

KOSS CORP  
Form 10-Q  
February 03, 2012  
Index

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

Form 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934  
for the quarterly period ended December 31, 2011

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934  
Commission File Number 0-3295

KOSS CORPORATION  
(Exact Name of Registrant as Specified in its Charter)

|                                                                                             |                                                    |
|---------------------------------------------------------------------------------------------|----------------------------------------------------|
| A DELAWARE CORPORATION<br>(State or other jurisdiction of<br>incorporation or organization) | 39-1168275<br>(I.R.S. Employer Identification No.) |
|---------------------------------------------------------------------------------------------|----------------------------------------------------|

|                                                                                                        |                     |
|--------------------------------------------------------------------------------------------------------|---------------------|
| 4129 North Port Washington Avenue, Milwaukee,<br>Wisconsin<br>(Address of principal executive offices) | 53212<br>(Zip Code) |
|--------------------------------------------------------------------------------------------------------|---------------------|

Registrant's telephone number, including area code: (414) 964-5000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 ☒ No ☐

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 <input type="checkbox"/>                                                | Accelerated filer <input type="checkbox"/>                    |
| Non-accelerated filer <input type="checkbox"/><br>(Do not check if a smaller reporting company) | Smaller reporting company <input checked="" type="checkbox"/> |

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

At January 27, 2012, there were 7,382,706 shares outstanding of the registrant's common stock.

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KOSS CORPORATION AND SUBSIDIARY  
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December 31, 2011

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IndexPART I  
FINANCIAL INFORMATION

## Item 1. Financial Statements

KOSS CORPORATION AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

|                                                              | Three Months Ended<br>December 31 |              | Six Months Ended<br>December 31 |              |
|--------------------------------------------------------------|-----------------------------------|--------------|---------------------------------|--------------|
|                                                              | 2011                              | 2010         | 2011                            | 2010         |
| Net sales                                                    | \$9,990,771                       | \$12,800,806 | \$18,745,556                    | \$22,832,940 |
| Cost of goods sold                                           | 6,191,266                         | 7,589,843    | 11,617,809                      | 13,260,368   |
| Gross profit                                                 | 3,799,505                         | 5,210,963    | 7,127,747                       | 9,572,572    |
| Operating Expenses:                                          |                                   |              |                                 |              |
| Selling, general and administrative expenses                 | 2,924,733                         | 2,588,765    | 5,809,919                       | 5,693,429    |
| Unauthorized transaction related costs and (recoveries), net | (469,519)                         | ) 204,900    | (519,933)                       | ) 471,184    |
| Total Operating Expenses                                     | 2,455,214                         | 2,793,665    | 5,289,986                       | 6,164,613    |
| Income from operations                                       | 1,344,291                         | 2,417,298    | 1,837,761                       | 3,407,959    |
| Other Income (Expense):                                      |                                   |              |                                 |              |
| Interest income                                              | —                                 | 4            | —                               | 24           |
| Interest expense                                             | (24,012)                          | ) (107,348)  | ) (64,538)                      | ) (212,008)  |
| Total Other Expense, net                                     | (24,012)                          | ) (107,344)  | ) (64,538)                      | ) (211,984)  |
| Income before income tax provision                           | 1,320,279                         | 2,309,954    | 1,773,223                       | 3,195,975    |
| Income tax provision                                         | 489,067                           | 927,841      | 661,414                         | 1,251,003    |
| Net income                                                   | \$831,212                         | \$1,382,113  | \$1,111,809                     | \$1,944,972  |
| Income per common share:                                     |                                   |              |                                 |              |
| Basic                                                        | \$0.11                            | \$0.18       | \$0.15                          | \$0.26       |
| Diluted                                                      | \$0.11                            | \$0.18       | \$0.15                          | \$0.26       |
| Dividends declared per common share                          | \$0.06                            | \$0.06       | \$0.12                          | \$0.12       |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

|                                                                                                        | (Unaudited)<br>December 31,<br>2011 | June 30, 2011 |
|--------------------------------------------------------------------------------------------------------|-------------------------------------|---------------|
| <b>ASSETS</b>                                                                                          |                                     |               |
| Current Assets:                                                                                        |                                     |               |
| Cash and cash equivalents                                                                              | \$182,058                           | \$160,542     |
| Accounts receivable, less allowance for doubtful accounts of \$293,136 and \$278,828, respectively     | 4,374,473                           | 6,015,212     |
| Inventories                                                                                            | 9,612,221                           | 7,867,002     |
| Prepaid expenses and other current assets                                                              | 627,447                             | 292,778       |
| Income taxes receivable                                                                                | 414,540                             | 258,292       |
| Deferred income taxes                                                                                  | 1,048,955                           | 1,028,796     |
| Total Current Assets                                                                                   | 16,259,694                          | 15,622,622    |
| Equipment and leasehold improvements, net                                                              | 3,110,943                           | 3,083,990     |
| Other Assets:                                                                                          |                                     |               |
| Product software development costs                                                                     | 3,942,572                           | 3,229,370     |
| Deferred income taxes                                                                                  | 825,371                             | 1,633,191     |
| Cash surrender value of life insurance                                                                 | 4,188,098                           | 3,836,314     |
| Total Other Assets                                                                                     | 8,956,041                           | 8,698,875     |
| Total Assets                                                                                           | \$28,326,678                        | \$27,405,487  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                            |                                     |               |
| Current Liabilities:                                                                                   |                                     |               |
| Accounts payable                                                                                       | \$3,852,943                         | \$3,642,490   |
| Accrued liabilities                                                                                    | 2,355,469                           | 2,994,656     |
| Dividends payable                                                                                      | 442,962                             | 442,962       |
| Income taxes payable                                                                                   | 478,073                             | 599,938       |
| Total Current Liabilities                                                                              | 7,129,447                           | 7,680,046     |
| Long-Term Liabilities:                                                                                 |                                     |               |
| Line of credit facility                                                                                | 2,300,000                           | 1,400,000     |
| Deferred compensation                                                                                  | 2,062,296                           | 1,978,318     |
| Derivative liability                                                                                   | 125,000                             | 125,000       |
| Other liabilities                                                                                      | 776,072                             | 776,072       |
| Total Long-Term Liabilities                                                                            | 5,263,368                           | 4,279,390     |
| Total Liabilities                                                                                      | 12,392,815                          | 11,959,436    |
| Stockholders' Equity:                                                                                  |                                     |               |
| Common stock, \$0.005 par value, authorized 20,000,000 shares; issued and outstanding 7,382,706 shares | 36,914                              | 36,914        |
| Paid in capital                                                                                        | 2,406,344                           | 2,144,416     |
| Retained earnings                                                                                      | 13,490,605                          | 13,264,721    |

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|                                            |              |              |
|--------------------------------------------|--------------|--------------|
| Total Stockholders' Equity                 | 15,933,863   | 15,446,051   |
| Total Liabilities and Stockholders' Equity | \$28,326,678 | \$27,405,487 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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KOSS CORPORATION AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| Six Months Ended December 31                                                      | 2011        | 2010           |
|-----------------------------------------------------------------------------------|-------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |             |                |
| Net income                                                                        | \$1,111,809 | \$1,944,972    |
| Adjustments to reconcile net income to net cash provided by operating activities: |             |                |
| Provision for doubtful accounts                                                   | 14,718      | 10,459         |
| Loss on disposals of equipment and leasehold improvements                         | —           | 40,000         |
| Depreciation of equipment and leasehold improvements                              | 343,484     | 317,073        |
| Stock-based compensation expense                                                  | 261,928     | 221,499        |
| Provision for deferred income taxes                                               | 787,661     | 251,187        |
| Change in cash surrender value of life insurance                                  | (3,870)     | ) 6,926        |
| Deferred compensation                                                             | 83,978      | 112,929        |
| Net changes in operating assets and liabilities (Note 10)                         | (1,160,714) | ) (1,955,232 ) |
| Net cash provided by operating activities                                         | 1,438,994   | 949,813        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |             |                |
| Life insurance premiums paid                                                      | (347,914)   | ) (348,503 )   |
| Purchases of equipment and leasehold improvements                                 | (370,437)   | ) (397,232 )   |
| Product software development expenditures                                         | (713,202)   | ) (479,310 )   |
| Net cash used in investing activities                                             | (1,431,553) | ) (1,225,045 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |             |                |
| Net proceeds from line of credit facility                                         | 900,000     | 1,250,000      |
| Dividends paid to stockholders                                                    | (885,925)   | ) (885,924 )   |
| Net cash provided by financing activities                                         | 14,075      | 364,076        |
| Net increase in cash and cash equivalents                                         | 21,516      | 88,844         |
| Cash and cash equivalents at beginning of period                                  | 160,542     | 125,496        |
| Cash and cash equivalents at end of period                                        | \$182,058   | \$214,340      |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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KOSS CORPORATION AND SUBSIDIARY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011  
(Unaudited)

# Note 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated balance sheet as of June 30, 2011 has been derived from audited financial statements. The unaudited condensed consolidated financial statements presented herein are based on interim amounts. The consolidated financial information presented for the year ended June 30, 2011 includes results for Koss Classics Ltd. The Koss Classics Ltd. subsidiary was dissolved during the six months ended December 31, 2011. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. All significant intercompany accounts and transactions have been eliminated. The operating results for the six months ended December 31, 2011, are not necessarily indicative of the operating results for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Registrant's June 30, 2011, Annual Report on Form 10-K.

# Note 2. UNAUTHORIZED TRANSACTIONS

In December 2009, the Company learned of significant unauthorized transactions, which totaled approximately \$31,500,000 from fiscal 2005 through December 2009.

The unauthorized transaction related costs and recoveries, net line in the Condensed Consolidated Statements of Income is comprised of the legal and professional fees for legal defense costs as well as legal fees related to certain claims initiated against third parties (see Note 12). The insurance and other recoveries represent amounts received under the Company's insurance and other settlements related to the unauthorized transactions. For the three and six months ended December 31, 2011 and 2010, these costs and recoveries were as follows:

|                                                              | Three Months Ended<br>December 31 |            | Six Months Ended<br>December 31 |             |
|--------------------------------------------------------------|-----------------------------------|------------|---------------------------------|-------------|
|                                                              | 2011                              | 2010       | 2011                            | 2010        |
| Legal fees                                                   | \$228,268                         | \$755,044  | \$677,174                       | \$1,367,588 |
| Professional fees                                            | —                                 | 25,681     | —                               | 42,558      |
| Total costs                                                  | 228,268                           | 780,725    | 677,174                         | 1,410,146   |
| Insurance and other recoveries                               | (697,787 )                        | (575,825 ) | (1,197,107 )                    | (938,962 )  |
| Unauthorized transaction related costs and (recoveries), net | \$ (469,519 )                     | \$ 204,900 | \$ (519,933 )                   | \$ 471,184  |

See Note 12 below for additional information relating to the Company's expectation of receiving additional proceeds from the sale of items that law enforcement seized relating to the unauthorized transactions.

# Note 3. INVENTORIES

Inventories increased \$1,745,219 for the six months ended December 31, 2011. The classification of inventories is as follows:

|                | December 31,<br>2011 | June 30, 2011 |
|----------------|----------------------|---------------|
| Raw materials  | \$3,057,517          | \$2,632,654   |
| Finished goods | 6,554,704            | 5,234,348     |
| Inventories    | \$9,612,221          | \$7,867,002   |

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Note 4. INCOME PER COMMON AND COMMON STOCK EQUIVALENT SHARE

Basic income per common share is computed based on the weighted-average number of common shares outstanding. There were 7,382,706 weighted-average common shares outstanding for the three and six month periods ended December 31, 2011 and 2010. When dilutive, stock options are included in income per share as share equivalents using the treasury stock method.

For the three and six months ended December 31, 2011 and 2010, there were no common stock equivalents related to stock option grants that were included in the computation of the weighted-average number of shares outstanding for diluted income per share. Shares under option of 1,614,308 and 1,474,308 were excluded from diluted weighted-average common shares outstanding for the three and six months ended December 31, 2011 and 2010, respectively, as they would be anti-dilutive.

Note 5. CREDIT FACILITY

On May 12, 2010, the Company entered into a secured credit facility with JPMorgan Chase Bank, N.A. ("Lender"). The Credit Agreement dated May 12, 2010 between the Company and the Lender ("Credit Agreement") provides for an \$8,000,000 revolving secured credit facility with interest rates either ranging from 0.0% to 0.75% over the Lender's most recently publicly announced prime rate or 2.0% to 3.0% over the London Interbank Offered Rate (LIBOR), depending on the Company's leverage ratio. The Credit Agreement expires on July 31, 2013. In addition to the revolving loans, the Credit Agreement also provides that the Company may, from time to time, request the Lender to issue letters of credit for the benefit of the Company of up to a sublimit of \$2,000,000 and subject to certain other limitations. The loans may be used only for general corporate purposes of the Company.

The Credit Agreement contains certain affirmative, negative and financial covenants customary for financings of this type. The negative covenants include restrictions on other indebtedness, liens, fundamental changes, certain investments, asset sales, sale and leaseback transactions and transactions with affiliates, among other restrictions. The financial covenants include a minimum current ratio, minimum tangible net worth and maximum leverage ratio requirements. The Company and the Lender also entered into the Pledge and Security Agreement under which the Company granted the Lender a security interest in substantially all of the Company's assets in connection with the Company's obligations under the Credit Agreement. At December 31, 2011 and June 30, 2011, the outstanding balance on this credit facility was \$2,300,000 and \$1,400,000, respectively. The applicable interest rates at December 31, 2011 were 3.25% on \$800,000 of outstanding balance, 2.30% on \$500,000 of outstanding balance and 2.29% on \$1,000,000 of outstanding balance. The applicable interest rates at June 30, 2011 were 2.19% on \$1,000,000 of outstanding balance and 3.25% on \$400,000 of outstanding balance. The weighted average interest rates in effect on the borrowings outstanding as of December 31, 2011 and June 30, 2011 were 2.63% and 2.49%, respectively.

Note 6. STOCK OPTIONS

In 1990, pursuant to the recommendation of the Board of Directors, the stockholders ratified the creation of the Company's 1990 Flexible Incentive Plan (the "1990 Plan"). The 1990 Plan is administered by a committee of the Board of Directors and provides for the granting of various stock-based awards including stock options to eligible participants, primarily officers and certain key employees. A total of 225,000 shares of common stock were available in the first year of the 1990 Plan's existence. Each year thereafter additional shares equal to 0.25% of the shares outstanding as of the first day of the applicable fiscal year were reserved for issuance pursuant to the 1990 Plan. On July 22, 1992, the Board of Directors authorized the reservation of an additional 250,000 shares for the 1990 Plan, which was approved by the stockholders. In 1993, the Board of Directors authorized the reservation of an additional 300,000 shares for the 1990 Plan, which was approved by the stockholders. In 1997, the Board of Directors

authorized the reservation of an additional 300,000 shares for the 1990 Plan, which was approved by the stockholders. In 2001, the Board of Directors authorized the reservation of an additional 300,000 shares for the 1990 Plan, which was also approved by the stockholders. As of December 31, 2011, there were 67,420 shares available for future grants. Options vest over a four or five year period, with a maximum term of five to ten years.

The fair value of each stock option grant was estimated as of the date of grant using the Black-Scholes pricing model. The resulting compensation cost for fixed awards with graded vesting schedules is amortized on a straight-line basis over the vesting period for the entire award. The expected term of awards granted is determined based on historical experience with similar awards, giving consideration to the expected term and vesting schedules. The expected volatility is determined based on the Company's historical stock prices over the most recent period commensurate with the expected term of the award. Beginning with options granted for the six months ended December 31, 2011, volatility was calculated using daily rates, which is a change from previous periods in which volatility was calculated using monthly rates. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term commensurate with the expected term of the award. Expected pre-vesting option forfeitures are based on historical data. The total fair value of options granted during the six months ended

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December 31, 2011 and 2010 was \$886,204 and \$582,832, respectively.

A summary of stock option activity under the plan for the six months ended December 31, 2011 is as follows:

|                                          | Number<br>of Shares | Stock Options<br>Price Range | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life - Years | Aggregate Intrinsic<br>Value of In-The-Money<br>Options |
|------------------------------------------|---------------------|------------------------------|------------------------------------------|-----------------------------------------------------------------|---------------------------------------------------------|
| Shares under option at June 30, 2011     | 1,334,308           | \$3.90-\$13.09               | \$7.61                                   | 4.01                                                            | \$ 349,400                                              |
| Granted                                  | 440,000             | \$5.05-\$6.60                | \$6.30                                   |                                                                 |                                                         |
| Exercised                                | —                   | —                            | —                                        |                                                                 |                                                         |
| Expired                                  | —                   | —                            | —                                        |                                                                 |                                                         |
| Forfeited                                | 160,000             | \$6.91                       | —                                        |                                                                 |                                                         |
| Shares under option at December 31, 2011 | 1,614,308           | \$3.90-\$13.09               | \$7.32                                   | 4.46                                                            | \$ 53,983                                               |
| Exercisable as of June 30, 2011          | 603,308             | \$3.90-\$13.09               | \$9.39                                   |                                                                 |                                                         |
| Exercisable as of December 31, 2011      | 690,308             | \$3.90-\$13.09               | \$8.90                                   |                                                                 |                                                         |

A summary of intrinsic value and cash received from stock option exercises and fair value of vested stock options for the six months ended December 31, 2011 and 2010 is as follows:

|                                                  | Six Months Ended<br>December 31, 2011 | Six Months Ended<br>December 31, 2010 |
|--------------------------------------------------|---------------------------------------|---------------------------------------|
| Total intrinsic value of stock options exercised | \$—                                   | \$—                                   |
| Cash received from stock option exercises        | \$—                                   | \$—                                   |
| Total fair value of stock options vested         | \$256,804                             | \$132,817                             |

#### Note 7. STOCK PURCHASE AGREEMENTS

The Company has an agreement with its Chairman, John C. Koss, in the event of his death, at the request of the executor of the estate, to repurchase his Company common stock from his estate. The Company does not have the right to require the estate to sell stock to the Company. As such, this arrangement is accounted for as a written put option with the fair value of the put option recorded as a derivative liability.

The fair value of the option at December 31, 2011 and June 30, 2011 was \$125,000. The repurchase price is 95% of the fair value of the common stock on the date that notice to repurchase is provided to the Company. The total number of shares to be repurchased will be sufficient to provide proceeds which are the lesser of \$2,500,000 or the amount of estate taxes and administrative expenses incurred by the Chairman's estate. The Company may elect to pay the purchase price in cash or may elect to pay cash equal to 25% of the total amount due and to execute a promissory note for the balance, payable over four years, at the prime rate of interest. The Company maintains a \$1,150,000 life insurance policy to fund a substantial portion of this obligation.

#### Note 8. INCOME TAXES

The Company files income tax returns in the United States (Federal), Wisconsin (State) and various other state jurisdictions. Tax years open to examination by tax authorities under the statute of limitations include fiscal 2007 through 2011 for Federal and fiscal 2006 through 2011 for most state jurisdictions. There is an open examination by the Wisconsin Department of Revenue for the period July 1, 2005 through June 30, 2009.

The total liability for unrecognized tax benefits was \$478,073 as of December 31, 2011 and \$599,938 as of June 30, 2011. The liability does not include an amount for accrued penalties. The Company recognizes penalties related to unrecognized tax benefits in the provision for income taxes. The Company recognizes interest related to unrecognized tax benefits as interest expense. As part of the unauthorized transactions, the Company has accrued interest of \$511,792 and \$498,806 at December 31, 2011 and June 30, 2011, respectively. The Company does not expect a significant increase or decrease to the

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total amounts of unrecognized tax benefits within the next 12 months. There was no change in the amount of unrecognized tax benefits during the six months ended December 31, 2011.

## Note 9. DIVIDENDS DECLARED

On October 25, 2011, the Company declared a quarterly cash dividend of \$0.06 per share for the stockholders of record on December 30, 2011 to be paid January 16, 2012. Such dividend payable has been recorded as of December 31, 2011.

## Note 10. ADDITIONAL CASH FLOW INFORMATION

The net changes in cash as a result of changes in operating assets and liabilities consist of the following for the six months ended:

|                                                     | December 31,<br>2011 | December 31,<br>2010 |
|-----------------------------------------------------|----------------------|----------------------|
| Accounts receivable                                 | \$1,626,021          | \$(752,775 )         |
| Inventories                                         | (1,745,219 )         | (570,575 )           |
| Prepaid expenses and other current assets           | (334,669 )           | (134,174 )           |
| Income taxes                                        | (278,113 )           | 1,418,783            |
| Accounts payable                                    | 210,453              | (399,720 )           |
| Accrued liabilities                                 | (639,187 )           | (1,516,771 )         |
| Net change                                          | \$(1,160,714 )       | \$(1,955,232 )       |
| Net cash (refunded) paid during the six months for: |                      |                      |
| Income taxes                                        | \$151,865            | \$(418,968 )         |
| Interest                                            | \$60,464             | \$48,585             |

## Note 11. STOCKHOLDERS' EQUITY

The following table summarizes the changes in stockholders' equity for the six month periods ended:

|                                  | December 31,<br>2011 | December 31,<br>2010 |
|----------------------------------|----------------------|----------------------|
| Net income                       | \$1,111,809          | \$1,944,972          |
| Dividends declared               | (885,925 )           | (885,924 )           |
| Stock-based compensation expense | 261,928              | 221,499              |
| Increase in Stockholders' Equity | \$487,812            | \$1,280,547          |

## Note 12. LEGAL MATTERS

The Company is currently involved in the following legal matters described below:

On January 15, 2010, a class action complaint was filed in federal court in Wisconsin against the Company, Michael Koss and Sujata Sachdeva. The suit alleges violations of Section 10(b), Rule 10b-5 and Section 20(a) of the Exchange Act relating to the unauthorized transactions and requests an award of compensatory damages in an amount to be proven at trial. On October 24, 2011, the Company announced that a settlement in principle has been reached subject to Court approval involving the claims that were brought against the Company and Michael Koss. This settlement involves a total payment of \$1 million to the shareholders included within the class. This amount will be funded by

the Company's insurance company, with any fee awarded to plaintiffs' counsel to be paid out of the \$1 million settlement. See *David A. Puskala v. Koss Corporation, et al.*, United States District Court, Eastern District of Wisconsin, Case No. 2:2010cv00041.

On January 26, 2010, the SEC's Division of Enforcement advised the Company that it obtained a formal order of investigation in connection with the unauthorized transactions. The Company voluntarily brought the unauthorized transactions to the SEC staff's attention when they were discovered in December 2009. On October 24, 2011, the

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Company announced that the Company and Michael J. Koss agreed to a settlement with the SEC without admitting or denying the Commission's charges in a Complaint that the SEC filed in Milwaukee, Wisconsin. The Company and Michael J. Koss have consented to the entry of an injunctive order that would enjoin them from violating SEC regulations in the future. Pursuant to the settlement, Michael Koss reimbursed the Company 160,000 of options and an additional \$242,419 in cash pursuant to Section 304 of the Sarbanes-Oxley Act, 15 U.S.C. Section 7243, which together with his previous voluntary reimbursement of \$208,895, represents the full amount of bonuses that he received during the restatement periods.

On February 18, 2010, the Company filed an action against American Express Company, American Express Travel Related Services Company, Inc., AMEX Card Services Company, Decision Science, and Pamela S. Hopkins in Superior Court of Maricopa County, Arizona, case no. CV2010-006631, alleging various claims of aiding and abetting breach of fiduciary duty, aiding and abetting fraud, conversion, and negligence relating to the unauthorized transactions. American Express filed a Motion to Dismiss the claims that the Company filed, and the Court granted the Motion to Dismiss. The Company filed a Motion for New Trial requesting that the Court reconsider its prior ruling that granted the Motion to Dismiss, and the Court denied the Motion for New Trial. The Company is appealing these rulings.

On June 24, 2010, the Company filed an action against its former independent auditor, Grant Thornton, LLP, and Ms. Sachdeva, in Circuit Court of Cook County, Illinois, alleging various claims of accounting malpractice, negligent misrepresentation, and fraud relating to the unauthorized transactions. Ms. Sachdeva subsequently filed a response to the complaint and Grant Thornton filed a Motion to Dismiss the action. This Motion to Dismiss has now been denied. Grant Thornton also filed a Motion to Dismiss based on Forum Non Conveniens grounds and the Court granted this motion, holding that this case should be litigated in Milwaukee, Wisconsin as opposed to Cook County, Illinois. The Company is appealing this decision.

On December 17, 2010, the Company filed an action against Park Bank in Circuit Court of Milwaukee County, Wisconsin alleging a claim of negligence relating to the unauthorized transactions, and discovery is now proceeding.

The ultimate resolution of these litigation matters is not determinable unless otherwise noted.

On November 17, 2010, Sujata Sachdeva was sentenced to 11 years in prison. As part of a restitution order that was entered relating to her sentence, the Company expects to receive additional recoveries from the sale of approximately 25,000 items that law enforcement seized from Ms. Sachdeva. In March and April 2011, the U.S. Marshals Service conducted auctions of jewelry and certain other items that were seized, and the Company believes that the gross proceeds from these auctions amounted to approximately \$1.1 million. The Company expects to receive the net proceeds from these auctions after deducting commissions and other related costs involved with the sale of the items. The U.S. Marshals Service has held other auctions and is planning to hold additional auctions in the future for the remaining items seized, with the net proceeds also being remitted to the Company. In November 2011, the Company received proceeds totaling \$509,970 related to Ms. Sachdeva's 401(k) plan. The Company expects to receive additional proceeds related to Ms. Sachdeva's Employee Stock Ownership Trust account. The U.S. Attorneys' Office informed the Company that it will be receiving additional proceeds from the sale of Ms. Sachdeva's former residence, automobile, time share properties and life insurance policy resulting from their forfeiture efforts.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Operations — Net sales for the three months ended December 31 decreased to \$9,990,771 in 2011 compared with \$12,800,806 in 2010. This \$2,810,035 decrease in net sales was primarily caused by lower sales to several European distributors and continued lower sales to a large mass retailer in the United States. Including the unauthorized transaction related costs and recoveries, net of expenses, the Company had income from operations of \$1,344,291 for the three months ended December 31, 2011, compared to income from operations of \$2,417,298 for the three months ended December 31, 2010. The decreased income from operations was primarily driven by the decline in sales, a decrease in the gross profit percentage from 40.7% to 38.0% and higher selling, general and administrative expenses. These negative effects were partially offset by insurance and other unauthorized transaction related recoveries exceeding legal fees by \$469,519 during the three months ended December 31, 2011 compared to a net cost of \$204,900 for the three months ended December 31, 2010. Operating income, excluding the unauthorized transactions and related costs and recoveries, was \$874,772 or 8.8% of net sales for the three months ended December 31, 2011 compared to \$2,622,198 or 20.5% of net sales for the three months ended December 31, 2010.

For the six months ended December 31, net sales decreased to \$18,745,556 in 2011 compared with \$22,832,940 in 2010. This \$4,087,384 decrease in net sales was primarily driven by lower sales to several overseas distributors and to a large mass retailer in the United States. Including the unauthorized transaction related costs and recoveries, net of expenses, the Company had income from operations of \$1,837,761 for the six months ended December 31, 2011, compared to income from operations of \$3,407,959 for the six months ended December 31, 2010. The decreased income from operations was primarily driven by the decline in sales, a decrease in the gross profit percentage from 41.9% to 38.0%, and higher selling, general and administrative expenses. These negative effects were partially offset by insurance and other unauthorized transaction related recoveries exceeding legal fees by \$519,933 during the six months ended December 31, 2011 compared to a net cost of \$471,184 for the six months ended December 31, 2010. Operating income, excluding the unauthorized transactions and related costs and recoveries, was \$1,317,828 or 7.0% of net sales for the six months ended December 31, 2011 compared to \$3,879,143 or 17.0% of net sales for the six months ended December 31, 2010.

Results of Operations

Three Months Ended December 31, 2011 to Three Months Ended December 31, 2010

Net Sales and Gross Profit

Net sales for the three months ended December 31, 2011 totaled \$9,990,771 compared with \$12,800,806 in the three months ended December 31, 2010. This \$2,810,035 or 22.0% decrease in net sales was primarily driven by lower sales to several overseas distributors and to a large mass retailer in the United States. The decrease in sales to the overseas distributors appears to be caused by the difficult economy in Europe as well as stock balancing by these distributors. The decline in sales to the U.S. retail market reflects the increased number of competitors in this space and product placement within key retailers. Additions of new customers have not yet offset these declines. The Company is introducing new products in the second half of the fiscal year. It is uncertain if these sales declines will continue or if new customer sales and products will offset the declines in the future.

Gross profit for the three months ended December 31, 2011 was \$3,799,505 or 38.0% of net sales compared to \$5,210,963 or 40.7% of net sales for the three months ended December 31, 2010. The decreased gross margin percentage was primarily due to increased costs from suppliers based in China. These increased costs from China

suppliers were triggered by wage increases in March 2011. For the three months ended December 31, 2011, the Company incurred approximately \$309,000 of increased costs related to the products purchased from China. The Company is working to offset the cost increases through less expensive sources, selective price increases, and new product introductions.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended December 31, 2011 were \$2,924,733 as compared to \$2,588,765 for the three months ended December 31, 2010. The increase in selling, general and administrative expenses was primarily due to spending on new product development related to products planned for release starting in the three months ending March 31, 2012, and spending on preparation for attendance at a major industry trade show in January 2012. The Company spent \$272,000 more on new product development in the three months ended December 31, 2011 than in the same

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period last year. These increased costs were partially offset by \$141,000 less in profit-based compensation expense and \$89,000 less in expenses for outside professional services.

### Unauthorized Transactions

For the three months ended December 31, 2011, the Company incurred a net benefit of \$469,519 for the defense of legal actions related to the unauthorized transactions and related to certain claims initiated against third parties. Included in the net benefit for the three months ended December 31, 2011 was \$279,840 of insurance recoveries and a \$242,419 bonus repayment by Michael J. Koss. The recoveries also included \$175,528 of additional proceeds from the forfeiture of Ms. Sachdeva's 401(k) account over the amount recorded in the year ended June 30, 2011. For the three months ended December 31, 2010, the Company incurred a net cost of \$204,900 for legal and professional fees related to the unauthorized transactions. Included in the net cost for the three months ended December 31, 2010 was \$575,825 of insurance recoveries.

### Operating Income

For the three months ended December 31, 2011, the Company had operating income, including the unauthorized transaction related costs and recoveries, of \$1,344,291 compared to an operating income, including the unauthorized transaction related costs and recoveries, of \$2,417,298 for the three months ended December 31, 2010. The decrease in operating income was primarily the result of lower sales and a decrease in gross profit percentage, caused by higher costs for products manufactured in China. Increased spending on new product development also resulted in lower operating income in the quarter. Operating income, excluding the unauthorized transactions and related costs and recoveries, was \$874,772 for the three months ended December 31, 2011 or 8.8% of net sales, compared to \$2,622,198 or 20.5% of net sales for the three months ended December 31, 2010.

### Provision for Income Taxes

Income tax provision for the three months ended December 31, 2011 was \$489,067 as compared to a tax provision of \$927,841 for the three months ended December 31, 2010. The effective income tax rate was 37.0% and 40.2% for the three months ended December 31, 2011 and 2010, respectively. The effective tax rate was lower for the three months ended December 31, 2011 due to the impact of state taxes.

### Six Months Ended December 31, 2011 to Six Months Ended December 31, 2010

#### Net Sales and Gross Profit

Net sales for the six months ended December 31, 2011 totaled \$18,745,556 compared with \$22,832,940 in the six months ended December 31, 2010. This \$4,087,384 or 17.9% decrease in net sales was primarily driven by lower sales to several overseas distributors and to a large mass retailer in the United States. The decrease in sales to the overseas distributors appears to be caused by the difficult economy in Europe. The decline in sales to the U.S. retail market reflects the increased number of competitors in this space. Additions of new customers have not yet offset these declines. The Company is introducing new products in the second half of the fiscal year. It is uncertain if these sales declines will continue or if new customer sales and products will offset the declines in the future.

Gross profit for the six months ended December 31, 2011 was \$7,127,747 or 38.0% of net sales compared to \$9,572,572 or 41.9% of net sales for the six months ended December 31, 2010. The decreased gross margin percentage was primarily due to increased costs from suppliers based in China. For the six months ended December 31, 2011, the Company incurred approximately \$587,000 of increased costs related to the products purchased from China. The Company is working to offset the cost increases through less expensive sources, selective price increases,

and new product introductions.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six months ended December 31, 2011 were \$5,809,919 as compared to \$5,693,429 for the six months ended December 31, 2010. The increase in selling, general and administrative expenses was primarily the result of increased new product development expenses, in preparation for product launches. The first of these new products will be launched in the quarter ended March 31, 2012. The Company spent \$549,000 more on new product development in the six months ended December 31, 2011 than in the same period last year. These costs were partially offset by a \$221,000 decline in profit-based compensation expense in the six months ended December 31, 2011.

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### Unauthorized Transactions

For the six months ended December 31, 2011, the Company incurred a net benefit of \$519,933 for the defense of legal actions related to the unauthorized transactions and related to certain claims initiated against third parties. Included in the net benefit for the six months ended December 31, 2011 was \$779,160 of insurance recoveries and a \$242,419 bonus repayment by Michael J. Koss. The recoveries also included \$175,528 of additional proceeds from the forfeiture of Ms. Sachdeva's 401(k) account over the amount recorded in the year ended June 30, 2011. For the six months ended December 31, 2010, the Company incurred a net cost of \$471,184 for legal and professional fees related to the unauthorized transactions. Included in the net cost for the six months ended December 31, 2010, was \$938,962 of insurance recoveries.

### Operating Income

For the six months ended December 31, 2011, the Company had operating income, including the unauthorized transaction related costs and recoveries, of \$1,837,761 compared to an operating income, including the unauthorized transaction related costs and recoveries, of \$3,407,959 for the six months ended December 31, 2010. The decrease in operating income was primarily the result of lower sales, a decrease in gross profit percentage, caused by higher costs for products manufactured in China, and costs related to new product development. Operating income, excluding the unauthorized transactions and related costs and recoveries, was \$1,317,828 for the six months ended December 31, 2011 or 7.0% of net sales, compared to \$3,879,143 or 17.0% of net sales for the six months ended December 31, 2010.

### Provision for Income Taxes

Income tax provision for the six months ended December 31, 2011 was \$661,414 as compared to a tax provision of \$1,251,003 for the six months ended December 31, 2010. The effective income tax rate was 37.3% and 39.1% for the six months ended December 31, 2011 and 2010, respectively. The effective tax rate was higher for the six months ended December 31, 2011 was lower due to the impact of state taxes.

### Liquidity and Capital Resources

#### Operating Activities

For the six months ended December 31, 2011, cash provided by operations was \$1,438,994, as compared to \$949,813 for the six months ended December 31, 2010. This change was primarily due to a smaller increase in working capital in the six months ended December 31, 2011 and the impact of deferred taxes. These impacts were partially offset by \$1,111,809 of net income for the six months ended December 31, 2011 compared to income of \$1,944,972 for the six months ended December 31, 2010.

Working capital was \$9,130,247 at December 31, 2011 and \$7,942,576 at June 30, 2011. The net increase in working capital of \$1,187,671 from June 30, 2011 primarily represents the increase in inventory and prepaid expenses as well as a decrease in accrued liabilities. These increases to working capital were offset by decreased account receivable. Inventory increased \$1,745,219 for the six months ended December 31, 2011 primarily due to the decline in sales that caused some product overstock and stocking of product for new product introductions. Prepaid expenses increased as a result of annual insurance premium payments made in the six months ended December 31, 2011. The decrease in accrued liabilities primarily was driven by payment of volume rebates and lower accruals for profit-based compensation in the six months ended December 31, 2011. Other accounts receivable decreased primarily due to collecting \$850,000 from settlement of the shareholder derivative suit and \$509,000 from the garnishment of the 401(k) balance held by Ms. Sachdeva, the former Vice President of Finance. In addition, accounts receivable declined

primarily due to the decrease in sales for the three months ended December 31, 2011 compared to the three months ended June 30, 2011. As of December 31, 2011, the Company had open commitments of approximately \$1,105,000 for software and new product development.

#### Investing Activities

Cash used in investing activities for the six months ended December 31, 2011 was \$1,431,553 as compared to \$1,225,045 for the six months ended December 31, 2010. Cash used in investing activities for both periods was largely due to life insurance premiums paid and expenditures for product software development costs, leasehold improvements and tooling to support production.

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### Financing Activities

Net cash provided by financing activities was \$14,075 for the six months ended December 31, 2011 and \$364,076 for the six months ended December 31, 2010. For the six months ended December 31, 2011, the Company received \$900,000 from borrowing on its line of credit facility offset by \$885,925 of dividend payments. For the six months ended December 31, 2010, there was borrowing of \$1,250,000 on the line of credit facility offset by dividend payments of \$885,924. The Company intends to continue to pay its regular quarterly dividends for the foreseeable future.

For the six months ended December 31, 2011 and 2010, there were no purchases of common stock and no stock options were exercised.

### Liquidity

In addition to capital expenditures for tooling and completion of the software development, the Company has interest payments on its line of credit facility and planned normal quarterly dividend payments. The Company believes that cash generated from operations, together with borrowings available under its line of credit facility, provide it with adequate liquidity to meet operating requirements, debt service requirements, planned capital expenditures, and dividend payments. The Company continually reevaluates new product offerings, inventory levels and capital expenditures to ensure that it is effectively allocating resources in line with current market conditions.

### Credit Facilities

On May 12, 2010, the Company entered into a secured credit facility with JPMorgan Chase Bank, N.A. (“Lender”). The Credit Agreement dated May 12, 2010 between the Company and the Lender (“Credit Agreement”) provides for an \$8,000,000 revolving secured credit facility and for letters of credit for the benefit of the Company of up to a sublimit of \$2,000,000. The Credit Agreement expires on July 31, 2013. The Company and the Lender also entered into the Pledge and Security Agreement under which the Company granted the Lender a security interest in substantially all of the Company’s assets in connection with the Company’s obligations under the Credit Agreement. The balance outstanding on this facility was \$2,300,000 as of December 31, 2011.

### Off-Balance Sheet Arrangements

The Company has no other off-balance sheet arrangements other than the lease for the facility in Milwaukee, Wisconsin, which it leases from its Chairman, John C. Koss. On August 15, 2007, the lease was renewed for a period of five years, and is being accounted for as an operating lease. The lease extension maintained the rent at a fixed rate of \$380,000 per year. Management believes the lease is on terms no less favorable to the Company than those that could be obtained from an independent party. The Company is responsible for all property maintenance, insurance, taxes, and other normal expenses related to ownership. All facilities are in good repair and, in the opinion of management, are suitable and adequate for the Company’s business purposes.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are designed to ensure that (1) information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms; and (2) that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error, the circumvention or overriding of controls and procedures, and collusion to circumvent and conceal the overriding of controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

The Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, evaluated the

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effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2011. As discussed in "Changes in Internal Controls" section of the Company's Form 10-K for the period ended June 30, 2010, and the Form 10-Q for the period ended March 31, 2010, the Company implemented remedial measures in response to the previously disclosed unauthorized transactions. The Company implemented a new business system in the quarter ended September 30, 2011. Although the Company's management believes that these remedial measures and new business system have addressed the weaknesses in the Company's disclosure controls and procedures, the Company must allow a sufficient amount of time to elapse to permit testing of these controls including the controls related to the new business system to confirm their effectiveness. Once that testing is completed, management believes the disclosure controls and procedures will be deemed effective. However, as a result of the Company's inability to complete the testing and confirmation process, management has concluded that the Company's disclosure controls and procedures as of December 31, 2011 were not effective.

Changes in Internal Controls over Financial Reporting

The Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) is designed to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. However, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. The Company implemented a new business system in the quarter ended September 30, 2011. There were no other changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

IndexPART II  
OTHER INFORMATION

## Item 1. Legal Proceedings

As of December 31, 2011, the Company has been named in several litigation matters and has initiated certain actions against third parties related to the unauthorized transactions. A description of these legal matters is included at Note 12 to the Condensed Consolidated financial statements included herein, which description is incorporated herein by reference.

## Item 1A. Risk Factors

Not applicable.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents information with respect to purchases of common stock of the Company made during the three months ended December 31, 2011, by the Company.

## COMPANY REPURCHASES OF EQUITY SECURITIES

| Period (2011)           | Total # of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plan (1) | Approximate Dollar Value of<br>Shares Available under<br>Repurchase Plan |
|-------------------------|-----------------------------------|------------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| October 1 — December 31 | —                                 | \$—                                | —                                                                                | \$ 2,139,753                                                             |

(1) In April of 1995, the Board of Directors approved a stock repurchase program authorizing the Company to purchase from time to time up to \$2,000,000 of its common stock for its own account. Subsequently, the Board of Directors periodically has approved increases in the stock repurchase program. The most recent increase was for an additional \$2,000,000 in October 2006, for a maximum of \$45,500,000 of which \$43,360,247 had been expended through December 31, 2011.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. (Removed and Reserved)

## Item 5. Other Information

None.

## Item 6. Exhibits

See Exhibit Index attached hereto.



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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the meaning of that term in the Private Securities Litigation Reform Act of 1995 (the “Act”) (Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). Additional written or oral forward-looking statements may be made by the Company from time to time in filings with the Securities Exchange Commission, press releases, or otherwise. Statements contained in this Form 10-Q that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of the Act. Forward-looking statements may include, but are not limited to, projections of revenue, income or loss and capital expenditures, statements regarding future operations, anticipated financing needs, compliance with financial covenants in loan agreements, plans for acquisitions or sales of assets or businesses, plans relating to products or services of the Company, assessments of materiality, predictions of future events, the effects of pending and possible litigation, and assumptions relating to the foregoing. In addition, when used in this Form 10-Q, the words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” and variations thereof and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified based on current expectations. Consequently, future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements contained in this Form 10-Q, or in other Company filings, press releases, or otherwise. In addition to the factors discussed in this Form 10-Q, other factors that could contribute to or cause such differences include, but are not limited to, developments in any one or more of the following areas: future fluctuations in economic conditions, the receptivity of consumers to new consumer electronics technologies, the rate and consumer acceptance of new product introductions, competition, pricing, the number and nature of customers and their product orders, production by third party vendors, foreign manufacturing, sourcing and sales (including foreign government regulation, trade and importation concerns), borrowing costs, changes in tax rates, pending or threatened litigation and investigations, and other risk factors which may be detailed from time to time in the Company’s Securities and Exchange Commission filings.

Readers are cautioned not to place undue reliance on any forward-looking statements contained herein, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unexpected events.

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SIGNATURES

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

KOSS CORPORATION

/s/ Michael J. Koss

Michael J. Koss

Vice Chairman

President

Chief Executive Officer

Chief Operating Officer

Dated: February 3, 2012

/s/ David D. Smith

David D. Smith

Executive Vice President

Chief Financial Officer

Principal Accounting Officer

Secretary

Dated: February 3, 2012

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EXHIBIT INDEX

| Exhibit No. | Exhibit Description                                                                                                                                                                                                                                        |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1         | Amended and Restated Certificate of Incorporation of Koss Corporation, as in effect on November 19, 2009. Filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2009 and incorporated herein by reference. |
| 3.2         | By-Laws of Koss Corporation, as in effect on September 25, 1996. Filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.                                                   |
| 10.1        | Death Benefit Agreement with John C. Koss. Filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.                                                                        |
| 10.2        | Stock Purchase Agreement with John C. Koss. Filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.                                                                       |
| 10.3        | Salary Continuation Resolution for John C. Koss. Filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.                                                                  |
| 10.4        | 1983 Incentive Stock Option Plan. Filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.                                                                                 |
| 10.5        | Assignment of Lease to John C. Koss. Filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended June 30, 1988 and incorporated herein by reference.                                                                              |
| 10.6        | Addendum to Lease. Filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended June 30, 1988 and incorporated herein by reference.                                                                                                |
| 10.7        | Amendment to Lease. Filed as Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended June 30, 2000 and incorporated herein by reference.                                                                                              |
| 10.8        | Partial Assignment, Termination and Modification of Lease. Filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended June 30, 2001 and incorporated herein by reference.                                                       |
| 10.9        | Restated Lease. Filed as Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended June 30, 2001 and incorporated herein by reference.                                                                                                  |
| 10.10       | 1990 Flexible Incentive Plan. Filed as Exhibit 25 to the Company's Annual Report on Form 10-K for the year ended June 30, 1990 and incorporated herein by reference.                                                                                       |
| 10.11       | Consent of Directors (Supplemental Executive Retirement Plan for Michael J. Koss dated March 7, 1997). Filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 and incorporated herein by reference.     |



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|       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.12 | Credit Agreement dated May 12, 2010, between Koss Corporation and JPMorgan Chase Bank, N.A. Filed as Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and incorporated by reference herein.                                                                                                                                                                                                                                                                                                                                                                                        |
| 10.13 | Pledge and Security Agreement dated May 12, 2010, between Koss Corporation and JPMorgan Chase Bank, N.A. Filed as Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and incorporated by reference herein.                                                                                                                                                                                                                                                                                                                                                                           |
| 31.1  | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer *                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 31.2  | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer *                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 32.1  | Section 1350 Certification of Chief Executive Officer **                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 32.2  | Section 1350 Certification of Chief Financial Officer **                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 101   | The following financial information from Koss Corporation's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Income (Unaudited) for the three and six months ended December 31, 2011 and 2010, (ii) Condensed Consolidated Balance Sheets as of December 31, 2011 (Unaudited) and June 30, 2011, (iii) Condensed Consolidated Statements of Cash Flows (Unaudited) for the six months ended December 31, 2011 and 2010, and (iv) the Notes to Condensed Consolidated Financial Statements (Unaudited).** |

\* Filed herewith  
 \*\* Furnished herewith