

**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 September 30, 2024

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)

DE LAWARE

(State or other jurisdiction of
incorporation or organization)

39-1168275

(I.R.S. Employer Identification No.)

**4129 North Port Washington Avenue, Milwaukee,
Wisconsin**

(Address of principal executive offices)

53212

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|-------------------|---|
| Common Stock, par value \$0.005 per share | KOSS | Nasdaq Capital Market |

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 every Interactive Data File required to be submitted 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At October 28, 2024, there were

9,350,795
shares outstanding of the registrant's common stock.

[Table of Contents](#)

KOSS CORPORATION
FORM 10-Q
September 30, 2024

INDEX

| | Page |
|--|-----------|
| PART I FINANCIAL INFORMATION | 3 |
| Item 1. Financial Statements (Unaudited) | 3 |
| Condensed Consolidated Balance Sheets as of September 30, 2024 and June 30, 2024 | 3 |
| Condensed Consolidated Statements of Operations for the Three Months Ended September 30, 2024 and 2023 | 4 |
| Condensed Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2024 and 2023 | 5 |
| Condensed Consolidated Statements of Stockholders' Equity for the Three Months Ended September 30, 2024 and 2023 | 6 |
| Notes to Condensed Consolidated Financial Statements | 7 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 13 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 19 |
| Item 4. Controls and Procedures | 19 |
| PART II OTHER INFORMATION | 19 |
| Item 1. Legal Proceedings | 19 |
| Item 1A. Risk Factors | 19 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 20 |
| Item 6. Exhibits | 21 |

[Table of Contents](#)**PART I**
FINANCIAL INFORMATION**Item 1. Financial Statements****KOSS CORPORATION**
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

| | <u>September 30, 2024</u> | <u>June 30, 2024</u> |
|---|---------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,750,732 | \$ 2,837,081 |
| Short term investments | 9,142,324 | 12,104,459 |
| Accounts receivable, less allowance for credit losses of \$ 1,922 | 1,388,610 | 1,208,319 |
| at September 30, 2024 and June 30, 2024 | | |
| Inventories | 4,735,110 | 4,473,680 |
| Prepaid expenses and other current assets | 1,161,533 | 1,081,437 |
| Interest receivable | 114,615 | 170,429 |
| Income taxes receivable | 44,285 | 41,756 |
| Total current assets | <hr/> 19,337,209 | <hr/> 21,917,161 |
| Equipment and leasehold improvements, net | 1,527,451 | 1,223,391 |
| Other assets: | | |
| Long term investments | 7,997,286 | 4,994,327 |
| Operating lease right-of-use asset | 2,704,778 | 2,765,445 |
| Cash surrender value of life insurance | 6,535,023 | 6,299,155 |
| Total other assets | <hr/> 17,237,087 | <hr/> 14,058,927 |
| Total assets | <hr/> \$ 38,101,747 | <hr/> \$ 37,199,479 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 731,694 | \$ 329,829 |
| Accrued liabilities | 1,113,106 | 462,858 |

| | | |
|---|----------------------|----------------------|
| Deferred revenue | 249,032 | 229,384 |
| Operating lease liability | 242,848 | 239,688 |
| Income taxes payable | 28,225 | 35,899 |
| Total current liabilities | 2,364,905 | 1,297,658 |
| Long-term liabilities: | | |
| Deferred compensation | 2,290,498 | 2,093,124 |
| Deferred revenue | 119,745 | 119,787 |
| Operating lease liability | 2,479,824 | 2,541,734 |
| Total long-term liabilities | 4,890,067 | 4,754,645 |
| Total liabilities | 7,254,972 | 6,052,303 |
| Stockholders' equity: | | |
| Common stock, \$0.005 par value, authorized | | |
| 20,000,000 shares; issued and outstanding | | |
| 9,350,795 at September 30, 2024 and | | |
| 9,299,795 at June 30, 2024, respectively | 46,754 | 46,499 |
| Paid in capital | 13,523,356 | 13,404,477 |
| Retained earnings | 17,276,665 | 17,696,200 |
| Total stockholders' equity | 30,846,775 | 31,147,176 |
| Total liabilities and stockholders' equity | \$ 38,101,747 | \$ 37,199,479 |

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

[Table of Contents](#)

KOSS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

| | Three Months Ended September 30 | |
|--|------------------------------------|--------------|
| | 2024 | 2023 |
| Net sales | \$ 3,201,868 | \$ 3,373,938 |
| Cost of goods sold | 2,028,942 | 2,306,248 |
| Gross profit | 1,172,926 | 1,067,690 |
| Selling, general and administrative expenses | 1,810,059 | 1,536,279 |
| Loss from operations | (637,133) | (468,589) |
| Interest income | 220,358 | 212,859 |
| Loss before income tax provision | (416,775) | (255,730) |
| Income tax provision | 2,760 | 1,879 |
| Net loss | \$ 419,535 | \$ 257,609 |
| Loss per common share: | | |
| Basic | \$ 0.05 | \$ 0.03 |
| Diluted | \$ 0.05 | \$ 0.03 |
| Weighted-average number of shares: | | |
| Basic | 9,310,002 | 9,234,795 |
| Diluted | 9,310,002 | 9,234,795 |

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

[Table of Contents](#)

KOSS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Three Months Ended September 30 | |
|---|------------------------------------|------------|
| | 2024 | 2023 |
| Operating activities: | | |
| Net loss | \$ 419,535 | \$ 257,609 |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Recovery of credit losses | — | 4,105 |
| Depreciation of equipment and leasehold improvements | 53,133 | 45,614 |
| Accretion of discount on treasury securities | 75,821 | 120,305 |
| Noncash operating lease expense | 1,917 | 1,917 |
| Stock-based compensation expense | 14,264 | 46,792 |
| Change in cash surrender value of life insurance | 165,291 | 149,057 |
| Provision (benefit) for deferred compensation | 197,374 | 59,935 |
| Net changes in operating assets and liabilities: | | |
| Accounts receivable | 180,291 | 52,498 |
| Inventories | 261,430 | 644,569 |
| Prepaid expenses and other current assets | 80,096 | 178,041 |
| Interest receivable | 55,814 | 5,243 |
| Income taxes receivable | 2,529 | 40,462 |
| Income taxes payable | 7,674 | 85,358 |
| Accounts payable | 401,865 | 38,968 |
| Accrued liabilities | 650,248 | 542,689 |
| Deferred revenue | 19,606 | 22,865 |
| Net cash provided by (used in) operating activities | 201,554 | 713,247 |
| Investing activities: | | |
| Purchase of equipment and leasehold improvements | 357,193 | 312,718 |

| | | |
|---|--------------|--------------|
| | (| (|
| Life insurance premiums paid | 70,577 | 81,744 |
| Proceeds from the maturity of treasury securities | 5,034,000 | 2,000,000 |
| Purchases of treasury securities | 4,999,003 | 1,999,074 |
| Net cash used in investing activities | 392,773 | 393,536 |
| Financing activities: | | |
| Proceeds from exercise of stock options | 104,870 | — |
| Net cash provided by financing activities | 104,870 | — |
| Net (decrease) in cash and cash equivalents | 86,349 | 1,106,783 |
| Cash and cash equivalents at beginning of period | 2,837,081 | 3,091,062 |
| Cash and cash equivalents at end of period | \$ 2,750,732 | \$ 1,984,279 |
| Supplemental cash flow information: | | |
| Cash paid for income taxes | \$ 12,963 | \$ 127,700 |

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

[Table of Contents](#)

KOSS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

| | Three Months Ended September 30, 2024 | | | | |
|----------------------------------|---------------------------------------|------------------|----------------------|----------------------|----------------------|
| | Common Stock | | Paid in Capital | Retained Earnings | Total |
| | Shares | Amount | | | |
| Balance, June 30, 2024 | 9,299,795 | \$ 46,499 | \$ 13,404,477 | \$ 17,696,200 | \$ 31,147,176 |
| Net loss | — | — | — | 419,535 | 419,535 |
| Stock-based compensation expense | — | — | 14,264 | — | 14,264 |
| Stock option exercises | 51,000 | 255 | 104,615 | — | 104,870 |
| Balance, September 30, 2024 | <u>9,350,795</u> | <u>\$ 46,754</u> | <u>\$ 13,523,356</u> | <u>\$ 17,276,665</u> | <u>\$ 30,846,775</u> |

| | Three Months Ended September 30, 2023 | | | | |
|----------------------------------|---------------------------------------|------------------|----------------------|----------------------|----------------------|
| | Common Stock | | Paid in Capital | Retained Earnings | Total |
| | Shares | Amount | | | |
| Balance, June 30, 2023 | 9,234,795 | \$ 46,174 | \$ 13,113,993 | \$ 18,647,111 | \$ 31,807,278 |
| Net loss | — | — | — | 257,609 | 257,609 |
| Stock-based compensation expense | — | — | 46,792 | — | 46,792 |
| Balance, September 30, 2023 | <u>9,234,795</u> | <u>\$ 46,174</u> | <u>\$ 13,160,785</u> | <u>\$ 18,389,502</u> | <u>\$ 31,596,461</u> |

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

KOSS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2024
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF PRESENTATION

The condensed consolidated balance sheets as of September 30, 2024 and June 30, 2024, the condensed consolidated statements of operations for the three months ended September 30, 2024 and 2023, the condensed consolidated statements of cash flows for the three months ended September 30, 2024 and 2023, and the condensed consolidated statements of stockholders' equity for the three months ended September 30, 2024 and 2023, have been prepared by the Company in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and have not been audited. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. The operating results for any interim period are not necessarily indicative of the operating results that may be experienced for the full fiscal year.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. 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 Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2024.

The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses. Significant estimates and assumptions are used for, but are not limited to, allowances for credit losses, reserves for excess and obsolete inventories, long-lived and right-of-use assets, income tax valuation allowance, stock-based compensation and deferred compensation. Actual results could differ from the Company's estimates.

During the quarter ended September 30, 2024, the Company reclassified certain amounts on its June 30, 2024 balance sheet to enhance clarity and consistency in financial statement reporting. Specifically, short-term deferred revenue liabilities related to estimated volume incentive rebates and sales returns were reclassified to accrued liabilities to reflect that revenue was already recognized on the sales related to these liabilities. To conform with current period presentation, the Company reclassified \$

60,511

to accrued liabilities at June 30, 2024. This reclassification does not affect the total assets, total liabilities, or equity of the Company.

B) INVESTMENTS

Debt securities are classified as held-to-maturity as the Company has the positive intent and ability to hold them to maturity. The securities are carried at amortized cost as current or noncurrent based upon maturity date and unrealized gains and losses are recognized when realized. The amortized cost of debt securities is adjusted for amortization of premium and accretion of discounts to maturity. Such amortization or accretion is included in interest income, along with other interest on cash and cash equivalents. No allowance for credit losses on held-to-maturity U.S. Treasury securities is recorded as these securities have the following characteristics that support a zero-loss expectation: they are explicitly guaranteed by the U.S. government, are consistently highly rated by major rating agencies and have a long history of no credit losses. See Note 2 for additional information on investments.

C) FAIR VALUE MEASUREMENTS

Cash equivalents, accounts receivable, and accounts payable approximate fair value based on the short maturity of these instruments. The Company's U.S. treasury debt securities are recorded at amortized cost with fair value disclosure. They have a readily available market price (Level 1 input), thus a lesser degree of judgment needs to be used in measuring fair value, and fair value was determined by quoted market prices. The fair value is based upon quoted market prices and is disclosed in Note 2.

D) INCOME TAXES

We estimate a provision for income taxes based on the effective tax rate expected to be applicable for the fiscal year. If the actual results are different from these estimates, adjustments to the effective tax rate may be required in the period such determination is made. Additionally, discrete items are treated separately from the effective rate analysis and are recorded separately as an income tax provision or benefit at the time they are recognized.

Table of Contents

During the quarter ended September 30, 2024, a state income tax provision of \$

2,760

was recorded for the required minimum state tax payments plus estimated tax due on the negligible net taxable income after state net operating loss (NOL) deductions. A provision of \$

1,879

was recorded for the quarter ended September 30, 2023 for minimum required tax payments only as there was no taxable income after application of available NOLs. No federal income tax provisions were booked for either of those periods given the availability of federal net operating loss carryforwards to offset taxable income. For NOLs arising in tax years beginning after December 31, 2017, the Tax Cuts and Jobs Act ("TCJA") limits the NOL deduction to 80 percent of taxable income. The future utilization of all federal NOLs available to the Company is limited to 80 percent of the resulting taxable income.

The effective tax rate was less than

1

% for each of the three months ended September 30, 2024 and 2023. It is anticipated that the effective rate in the current year and future years will continue to be reduced by utilization of a portion or all of the federal and state net operating loss carryforwards that existed as of June 30, 2024. The Company's anticipated use of \$

14,425

of NOLs to mostly offset the taxable income generated during the first three months of fiscal year 2025 decreased the tax loss carryforward as of September 30, 2024 to approximately \$

32,800,000

. Given the cumulative taxable losses for the last three years, excluding one-time items, the expectation for utilization of the estimated tax loss carryforward is not likely, and as such, the future realization of this continues to be uncertain. The valuation allowance was adjusted to continue to fully offset the net deferred tax asset as there is sufficient negative evidence to support a full valuation allowance.

E) DEFERRED COMPENSATION

The Company's deferred compensation liability is for a current officer and is calculated based on years of service and compensation, along with various assumptions related to expected retirement date, discount rates, and mortality tables. The related expense is calculated using the net present value of the expected payments and is included in selling, general and administrative expenses in the condensed consolidated statements of operations. The deferred compensation liability recorded at September 30, 2024 and June 30, 2024 is \$

2,290,498
and \$

2,093,124

, respectively. The increase in the deferred compensation liability for the current officer, and thus the compensation expense recorded during the three months ended September 30, 2024, was due mainly to the annual increase in the future payments earned under the arrangement due to an additional year of service completed. Compensation expense recorded under this arrangement was \$

197,374

for the three months ended September 30, 2024 compared to compensation income of \$

59,935

for the three months ended September 30, 2023.

2. INVESTMENTS

The following tables summarize the unrealized positions for the held-to-maturity debt securities as of September 30, 2024 and June 30, 2024:

| September 30, 2024 | | | | |
|------------------------|----------------------|------------------------|-------------------------|---------------|
| | Amortized cost basis | Gross unrealized gains | Gross unrealized losses | Fair Value |
| US Treasury securities | \$ 17,139,610 | \$ 119,626 | \$ — | \$ 17,259,236 |
| Total | \$ 17,139,610 | \$ 119,626 | \$ — | \$ 17,259,236 |
| June 30, 2024 | | | | |
| | Amortized cost basis | Gross unrealized gains | Gross unrealized losses | Fair Value |
| US Treasury securities | \$ 17,098,786 | \$ — | \$ 56,278 | \$ 17,042,508 |
| Total | \$ 17,098,786 | \$ — | \$ 56,278 | \$ 17,042,508 |

Table of Contents

The following tables summarize the fair value and amortized cost basis of the held-to-maturity debt securities by contractual maturity as of September 30, 2024 and June 30, 2024:

| | <u>September 30, 2024</u> | | |
|---------------------------------------|-----------------------------|----------------------|-------------------|
| | <u>Amortized Cost Basis</u> | | <u>Fair value</u> |
| Due within one year | \$ 9,142,324 | \$ 9,164,943 | |
| Due after one year through five years | 7,997,286 | | 8,094,293 |
| Total | \$ 17,139,610 | \$ 17,259,236 | |

| | <u>June 30, 2024</u> | | |
|---------------------------------------|-----------------------------|----------------------|-------------------|
| | <u>Amortized Cost Basis</u> | | <u>Fair value</u> |
| Due within one year | \$ 12,104,459 | \$ 12,075,702 | |
| Due after one year through five years | 4,994,327 | | 4,966,806 |
| Total | \$ 17,098,786 | \$ 17,042,508 | |

3. INVENTORIES

The components of inventories were as follows:

| | <u>September 30, 2024</u> | <u>June 30, 2024</u> |
|--------------------------------|---------------------------|----------------------|
| Raw materials | \$ 2,035,285 | \$ 1,973,531 |
| Finished goods | 4,658,042 | 4,357,621 |
| Inventories, gross | 6,693,327 | 6,331,152 |
| Reserve for obsolete inventory | (1,958,217) | (1,857,472) |
| Inventories, net | \$ 4,735,110 | \$ 4,473,680 |

4. CREDIT FACILITY

On May 14, 2019, the Company entered into a secured credit facility ("Credit Agreement") with Town Bank ("Lender"). The Credit Agreement provides for a \$

5,000,000 revolving secured credit facility for letters of credit for the benefit of the Company of up to a sublimit of \$

1,000,000. There are

no unused line fees in the credit facility. On January 28, 2021, the Credit Agreement was amended to extend the expiration to October 31, 2022, and to change the interest rate to Wall Street Journal Prime less

1.50 %. A Third Amendment to the Credit Agreement effective October 30, 2022 extended the maturity date to October 31, 2024. A Fourth Amendment to the Credit Agreement effective October 30, 2024, extends the maturity date to October 31, 2026, and removes one of the covenants requiring submission of annual financial performance projections to the Lender. The Company and the Lender also entered into a General Business Security Agreement dated May 14, 2019 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 Credit Agreement contains certain affirmative and negative covenants customary for financings of this type. The negative covenants include restrictions on other indebtedness, liens, fundamental changes, certain investments, disposition of assets, mergers and liquidations, among other restrictions. As of September 30, 2024, the Company was in compliance with all covenants related to the Credit Agreement. As of September 30, 2024 and June 30, 2024, there were

outstanding borrowings on the facility.

5. REVENUE RECOGNITION

The Company disaggregates its net sales by geographical location as it believes it best depicts how the nature, timing and uncertainty of net sales and cash flows are affected by economic factors. The following table summarizes net sales by geographical location:

| | Three Months Ended September 30, | |
|---------------|-------------------------------------|--------------|
| | 2024 | 2023 |
| United States | \$ 2,167,364 | \$ 2,603,158 |
| Export | 1,034,504 | 770,780 |
| Net Sales | \$ 3,201,868 | \$ 3,373,938 |

Deferred revenue relates primarily to consumer and customer warranties. These constitute future performance obligations, and the Company defers revenue related to these future performance obligations. Effective July 1, 2023, the Company increased its deferral rates from

2.4
% to

3
% for domestic sales and decreased its deferral rate from

10
% to

8
% for export sales to reflect recent warranty

Table of Contents

experience. In the three months ended September 30, 2024 and 2023, the Company recognized revenue, which was included in the deferred revenue liability at the beginning of those periods of \$

77,103
and \$

107,205
, respectively, for performance obligations related to consumer and customer warranties. The Company estimates that the deferred revenue performance obligations are satisfied within one year to three years and therefore uses that same timeframe for recognition of the deferred revenue.

6. (LOSS) PER COMMON AND COMMON STOCK EQUIVALENT SHARE

Basic loss per common share is computed based on the weighted-average number of common shares outstanding. Diluted loss per common share is calculated assuming the exercise of stock options except where the result would be anti-dilutive. The following table reconciles the numerator and denominator used to calculate basic and diluted loss per share:

| | <u>Three Months Ended September 30,</u> | |
|---|---|--------------------|
| | <u>2024</u> | <u>2023</u> |
| Numerator | | |
| Net loss | \$ 419,535) \$ | 257,609) \$ |
| Denominator | | |
| Weighted average shares, basic | 9,310,002 | 9,234,795 |
| Dilutive effect of stock compensation awards (1) | — | — |
| Diluted shares | 9,310,002 | 9,234,795 |
| Net loss attributable to common shareholders per share: | | |
| Basic | \$ 0.05) \$ | 0.03) \$ |
| Diluted | \$ 0.05) \$ | 0.03) \$ |

(1) Excludes

477,043
and

773,085

weighted average stock options during the three months ended September 30, 2024 and 2023, respectively, as the impact of such awards was anti-dilutive.

7. RELATED PARTY TRANSACTIONS

The Company leases its facility in Milwaukee, Wisconsin from Koss Holdings, LLC, which is controlled by five equal ownership interests in trusts held by the five beneficiaries of a former chairman's revocable trust and includes current stockholders of the Company. On May 24, 2022, the lease was renewed for a period of five years, ending June 30, 2028, and is being accounted for as an operating lease. The lease extension maintained the rent at a fixed rate of \$

380,000
per year and included an option to renew at an increased rate of \$

397,000

for an additional five years ending June 30, 2033. The negotiated increase in rent slated for 2028 will be the first increase in rent since 1996. The Company is responsible for all property maintenance, insurance, taxes and other normal expenses related to ownership.

8. ACCOUNTS RECEIVABLE CONCENTRATIONS

As of September 30, 2024, the Company's top

three
accounts receivable customers represented approximately

24
%,

22
% and

15
% of trade accounts receivable. The top

three
accounts receivable customers as of June 30, 2024, represented approximately

%,

15
% and

12
% of trade accounts receivable.

[Table of Contents](#)

9. LEGAL MATTERS

As of September 30, 2024, the Company is involved in the matters described below:

- The Company maintains a program focused on enforcing its intellectual property and, in particular, certain patents in its patent portfolio. As part of this program, the Company filed complaints against certain parties alleging infringement on the Company's patents relating to its wireless audio technology. In the event that a monetary award or judgment is received by the Company in connection with these complaints, all or portions of such amounts, such as contingent legal fees, will be due to third parties. The Company may incur additional fees and costs related to these lawsuits, however, timing and impact on its condensed financial statements is uncertain. Depending on the response to and the underlying results of the enforcement program, the Company may continue to litigate its claims, enter into licensing arrangements or reach some other outcome potentially advantageous to its competitive position.
- In early fiscal 2020, the Company was notified by One-E-Way, Inc. that some of the Company's wireless products may infringe on certain One-E-Way patents. No lawsuits involving these allegations have yet been filed and served on the Company. The Company is currently investigating whether these allegations have any merit. Depending on the results of the investigation and the defense of these allegations, the ultimate resolution of this matter may have a material effect on the Company's condensed consolidated financial statements. The Company estimates that this matter will ultimately be resolved at a cost of approximately \$

41,000

and has accrued this amount as of September 30, 2024 and June 30, 2024.

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

The Company is also subject to a variety of other claims and suits that arise from time to time in the ordinary course of its business. Although management currently believes that resolving these claims against the Company, individually or in the aggregate, will not have a material adverse impact on its condensed consolidated financial statements, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("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," "may," "will," "shall," "should," "could," "would," "forecasts," "predicts," "potential," "continue", "seeks", "goal", "projects" 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: continued future fluctuations in economic conditions; the Company's ability to successfully develop new products and assess potential market opportunities; the receptivity of consumers to new consumer electronics technologies; the Company's ability to successfully and profitably market its products; the rate and consumer acceptance of new product introductions; the amount and nature of competition for the Company's products; pricing; the number and nature of customers and their product orders; the Company's ability to meet demand for products; production by third party vendors; foreign manufacturing, sourcing, and sales (including foreign government regulation, trade and importation concerns); uncertainties associated with the pandemics and other health crises or natural disasters, including their possible effects on the Company's operations and its supply chain; the impact of the ongoing conflict in Eastern Europe and the instability in the Middle East on the Company's operations; the effects of any judicial, executive or legislative action affecting the Company or the audio/video industry; borrowing costs; changes in tax rates; the outcome of any litigation, government investigations, enforcement actions or other legal proceedings; the Company's ability to retain and hire key personnel and other risk factors described in the Risk Factors and in Management's Discussion and Analysis of Financial Condition and Results of Operations sections of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2024 and subsequently filed Quarterly Reports on Form 10-Q.

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 new information.

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

The following discussion and analysis supplements our management's discussion and analysis for the year ended June 30, 2024 as contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on August 30, 2024, and presumes that readers have read or have access to such discussion and analysis. The following discussion and analysis should also be read together with the unaudited consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that reflect our plans and strategy for our business and involve risks and uncertainties. You should review the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended June 30, 2024, as updated by subsequent filings with the Securities and Exchange Commission, for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. You should carefully read "Cautionary Statement Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q.

Overview

The Company initially developed stereo headphones in 1958 and has been recognized as a leader in the industry ever since. Koss markets a complete line of high-fidelity headphones, wireless Bluetooth® headphones, wireless Bluetooth® speakers, computer headsets, telecommunications headsets, and active noise canceling headphones. The Company operates as one business segment, as its principal business line is the design, manufacture and sale of stereo headphones and related accessories.

Financial Results

The following table presents selected financial data for the three months ended September 30, 2024 and 2023:

| Financial Performance Summary | Three Months Ended September 30 | |
|--|---------------------------------|--------------|
| | 2024 | 2023 |
| Net sales | \$ 3,201,868 | \$ 3,373,938 |
| Net sales (decrease) increase % from prior year period | (5.1)% | 0.3% |
| Gross profit | \$ 1,172,926 | \$ 1,067,690 |
| Gross profit as % of net sales | 36.6% | 31.6% |
| Selling, general and administrative expenses | \$ 1,810,059 | \$ 1,536,279 |
| Selling, general and administrative expenses as % of net sales | 56.5% | 45.5% |
| Interest income | \$ 220,358 | \$ 212,859 |
| Loss before income tax provision | \$ (416,775) | \$ (255,730) |
| Loss before income tax provision as % of net sales | (13.0)% | (7.6)% |
| Income tax provision | \$ 2,760 | \$ 1,879 |
| Income tax provision as % of loss before income tax provision | (0.7)% | (0.7)% |

Fiscal 2025 Period Results Compared with Fiscal 2024 Period
(comments refer to the three-month periods ended September 30 unless otherwise noted)

Net sales for the three months ended September 30, 2024 were \$3,201,868, down \$172,070, or 5.1%, from \$3,373,938 for the same three-month period in the prior year. A sizable custom order in the prior year's first quarter did not repeat, causing a decline in the current quarter. Coupled with that, was an approximately 20% decline in sales to our U.S. distributors. Improved sales to our European markets and a near 18% increase in direct-to-consumer ("DTC") sales did help to partially offset the decline.

In the domestic markets, net sales were down \$435,794, or 16.7%, from \$2,603,158 for the three months ended September 30, 2023 to \$2,167,364 for the three months ended September 30, 2024. The decrease was driven by a non-recurring custom order from the prior year, a shortfall in U.S. distributor sales due to a missed shipment and timing of new orders. Sales to the Education and Music markets also dropped by 55% versus the prior year, contributing to the overall decline. The increase in DTC sales in the first quarter of fiscal year 2025 compared to the prior year moderately offset some of the domestic sales reduction.

Sales to the export markets were a highlight for the quarter as the Company's two largest European distributors placed significant orders for a newly released product, resulting in an 86% increase over the sales to them in the first quarter of the prior year. Sales to a Georgian distributor were also up 100% versus the prior year and a Canadian retail account returned with a respectable new order after discontinuing the Company's product line. As an offset to this favorability, the Ukrainian distributor has not yet reordered, thus resulting in a gap compared to the approximately \$214,000 order received in the first quarter of fiscal year 2024.

Gross margins as a percentage of net sales of 36.6% for the three months ended September 30, 2024 was a 500-basis points improvement compared to 31.6% for the three months ended September 30, 2023. A favorable sales mix, made up of a higher percentage of higher margin DTC sales plus the sales of the newly released product to our European distributors, was only slightly offset by a lower percentage of higher margin U.S. distribution sales. Also contributing to the increased margin performance was the freight expense offset related to the capitalization of freight costs into inventory for the stock purchased to ensure appropriate levels for the new product launches. An increase to the excess and obsolete inventory reserve driven by inventory on some items in excess of two years' sales had an adverse impact on the gross margins for the first quarter of fiscal year 2024.

Freight rates increased slightly throughout the quarter ended September 30, 2024, along with lead times, due to peak season and delays from the West Coast to the Midwest. Sixty percent of the Company's shipments shipped under lower fixed rates that are accessible via the Company's partnership with a dedicated freight forwarder. Market rates are expected to continue to rise into the next quarter due to increased U.S. import demand during peak season and the significant challenges of shipping through the Red Sea and Suez Canal, causing major disruptions to global trade and increased costs. The Company also continues to monitor the sustained conflicts in Eastern Europe and the Middle East and is prepared to react as necessary if faced with supply chain disruptions.

Selling, general and administrative expenses for the three months ended September 30, 2024 increased by \$273,780, or 17.8% from \$1,536,279 to \$1,810,059. The increase was almost entirely attributable to the increase in the deferred compensation liability as a result of the lower discount rates used in the calculation as well as an increase in expected payments due to an additional year of service. An increase in engineering expenses, mainly for new product testing and certification costs, was offset by a similar decline in legal expenses.

Interest income of \$220,358 was recorded during the three months ended September 30, 2024 mainly due to interest earned on the U.S. Treasury investments held during the quarter in order to earn a return on the Company's excess cash while maintaining a minimal risk profile. This compares to \$212,859 of interest income earned in the same period in the prior fiscal year from these securities.

As a result of minimal or no taxable income after utilization of net loss carryforwards, no federal income tax expense was recorded for either of the three-month periods ended September 30, 2024 and 2023. State income tax expense of \$2,760 was recorded for the three months ended September 30, 2024, reflecting the minimum required tax due plus a negligible net taxable income after considering NOLs. A state income tax expense of \$1,879 was recorded in the first quarter of fiscal year 2024, which represented only the minimum required tax amounts due given no taxable net income. The effective tax rate was less than 1% for both three-month periods ending September 30, 2024 and 2023. It is anticipated that the effective rate in the current year and future years will be reduced by utilization of a portion or all of the federal and state net operating loss carryforwards that existed as of June 30, 2024.

The Company's remaining expected federal tax loss carryforward approximates \$32,800,000 at the end of the first quarter of fiscal 2025. The small state taxable income after considering net operating losses decreased the net operating loss carryforward deferred tax asset to approximately \$8,500,000 as of September 30, 2024. The valuation allowance was adjusted accordingly and still fully offsets the net deferred tax asset as there is sufficient negative evidence to support the maintaining of a full valuation allowance as, excluding unusual, infrequent items, a three-year cumulative tax loss occurred.

The Company maintains a program focused on enforcing its intellectual property and, in particular, certain of its patent portfolio. The Company has enforced its intellectual property by filing complaints against certain parties alleging infringement on the Company's

[Table of Contents](#)

patents relating to its wireless headphone technology. If efforts are successful, the Company may receive royalties, offers to purchase its intellectual property, or other remedies advantageous to its competitive position from time to time. However, there is no guarantee of a positive outcome from these efforts in the future, which could ultimately be time-consuming and unsuccessful. Additionally, the Company may owe all or a portion of any future proceeds arising from the enforcement program to third parties.

The Company believes that its financial position remains strong. The Company had \$2.8 million of cash and cash equivalents, \$9.1 million of short-term investments and available credit facilities of \$5.0 million on September 30, 2024.

Recent Trends

Recent and ongoing macroeconomic and geopolitical conditions have impacted, and will continue to impact, our business. These include economic uncertainty from elevated inflation and interest rates, reduced consumer confidence, disruption in our supply chain and trade tensions with China, the ongoing crises in Eastern Europe, the continued conflict in the Middle East and increased risk of cyberattacks.

While the impact of these factors on our fiscal 2025 performance remains uncertain, we will continue to evaluate the extent to which these factors will impact our business, financial condition, or results of operations. These and other uncertainties with respect to these recent events could result in changes to our current expectations.

Inflationary Cost Environment and Reduced Consumer Confidence - Inflation, higher interest rates and higher energy costs continue to impact consumers' discretionary spending and, in turn, the Company's sales volumes. Inflation may impact customer demand for our products resulting from a slowdown in consumers' willingness to spend as disposable income decreases due to rising prices of essential items, spend through of excess savings from earlier in the pandemic and leading indicators pointing to a softening in the labor market. While inflation rates have come down since the prior year, the Company is still experiencing higher costs of commodities, packaging materials, and wages, along with higher energy and transportation costs. The Company continues to monitor costs and will react with pricing actions as it deems necessary. The Company continues to work with a dedicated freight forwarding partner to minimize freight rate increases. Other risk factors further exacerbated by inflation include supply chain disruptions, increased oil and energy costs, risks of international operations and the recruitment and retention of talent.

Supply Chain Disruption and Trade Tensions with China - The Company relies on our third-party supply chain, primarily in southern China, and distribution networks and the availability of necessary components to produce a considerable number of our products. A reduction or interruption in supply, including interruptions due to pandemic related restrictions, geopolitical unrest, labor shortages or strikes, or a failure to procure adequate components, may lead to delays in manufacturing or increases in costs.

Many of the Company's products are sourced from contract manufacturing facilities in the People's Republic of China and Taiwan. There has been increasing geopolitical tension between China and Taiwan that may affect future shipments from Taiwan-based suppliers. Any other adverse changes in the social, political, regulatory or economic conditions in the countries could materially increase the cost of the products we buy from our foreign suppliers or delay shipments of products. There has also been increasing geopolitical tension between China and the United States. Sustained uncertainty about, or worsening of, economic relations and further escalation of trade tensions between the United States and China, or any other country in which the Company conducts business, could result in retaliatory trade restrictions that restrict our ability to source products from China or continue business in such other country. Any alterations to our business strategy or operations made in order to adapt to or comply with any such changes would be time-consuming and expensive, and the Company may not be able to pass along most increases in tariffs and freight charges to the Company's customers, which would also directly affect profits.

On Monday, October 1, 2024, the International Longshoremen's Association (the "ILA") called a coast-wide strike, temporarily closing the U.S. East Coast and Gulf Coast ports, affecting the movement of import and export containers. On Thursday, October 3rd, the ILA and the United States Maritime Alliance, Ltd. (USMX) reached a tentative agreement on wages and to extend the Master Contract until January 15, 2025, to return to the bargaining table to negotiate all other outstanding issues. Work resumed at most ports along the US East and US Gulf coasts on Friday, October 4th. While some residual delays may occur as port operations gradually return to full capacity, the Company is aware that a final agreement will not be concluded until the end of the second quarter of the fiscal year and could still have a significant impact on its operations in the second half of the fiscal year. The Company will, however, continue to monitor this situation and others that may arise as the changes in the current labor landscape, the settlement of recent labor disputes, coupled with rising energy prices, could potentially exacerbate disruptions in the supply chain, delay product shipments and increase transportation costs.

Russia's Invasion of Ukraine - Financial and credit markets around the world experienced volatility following the invasion of Ukraine by Russia in February 2022. In response to the invasion, the United States, United Kingdom, and European Union, along with others, imposed significant sanctions and export controls against Russia, Russian banks and certain Russian individuals and may implement additional sanctions or take further punitive actions in the future. In accordance with Executive Order 14071 signed on April 6, 2022,

[Table of Contents](#)

the Company suspended sales to Russia. While there is a humanitarian crisis in Ukraine created by the war and the population continues to seek refuge in other countries, the Company did receive a sizable order from their Ukrainian distributor in the first quarter of fiscal year 2024 with potential for more orders in the current year. During the three months ended September 30, 2024 and 2023, there were no sales to Russia.

Cyberattacks - Cyberattacks are a growing geopolitical risk, becoming larger, more frequent, more sophisticated and more relentless as technology has evolved, resulting in privacy, security, and compliance concerns. They are a significant threat to individual organizations and national security. High-profile security breaches at other companies and in government agencies have increased in recent years, and security industry experts and government officials have warned about the risks of hackers and cyberattacks targeting businesses. We rely on accounting, financial, and operational management information systems to conduct our operations. Any disruption in these systems could adversely affect our ability to conduct our business. Furthermore, as part of our normal business activities, we collect and store common confidential information about customers, employees, vendors, and suppliers. This information is entitled to protection under a number of regulatory regimes. Any failure to maintain the security of the data, including the penetration of our network security and the misappropriation of confidential and personal information, could result in business disruption, damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and also result in deterioration in customers confidence in us and other competitive disadvantages, and thus could have a material adverse impact on our financial condition and results of operations. While we devote resources to security measures to protect our systems and data, these measures cannot provide absolute security and there is a risk that these types of attacks could impact the entire supply and distribution chain for the Company's product line. In a world that runs on the internet, the Company can only be as strong as its weakest link, whether as a financial service provider, third party distributor, reseller, transportation service provider, contract manufacturer, customer or consumer.

Liquidity and Capital Resources**Cash Flows**

The following table summarizes cash flows from operating, investing and financing activities for the three months ended September 30, 2024 and 2023:

| Total cash (used in) provided by: | 2024 | 2023 |
|---|---------------------------|------------------------------|
| Operating activities | \$ 201,554 | \$ (713,247) |
| Investing activities | (392,773) | (393,536) |
| Financing activities | 104,870 | — |
| Net decrease in cash and cash equivalents | <u><u>\$ (86,349)</u></u> | <u><u>\$ (1,106,783)</u></u> |

Operating Activities

The cash provided by operating activities during the three months ending September 30, 2024, was primarily a result of customer deposits for orders shipping in the next quarter. Also contributing to the positive cash flow was the refund of \$362,000 by the Company's payroll vendor relating to employee payroll taxes on the gains from the disqualifying dispositions of incentive stock options as the Company has now chosen to issue the checks directly to the employees. Cash outflow for the premium payments made for the annual renewal of the Company's general insurance policies partially offset the cash that came in. During the three months ended September 30, 2023, the cash used in operating activities was due to payment of bonuses earned in the prior year, general insurance premiums and state income tax payments. The Company's strict management of its inventory investment helped to retain some cash in the first quarter.

Investing Activities

Cash used by investing activities for the three months ended September 30, 2024 was related mostly to fixed asset expenditures, namely the replacement of a second roof section of the building, and the payment of the premiums on the company-owned life insurance policies on two of its executives. Proceeds of \$5,034,000 received during the three months ended September 30, 2024 from the maturity of U.S. Treasury securities were mostly reinvested to purchase \$5,057,000 of similar securities at a \$58,000 discount. Cash used by investing activities for the three months ended September 30, 2023 was also related to fixed asset expenditures, predominantly the replacement of a roof section of the building for approximately \$300,000. The Company also paid the premiums on the company-owned life insurance policies on two of its executives.

Financing Activities

Cash from the exercise of stock options during the three months ended September 30, 2024 provided the only cash from financing activities. An aggregate of 51,000 shares of common stock were issued as a result of employee stock option exercises under grants still outstanding from the Company's 2012 Omnibus Incentive Plan. There were no stock option exercises in the first quarter of the prior fiscal year.

As of September 30, 2024 and June 30, 2024, the Company had no outstanding borrowings on its bank line of credit facility.

There were no purchases of common stock in the three months ended September 30, 2024 or 2023 under the stock repurchase program.

Liquidity

The Company believes its existing cash and cash equivalents, investments in short-term U.S. Treasury securities, cash provided by operating activities and borrowings under its credit facility, if any, will be sufficient to meet its anticipated working capital, and capital expenditure requirements during the next twelve months. There can be no assurance, however, that the Company's business will continue to generate cash flow at current levels. If the Company is unable to generate sufficient cash flow from operations, then it may be required to sell assets, reduce capital expenditures, or draw on its credit facilities. The Company regularly evaluates new product offerings, inventory levels and capital expenditures to ensure that it is effectively allocating resources in line with current market conditions.

Credit Facility

On May 14, 2019, the Company entered into a secured credit facility ("Credit Agreement") with Town Bank ("Lender"). The Credit Agreement provides for a \$5,000,000 revolving secured credit facility for letters of credit for the benefit of the Company of up to a

[Table of Contents](#)

sublimit of \$1,000,000. There are no unused line fees in the credit facility. On January 28, 2021, the Credit Agreement was amended to extend the expiration date to October 31, 2022, and to change the interest rate to Wall Street Journal Prime less 1.50%. A Third Amendment to the Credit Agreement effective October 30, 2022, extended the expiration date to October 31, 2024. A Fourth Amendment to the Credit Agreement effective October 30, 2024, extends the maturity date to October 31, 2026, and removes one of the covenants requiring submission of annual financial performance projections to the Lender. The Company and the Lender also entered into a General Business Security Agreement dated May 14, 2019 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 Credit Agreement contains certain affirmative and negative covenants customary for financings of this type. The negative covenants include restrictions on other indebtedness, liens, fundamental changes, certain investments, disposition of assets, mergers and liquidations, among other restrictions. As of September 30, 2024, the Company was in compliance with all covenants related to the Credit Agreement. As of September 30, 2024 and June 30, 2024, there were no outstanding borrowings on the facility.

Contractual Obligation

The Company leases its 126,000 square foot facility from Koss Holdings, LLC, which is controlled by five equal ownership interests in trusts held by the five beneficiaries of a former chairman's revocable trust and includes current stockholders of the Company. On May 24, 2022, the lease was renewed for a period of five years, ending June 30, 2028, and is being accounted for as an operating lease. The lease extension maintained the rent at a fixed rate of \$380,000 per year. The Company has the option to renew the lease for an additional five years beginning July 1, 2028 and ending June 30, 2033 under the same terms and conditions except that the annual rent will increase to \$397,000. The negotiated increase in rent slated for 2028 will be the first increase in rent since 1996. The Company is responsible for all property maintenance, insurance, taxes and other normal expenses related to ownership. The facility is in good repair and, in the opinion of management, is suitable and adequate for the Company's business purposes.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies and estimates from the information we provided in our Annual Report on Form 10-K for the fiscal year ended June 30, 2024.

Off-Balance Sheet Transactions

At September 30, 2024, the Company did not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.

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) such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate 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 and the circumvention or 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 effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2024. The Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures as of September 30, 2024 were effective.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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.

**PART II
OTHER INFORMATION**

Item 1. Legal Proceedings

As part of its intellectual property enforcement program, on July 22, 2020, the Company brought patent infringement suits against certain parties, including Bose Corporation, PEAG, LLC d/b/a jLab Audio and Skullcandy, Inc., alleging infringement of the Company's patents relating to its wireless headphone technology and seeking monetary relief and attorneys' fees. These lawsuits are pending in U.S. District Courts in District of Massachusetts (Bose Corporation), Southern District of California (PEAG, LLC), and District of Utah (Skullcandy, Inc.).

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part 1. Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2024, as filed with the Securities and Exchange Commission on August 30, 2024. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by any forward-looking statements contained in this report. There have been no material changes to the risk factors described under "Risk Factors," included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2024.

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 September 30, 2024, by the Company.

COMPANY REPURCHASES OF EQUITY SECURITIES

| | Total # of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (1) | Approximate Dollar Value of Shares Available under Repurchase Plan |
|----------------------------------|------------------------------------|-------------------------------------|--|---|
| July 1 - July 31, 2024 | — | \$ — | — | \$ 2,139,753 |
| August 1 - August 31, 2024 | — | \$ — | — | \$ 2,139,753 |
| September 1 - September 30, 2024 | — | \$ — | — | \$ 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 September 30, 2024.

Item 6. Exhibits

| 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. 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. |
| 3.3 | Amendment to the By-Laws of Koss Corporation. Filed as Exhibit 3.3 to the Company's Current Report on Form 8-K on March 7, 2006 and incorporated herein by reference. |
| 3.4 | Amendment to the By-Laws of Koss Corporation. Filed as Exhibit 3.4 to the Company's Annual Report on Form 10-K on August 27, 2020 and incorporated herein by reference. |
| 10.1 | Fourth Amendment to Revolving Credit Agreement, effective October 30, 2024, by and between the Company and Town Bank* |
| 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 September 30, 2024, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2024 and June 30, 2024, (ii) Condensed Consolidated Statements of Operations (Unaudited) for the three months ended September 30, 2024 and 2023 (iii) Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended September 30, 2024 and 2023, (iv) Condensed Consolidated Statements of Stockholders' Equity (Unaudited) for the three months ended September 30, 2024 and 2023 and (v) the Notes to Condensed Consolidated Financial Statements (Unaudited). * |

* Filed herewith

** Furnished herewith

Management contract or compensatory plan

[Table of Contents](#)

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
Chairman
Chief Executive Officer

November 1, 2024

/s/ Kim M. Schulte

Kim M. Schulte
Chief Financial Officer
Principal Accounting Officer

November 1, 2024

FOURTH AMENDMENT TO REVOLVING CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO REVOLVING CREDIT AGREEMENT (the "Fourth Amendment") is dated as of October 30, 2024 (the "Effective Date"), by and among **KOSS CORPORATION**, a Delaware Corporation ("Borrower") and **TOWN BANK, N.A.** (also known as Town Bank, "Bank"; Borrower and Bank are collectively referred to herein as the "Parties") and amends a "Revolving Credit Agreement" dated as of May 14, 2019, as amended by a First Amendment to Revolving Credit Agreement dated as of January 28, 2021, as amended by a Second Amendment to Revolving Credit Agreement dated as of February 4, 2022, and as amended by a Third Amendment to Revolving Credit Agreement dated as of October 30, 2022 (collectively, the "Credit Agreement").

RECITALS

A. Borrower has requested and Bank has agreed, subject to the terms of this Fourth Amendment, to extend the Maturity Date of the Revolving Credit Note and to no longer require annual financial projections.

B. Capitalized terms that are not otherwise defined herein shall take on the meaning given to such terms in the Credit Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and in consideration of the mutual agreements contained herein, the Parties agree as follows:

AMENDMENT**ARTICLE I. AMENDMENT TO CREDIT AGREEMENT**

I. Amendment to Subsection 5.1(c) of the Credit Agreement. Subsection 5.1(c) of the Credit Agreement is hereby amended and restated in its entirety as follows:

(c) Intentionally omitted; and

2. Amendment to Subsection 7.1(i) of the Credit Agreement. Subsection 7. 1(i) of the Credit Agreement is hereby amended and restated in its entirety as follows:

(i) "**Maturity Date**" means October 31, 2026.

ARTICLE II. CONDITIONS

This Fourth Amendment shall be effective upon the satisfaction of the following conditions:

I. Amendment. Bank shall have received a fully-executed, original version of this Fourth Amendment.

2. Payment of Lender's Fee and Costs. Bank shall have received payment in immediately available funds, of all fees and costs of Bank, including, without limitation, all attorneys' fees and expenses incurred or paid by Bank in connection with the preparation of this Fourth Amendment and all ancillary documents related hereto.

ARTICLE III.

MISCELLANEOUS

1. Recitals. The RECITALS set forth above are true, accurate and incorporated into the body of this Fourth Amendment by reference.

2. Counterparts; Signatures. This Fourth Amendment may be executed in several counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same agreement. This Fourth Amendment may be executed in facsimile or electronic copy with the same binding effect as the original, but any party may request a paper original for its files and the other parties hereto shall be obligated to accommodate such a request.

3. Representation and Warranty. Borrower represents and warrants to Bank that the execution and delivery of this Fourth Amendment is within its corporate power, has been duly authorized by proper organizational action on the part of Borrower, is not in violation of any existing law, rule or regulation of any governmental agency or authority, any order or decision of any court, the Articles of Incorporation or Bylaws of Borrower or the terms of any agreement, restriction or under-taking to which Borrower is a party or by which it is bound, and does not require any approval or consent of the board of directors or shareholders of Borrower, any governmental body, agency or authority or any other person or entity that have not already been obtained by Borrower.

4. Entire Agreement; Applicable Law. The Credit Agreement, as amended by this Fourth Amendment is the entire agreement between the Parties with respect to the matters contained therein, the other Loan Documents, and herein, and this Fourth Amendment supersedes any prior discussions with respect to such an amendment. This Fourth Amendment shall be governed by and construed in accordance with the internal laws of the State of Wisconsin without application of conflicts of laws.

5. Headings. Paragraph headings used in this Fourth Amendment are for convenience only and shall not affect the construction of this Fourth Amendment.

[The remainder of this page is intentionally left blank with a signature page to follow.]

41786757_2 DOCX

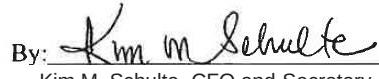
IN WITNESS WHEREOF, the Parties have executed this Fourth Amendment as of the Effective Date.



TOWN BANK N.A.

By:
Casey C. Wendt, Senior Vice President

KOSS CORPORATION, a Delaware corporation



By: Kim M. Schulte
Kim M. Schulte, CFO and Secretary

[Signature Page to Fourth Amendment to Revolving Credit Agreement]

**Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael J. Koss, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Koss Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the condensed financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its subsidiary, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 1, 2024

/s/ Michael J. Koss
Michael J. Koss
Chairman and Chief Executive Officer

**Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Kim M. Schulte, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Koss Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the condensed financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its subsidiary, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 1, 2024

/s/ Kim M. Schulte
Kim M. Schulte
Chief Financial Officer

**Certification of Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002,
18 U.S.C. Section 1350**

I, Michael J. Koss, Chief Executive Officer of Koss Corporation (the "Company"), hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that to my knowledge:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael J. Koss
Michael J. Koss
Chairman and Chief Executive Officer
Dated: November 1, 2024

Note: This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed, except to the extent required by the Sarbanes-Oxley Act of 2002, by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

**Certification of Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002,
18 U.S.C. Section 1350**

I, Kim M. Schulte, Chief Financial Officer of Koss Corporation (the "Company"), hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that to my knowledge:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kim M. Schulte
Kim M. Schulte
Chief Financial Officer
Dated: November 1, 2024

Note: This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed, except to the extent required by the Sarbanes-Oxley Act of 2002, by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.
