise price of \$0.05, the fair market value of our common stock on the date of grant, which was November 1, 2005. All options vest six months after the date of grant.

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. Migliozi (chairman), Gary A. Jones, Louis Libin 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, 2005. 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. Migliozi 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 was included as *Appendix A* to the 2004 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 3 Ratification of Independent Auditors Report of the Audit Committee*.

Compensation Committee. The Compensation Committee consists of Jonathan D. Spaet (chairman), Gary A. Jones, Louis Libin and Joseph J. Migliozi. 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 did not meet during the fiscal year ended December 31, 2005. 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 Mr. Jones (chairman), Louis Libin, Joseph J. Migliozi and Jonathan D. Spaet 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 met once to select Board of Directors nominees for election as directors at this annual meeting. Each member of the Nomination and Governance Committee is independent in accordance with the listing standards of the American Stock. The Nomination and Governance Committee acts under a written charter adopted by the Board of Directors, a copy of which was included as *Appendix B* to the 2004 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, except one, attended the 2005 annual meeting of stockholders.

Stock Ownership

The following table sets forth certain information as of October 4, 2006, 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	Number of	Percent of
	Shares Owned		
	(excluding	Acquired Within	Outstanding ⁽¹⁾
	options)	60 days by	
		Exercising Options	
Douglas J. Andrea	261,014 ⁽²⁾	2,325,000	4.3%
Paul E. Donofrio ⁽³⁾		650,000	1.1%
Gary A. Jones	157,037	145,000	*
Louis Libin	100,000	150,000	*
Joseph J. Migliozi	139,412	175,000	*
Jonathan D. Spaet	139,412	110,000	*
Current directors and executive officers as a group (6 persons)	799,625	3,235,000	6.5%

* Less than 1%

(1) Percentages with respect to each person or group of persons have been calculated on the basis of 58,512,333 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 October 4, 2006, 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.

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- (2) Includes 12,438 and 3,876 shares owned by Mr. Andrea's spouse and Mr. Andrea's daughter, respectively.
- (3) Former President and Chief Executive Officer. The number of shares owned is as of January 25, 2005, Mr. Donofrio's date of termination.

The following table sets forth certain information as of October 4, 2006, with respect to the stock ownership of beneficial owners of more than 5% of the Company's outstanding common:

Name and Address	Shares of Common Stock Owned	Common Stock Equivalents ⁽¹⁾	Percent of Common Stock and Common Stock Equivalents Outstanding ⁽²⁾
Alpha Capital Aktiengesellschaft Pradafant 7, Furstentums 9490 Vaduz, Liechtenstein	(3)	5,312,153 ⁽³⁾	8.3%
Nickolas W. Edwards 937 Pine Ave, Long Beach, CA 90813	3,138,000 ⁽⁴⁾		5.4%

- (1) The issuance of shares of common stock upon conversion of the Series C Preferred Stock is limited to that amount which, after given effect to the conversion, would cause the holder not to beneficially own in excess of 4.99% or, together with other shares beneficially owned during the 60 day period prior to such conversion, not to beneficially own in excess of 9.99% of the outstanding shares of common stock. The issuance of common stock upon conversion of the Series D Preferred Stock and the related warrants also are limited to that amount which, after given effect to the conversion, would cause the holder not to beneficially own an excess of 4.99% of then outstanding shares of our common stock, except that each holder has a right to terminate such limitation upon 61 days notice to us.
- (2) Percentages with respect to each person or group of persons have been calculated on the basis of 58,512,333 shares of Company common stock, plus the number of shares of Company common stock which such person or groups of persons has the right to acquire within 60 days of the conversion of Series C Preferred Stock and Series D Preferred Stock.
- (3) Current common stock ownership of Alpha Capital Aktiengesellschaft is not known as October 4, 2006. On February 16, 2005 Alpha Capital Aktiengesellschaft filed a Schedule 13G with the Securities and Exchange Commission disclosing stock ownership of 5,887,346. Based on Company records 5,312,153 of these shares are common stock equivalents from Series C Preferred Stock, Series D Preferred Stock and related warrants.
- (4) Based on information filed with the Securities and Exchange Commission in a Schedule 13G on September 7, 2005 by Nickolas W. Edwards.

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 five directors, and the Board has determined that the number of directors to be elected at the annual meeting shall be five. The persons listed below have been nominated by the Board for election as directors to serve until the next annual meeting of shareholders or until his 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, 2005):

Douglas J. Andrea, age 43, has been President and Chief Executive Officer since January 2005, 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.

Gary A. Jones, age 60, 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.

Louis Libin, age 47, 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. Migliozi, age 56, has been a Director of the Company since September 2003. He operates his own management consulting firm since 2001. From 1997 to 2001 Mr. Migliozi 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. Migliozi is a Certified Public Accountant.

Jonathan D. Spaet, age 49, has been a Director of the Company since 2003. He is Vice-President of Advertising Sales for Time Warner Cable Nation Ad Sales since September 2004, overseeing advertising sales for Time Warner Cable markets around the country. Previously, he was Vice-President of Sales for Westwood One Radio Networks, managing ad sales 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.

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 executive officers who received salary and bonuses over \$100,000 during the year ended December 31, 2005.

Name and Principal Position	Year	Annual Compensation ⁽¹⁾		Long-Term Compensation Awards		
		Salary	Bonus	Restricted Stock Awards	Stock Options (#)	All Other Compensation
Douglas J. Andrea, Chairman of the Board, Chief Executive Officer, and Corporate Secretary ⁽²⁾	2005	\$ 211,512	\$ ⁽⁴⁾	\$	850,000	\$
	2004	190,503	⁽⁴⁾		650,000	
	2003	179,030	50,000			
Paul E. Donofrio, Former Director, Former President and Chief Executive Officer ⁽³⁾	2005	\$ 13,513	\$ 50,000	\$		\$ 80,000 ⁽⁵⁾
	2004	192,449	50,000		300,000	
	2003	73,723	20,833		350,000	

(1) Does not include the aggregate amount of perquisites and other personal benefits, which was less than \$50,000 or 10% of the total annual salary and bonus reported.

(2) Effective January 2005, Douglas J. Andrea became Chief Executive Officer in addition to the Chairman of the Board and Corporate Secretary.

(3) Mr. Donofrio's employment terminated as President and Chief Executive Officer of the Company in January 2005. Mr. Donofrio joined the Company in August 2003.

(4) In accordance with Amendment 1 of Mr. Andrea's employment agreement, Mr. Andrea will not receive a \$50,000 bonus for the periods ending December 31, 2005 and 2004, and instead be entitled to \$100,000 bonus in the future in accordance with the terms of the Amendment.

(5) Effective January 25, 2005, Mr. Donofrio was terminated without cause and resigned as a Director of the Company. In connection with his termination, the Company and Mr. Donofrio entered into a separation agreement and general release to resolve any obligations owed to Mr. Donofrio under his existing employment agreement and any other obligations of liabilities the Company may have to Mr. Donofrio. The separation agreement provided payments totaling \$80,000 to Mr. Donofrio in the year ended December 31, 2005.

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 2005.

Option Grants in Last Fiscal Year

Name	Number of securities underlying options granted (#)	Percentage of total options granted to employees in fiscal year	Exercise price (\$/share)	Expiration Date
Douglas J. Andrea	250,000 ⁽¹⁾	10.4%	\$ 0.04	8/4/15
	600,000 ⁽²⁾	24.8%	\$ 0.05	8/10/15
Paul E. Donofrio ⁽³⁾				

(1) Options become exercisable six months following the date of grant which was August 4, 2005.

(2) Options become exercisable three months following the date of grant which was August 10, 2005.

(3) Former President and Chief Executive Officer.

The following table summarizes for each of the executive officers named in the Summary Compensation table the aggregate dollar value of in-the-money, unexercised options at December 31, 2005. None of the executive officers exercised any options during 2005.

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

Name	Number of Securities Underlying Unexercised Options at Fiscal Year End	Value of Unexercisable In-the-Money Options at Fiscal Year End	
		Exercisable/ Unexercisable	Exercisable/ Unexercisable ⁽¹⁾
Douglas J. Andrea	2,075,000/250,000	\$	/\$
Paul E. Donofrio ⁽²⁾	/	\$	/\$

- (1) Values were based on a closing trade price for Andrea's Common Stock on December 31, 2005 of \$0.04 per share. Options are in-the-money only if the market value of shares covered by options is greater than the exercise price.
- (2) Former President and Chief Executive Officer.

Employment Agreements

In June 2004, the Company entered into a one-year employment contract with the Chairman of the Board, Douglas J. Andrea, which automatically renewed for one additional one-year term and expired in June 2006. Pursuant to his employment agreement, Mr. Andrea currently received an annual base salary of \$225,000 per annum, a minimum annual prorated bonus of \$50,000 and an annual stock grant of 250,000 options. Mr. Andrea was also 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. In accordance with Amendment 1 of Mr. Andrea's employment agreement, Mr. Andrea will not receive a \$50,000 bonus for the periods ending December 31, 2005 and 2004, and instead will be entitled to \$100,000 bonus when the Company has positive cash flows and such payment would not cause the Company to receive a "have going concern" audit opinion language for the Company's financial statements, as determined by the Board of Directors in its sole discretion. This bonus may be payable in lump sum or over time as determined by the Board of Directors in its sole discretion and consistent with the intent of the Amendment 1.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and officers and persons who beneficially own more than ten percent of the Company's common stock to file with the Securities and Exchange Commission (SEC) initial reports of ownership and reports of changes in ownership of common stock in the Company. Officers, directors and greater-than-ten percent shareholders are also required to furnish the Company with copies of all Section 16(a) reports they file. Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company under Section 16(a) of the Securities Exchange Act of 1934, as amended, during the year ended December 31, 2005 and Forms 5 and amendments thereto furnished to the Company with respect to the year ended December 31, 2005, and written representations provided to the Company from the individuals required to file reports, the Company believes that each of the individuals required to file reports complied with applicable reporting requirements for transactions in the Company's common stock during the year ended December 31, 2005, except for: two late reports on Form 4 with regard to a total of four transactions filed by Douglas J. Andrea; one late report on Form 4 with regard to one transaction filed by Corisa L. Guiffre; two late reports on Form 4 with regard to a total of two transactions filed by Gary A. Jones; two late reports on Form 4 with regard to a total of three transactions filed by Louis Libin; two late reports on Form 4 with regard to a total of three transactions filed by Joseph J. Miglioizzi; and two late reports on Form 4 with regard to a total of two transactions filed by Jonathan D. Spaet.

Proposal 2 -**Proposed Action Regarding the 2006 Equity Compensation Plan**

At the annual meeting, stockholders will be asked to approve the Andrea Electronics Corporation 2006 Equity Compensation Plan (the 2006 Plan), which was adopted, subject to stockholder approval, by the Board of Directors on October 10, 2006.

The Company believes that incentives and stock-based awards focus employees on the dual objectives of creating stockholder value and promoting the Company's success, and that equity compensation plans like the 2006 Plan help to attract, retain and motivate valued employees and directors. The Board of Directors believes that the 2006 Plan will promote the interests of the Company and its stockholders and that it will give the Company flexibility to continue to provide incentives that are based on the attainment of corporate objectives and increases in stockholder value.

The Company currently maintains the 1998 Stock Plan ("1998 Plan") and the 1991 Performance Equity Plan ("1991 Plan"). As of October 4, 2006, 1,401,653 shares were available for grant under the 1998 Plan and no shares were available for grant under the 1991 Plan. The Company's ability to grant additional awards under the 1998 Plan will not terminate if stockholders approve the 2006 Plan and awards outstanding under the 1998 Plan and the 1991 Plan will continue in effect in accordance with their terms.

Summary Description of the 2006 Equity Compensation Plan

The principal terms of the 2006 Plan are summarized below. The following summary is qualified in its entirety by the full text of the 2006 Plan, which appears as *Appendix A* to this proxy statement.

Purposes of the 2006 Plan. The purposes of the 2006 Plan are to provide incentives and rewards to those employees, consultants and directors largely responsible for the success and growth of the Company and its affiliates, and to assist in attracting and retaining directors, executives, other key employees and consultants with experience and ability.

Administration. The Compensation Committee of the Board of Directors will administer the 2006 Plan. The Board of Directors or the Committee may also delegate some or all of its authority with respect to the 2006 Plan to certain officers of the Company to provide them with limited authority to grant awards to employees and consultants, provided that no officer may designate himself or herself as an award recipient. (The appropriate acting body, be it the Board, the Committee or an officer, is referred to in this proposal as the "Administrator.")

The Administrator has broad authority under the 2006 Plan with respect to awards granted under the 2006 Plan, including, without limitation, the authority to:

select the individuals to receive awards under the 2006 Plan;

determine the type, number, vesting requirements and other features and conditions of individual awards;

interpret the 2006 Plan and award agreements issued with respect to individual awards.

Each award granted under the 2006 Plan will be evidenced by a written award agreement that sets forth the terms and conditions of each award and may include additional provisions and restrictions as determined by the Administrator.

Eligibility. Persons eligible to receive awards under the 2006 Plan include directors, officers, employees and consultants of the Company and its affiliates. All of the Company's directors, officers, employees (including all of the named executive officers of the Company) and consultants are presently considered eligible for awards under the 2006 Plan.

Authorized Shares; Limits on Awards. The maximum number of shares of the Company's common stock that may be delivered pursuant to awards under the 2006 Plan is equal to 10,000,000.

To the extent that an award is settled in cash or a form other than shares of common stock, the shares that would have been delivered had there been no cash or other settlement will not be counted against the shares available for issuance under the 2006 Plan. In the event that shares are delivered in respect of a dividend equivalent, stock appreciation right, or other award, only the actual number of shares delivered with respect to the award will be counted against the share limits of the plan. Shares that are subject to or underlie awards that expire for any reason or are cancelled, terminated or forfeited, fail to vest, or for any other reason are not paid or delivered under the 2006 Plan will again be available for subsequent awards under the 2006 Plan.

Types of Awards. The 2006 Plan authorizes grants of stock options, stock appreciation rights, restricted stock awards and similar rights to purchase or acquire shares. The 2006 Plan retains flexibility to offer competitive incentives and to tailor benefits to specific needs and circumstances. Any award may be paid or settled in cash.

A stock option is the right to purchase shares of the Company common stock at a future date at a specified price per share (the exercise price). The per share exercise price of stock option may not be less than the fair market value of a share of the Company common stock on the date of grant. The maximum term of a stock option is ten years from the date of grant. Stock options granted under the 2006 Plan may be nonqualified stock options or incentive stock options under the Internal Revenue Code.

A stock appreciation right is the right to receive payment of an amount equal to the excess of the fair market value per share of the Company's common stock on the date of exercise of the stock appreciation right over the base price of the stock appreciation right. The base price may not be lower than the fair market value of a share of the Company's common stock on the date of grant. Stock appreciation rights may be granted in connection with other awards or independently. The maximum term of a stock appreciation right is ten years from the date of grant.

A restricted stock award is a grant of a certain number of shares of common stock subject to the lapse of certain restrictions (such as continued service) determined by the Administrator. Participants are entitled to receive dividends and other distributions declared and paid on the shares and may also vote any unvested shares subject to their restricted stock awards.

The other types of awards that may be granted under the 2006 Plan include, without limitation, stock bonuses, performance shares, performance units, phantom stock, dividend equivalents or similar rights to purchase or acquire shares, whether at a fixed or variable price or ratio related to the common stock, upon the passage of time, the occurrence of one or more events, the satisfaction of performance criteria or other conditions, subject to the terms of the 2006 Plan and any applicable requirements under the Internal Revenue Code.

Payments and Deferrals. Payment of awards may be made in the form of cash, common stock or combinations thereof as determined by the Administrator. The Administrator may provide for the deferred payment of awards and may determine other terms applicable to deferrals. The Administrator may provide that deferred settlements include the payment or crediting of interest or other earnings on the deferred amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in shares.

Effect of Termination of Service on Awards. Generally, the Administrator will establish, in the applicable award agreement, the effect of a termination of employment or service on outstanding awards under the 2006 Plan. The Administrator may make appropriate distinctions based upon the cause of termination and the type of award.

Acceleration of Awards. Generally, and subject to limited exceptions set forth in the 2006 Plan, if any person acquires more than 25% of the outstanding common stock or combined voting power of the Company, if certain changes in a three-fourths majority of the board occur over a consecutive period of two years, if stockholders prior to a transaction do not continue to own more than 50% of the voting shares of the Company (or its successor or parent) following a reorganization, merger or similar corporate transaction involving the Company, or if the Company sells all or substantially all of its assets to a third party, then outstanding awards under the 2006 Plan will accelerate and become fully vested or payable, as applicable. The Administrator also has the discretion to establish other change in control provisions with respect to awards granted under the 2006 Plan. For example, the Administrator could provide for the acceleration of vesting or payment of an award in connection with a corporate event not specifically described above.

Transfer Restrictions. Subject to certain exceptions, recipients may not transfer awards under the 2006 Plan other than by will or the laws of descent and distribution. Generally, only the recipient may exercise an award during the recipient's lifetime. Any amounts payable or shares issuable pursuant to an award will be paid only to the recipient or the recipient's beneficiary or legal representative.

Adjustments. As is customary in equity compensation plans of this nature, any applicable share limits, the number and types of shares available under the 2006 Plan and any outstanding awards, as well as the exercise or purchase prices of awards and performance standards applicable to certain types of awards, are subject to proportional adjustment in the event of certain reorganizations, mergers, combinations, recapitalizations, stock splits, stock dividends or similar events that change the number or types of shares outstanding, and in the case of extraordinary dividends or distributions of property to the stockholders.

Amendment or Termination of the 2006 Equity Compensation Plan. The Board may generally amend or terminate the 2006 Plan at any time and in any manner, except that the Board may not amend the 2006 Plan or awards to reprice stock options. Stockholder approval of an amendment will be required only to the extent then required by applicable law or the listing standards of any national securities exchange or national securities market where the shares of the Company are listed or as required under Section 162 of the Internal Revenue Code to preserve the intended tax consequences of the plan. For example, stockholder approval will be required for any amendment that proposes to increase the maximum number of shares that may be delivered with respect to awards granted under the 2006 Plan. Adjustments as a result of stock splits or similar events will not, however, require stockholder approval. Unless terminated earlier by the Board, the authority to grant new awards under the 2006 Plan will terminate on November 16, 2016. Outstanding awards, as well as the Administrator's authority with respect to such awards, will generally continue following the expiration or termination of the 2006 Plan. Generally, the consent of the award recipient is required if any plan amendment materially and adversely affects the recipient. With respect to any award of an incentive stock option, the Administrator may make an adjustment that causes the option to cease to qualify as an incentive stock option without the consent of the affected participant.

Federal Income Tax Treatment of Awards Under the 2006 Equity Compensation Plan

The federal income tax consequences of the 2006 Plan under current federal law, which is subject to change, are summarized in the following discussion of the general tax principles applicable to the 2006 Plan. This summary is not intended to be exhaustive and, among other considerations, does not describe state or local tax consequences.

With respect to nonqualified stock options, the Company is generally entitled to deduct, and the optionee recognizes taxable income in an amount equal to, the difference between the option exercise price and the fair market value of the shares at the time of exercise. Stock appreciation rights are generally taxed and deductible in substantially the same manner as nonqualified stock options.

With respect to incentive stock options, there typically will be no federal income tax consequences to the optionee or to the Company upon the grant or exercise of an incentive stock option. If the optionee holds the option shares for at least two years after the date the option was granted or for one year after exercise, the difference between the exercise price and the amount realized upon sale or disposition of the option shares will be long-term capital gain or loss, and the Company will not be entitled to a federal income tax deduction. If the optionee disposes of the option shares in a sale, exchange or other disqualifying disposition before the required holding period ends, he or she will recognize taxable ordinary income in an amount equal to the excess of the fair market value of the option shares at the time of exercise over the exercise price, and the Company will be allowed a federal income tax deduction equal to such amount. While the exercise of an incentive stock option does not result in current taxable income, the excess of the fair market value of the option shares at the time of exercise over the exercise price will be an item of adjustment for purposes of determining the optionee's alternative minimum taxable income.

Generally, the recipient of a restricted stock award recognizes ordinary income, and the Company is entitled to a corresponding deduction, equal to the fair market value of the stock at the time any transfer or forfeiture restrictions applicable to the restricted stock award lapse. A restricted stock award recipient who makes an election under Section 83(b) of the Internal Revenue Code, however, recognizes ordinary income equal to the fair market value of the stock at the time of grant, and the Company is entitled to a corresponding deduction at that time. If the recipient makes a Section 83(b) election, there are no further federal income tax consequences to either the recipient or the Company at the time any applicable transfer or forfeiture restrictions lapse.

With respect to the other awards authorized under the 2006 Plan, cash and stock-based performance awards, bonuses, dividend equivalents and other types of awards are generally subject to tax at the time of payment. In each of these cases, the Company receives a corresponding deduction at the time the participant recognizes ordinary income.

Specific Benefits Under the 2006 Equity Compensation Plan

The Company has not approved any awards under the 2006 Plan that are conditioned upon stockholder approval of the 2006 Plan and is not currently considering any specific award grants under the 2006 Plan.

Equity Compensation Plan Information

The following table sets forth certain information as of December 31 20056, for all compensation plans, including individual compensation arrangements under which equity securities of the company are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options. warrants and rights (b)
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