

# KOSS CORP

## FORM 10-K (Annual Report)

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Address	4129 N PORT WASHINGTON AVE MILWAUKEE, WI 53212
Telephone	4149645000
CIK	0000056701
Symbol	KOSS
SIC Code	3651 - Household Audio and Video Equipment
Industry	Audio & Video Equipment
Sector	Consumer Cyclical
Fiscal Year	06/30

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

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

For the fiscal year ended June 30, 2015

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)

<u>Delaware</u> (State or other jurisdiction of incorporation or organization)	<u>39-1168275</u> (I.R.S. Employer Identification No.)
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<u>4129 North Port Washington Avenue, Milwaukee, Wisconsin</u> (Address of principal executive offices)	<u>53212</u> (Zip Code)
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Registrant's telephone number, including area code: (414) 964-5000

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
<u>Common Stock \$0.005 par value per share</u>	<u>The Nasdaq Stock Market LLC</u>

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

NONE  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock held by nonaffiliates of the registrant as of December 31, 2014, was approximately \$4,566,606 (based on the \$1.75 per share closing price of the Company's common stock as reported on the NASDAQ Stock Market on December 31, 2014).

On August 17, 2015, there were 7,382,706 shares outstanding of the registrant's common stock.

#### Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference information from Koss Corporation's Proxy Statement for its 2015 Annual Meeting of Stockholders filed with the Commission under Regulation 14A within 120 days of the end of the fiscal year covered by this Form 10-K.

KOSS CORPORATION  
FORM 10-K  
For the Fiscal Year Ended June 30, 2015

INDEX

	Page
<b><u>PART I</u></b>	
Item 1. Business	5
Item 2. Properties	8
Item 3. Legal Proceedings	8
<b><u>PART II</u></b>	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	9
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 8. Financial Statements and Supplementary Data	17
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	17
Item 9A. Controls and Procedures	17
<b><u>Part III</u></b>	
Item 10. Directors, Executive Officers and Corporate Governance	18
Item 11. Executive Compensation	18
Item 12. Security Ownership of Certain Beneficial Owners and Management and related Stockholder Matters	18
Item 13. Certain Relationships and Related Transactions, and Director Independence	18
Item 14. Principal Accountant Fees and Services	18
<b><u>PART IV</u></b>	
Item 15. Exhibits and Financial Statement Schedules	19

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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-K 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-K, the words "anticipates," "believes," "estimates," "expects," "intends," "plans," "may," "will," "should," "forecasts," "predicts," "potential," "continue," 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-K, or in other Company filings, press releases, or otherwise. In addition to the factors discussed in this Form 10-K, 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 new information.

## **PART I**

### **ITEM 1. BUSINESS.**

#### **GENERAL**

As used herein unless the context otherwise requires, the term “Company” means Koss Corporation and its subsidiary, Koss U.K. Limited. The Company formed Koss U.K. Limited to comply with certain European Union (EU) requirements. The entity is non-operating and holds no assets. The Company was incorporated in Delaware in 1971.

The Company operates in the audio/video industry segment of the home entertainment industry through its design, manufacture and sale of stereo headphones and related accessory products. The Company reports its results as a single reporting segment, as the Company’s principal business line is the design, manufacture and sale of stereo headphones and related accessories.

The Company’s products are sold through national retailers, U.S. distributors, international distributors, audio specialty stores, the internet, direct mail catalogs, regional department store chains, discount department stores, grocery stores, electronics retailers, military exchanges and prisons under the “Koss” name. The Company also sells products to distributors for resale to school systems, and directly to other manufacturers for inclusion with their own products. The Company has more than 200 domestic dealers and its products are carried in approximately 12,000 domestic retail outlets and numerous retailers worldwide. International markets are served by domestic sales representatives and a sales office in Ireland. The Company utilizes independent distributors in several foreign countries.

Approximately 85% of the Company’s fiscal year 2015 sales were from stereo headphones used for listening to music. The remaining 15% of the Company’s sales were from headphones used in communications, education settings, and in conjunction with metal detectors. The products are not significantly differentiated by their retail sales channel or application with the exception of products sold to school systems and prisons. There are no other product line differentiations other than the quality of the sound produced by the stereo headphone itself, which is highly subjective.

In fiscal year 2012, the Company launched the Striva products which would allow the consumer to listen to the stereo headphones directly from the World Wide Web using Wi-Fi and began amortization of the related capitalized software. The Company subsequently determined that the capitalized software needed to be replaced by a new architecture being developed. As a result, an impairment charge was recorded to expense in the year ended June 30, 2014, to write off the remaining capitalized software and the related inventory and tooling.

The Company sources complete stereo headphones manufactured to its specifications from various manufacturers in Asia as well as raw materials used to produce stereo headphones at its plant in Milwaukee, Wisconsin. During the second half of the year ended June 30, 2014, and early in the year ended June 30, 2015, headphones were also produced at a manufacturing facility in Juarez, Mexico. Management believes that it has sources of complete stereo headphones and raw materials that are adequate for its needs.

There are no employment or compensation commitments between the Company and its dealers. The Company has several independent manufacturers’ representatives as part of its distribution efforts. The Company typically signs one year contracts with these manufacturers’ representatives. The arrangements with foreign distributors do not contemplate that the Company pays any compensation other than any profit the distributors make upon their sale of the Company’s products.

#### **INTELLECTUAL PROPERTY**

John C. Koss is recognized for creating the stereo headphone industry with the first SP/3 stereo headphone in 1958. The Company regularly applies for registration of its trademarks in many countries around the world, and over the years the Company has had numerous trademarks registered and patents issued in North America, South America, Asia, Europe, Africa, and Australia. The Company currently has 506 trademarks registered in 99 countries around the world and 138 patents in 25 countries. The Company has trademarks to protect the brand name, Koss, and its logo on its products. The Company also holds many design patents that protect the unique visual appearance of some of its products. These trademarks and patents are important to differentiate the Company from its competitors. Certain of the Company’s trademarks are of material value and importance to the conduct of its business. The Company considers protection of its proprietary developments important; however, the Company’s business is not, in the opinion of management, materially dependent upon any single trademark or patent. During the year ended June 30, 2015, the Company took steps to update and monitor its patents and trademarks to protect its intellectual property around the world.

## **SEASONALITY**

Although retail sales of consumer electronics have typically been higher during the holiday season, stereo headphones have also seen increased purchases throughout the year. Management believes that the Company's business and industry segment are no longer seasonal as evidenced by the fact that net sales for the last couple of years, including the year ended June 30, 2015, were almost equally split between the first and second halves of the year. Management believes that the reason for this level performance of sales to retailers and distributors is related to the fact that stereo headphones have become replacement items for portable electronic products. Therefore, upgrades and replacements appear to have as much interest over the course of the year as gifts of stereo headphones during the holiday season.

## **WORKING CAPITAL AND BACKLOG**

The Company's working capital needs do not differ substantially from those of its competitors in the industry and generally reflect the need to carry significant amounts of inventory to meet delivery requirements of its customers. From time to time, although rarely, the Company may extend payment terms to its customers for a special promotion. For instance, the Company has in the past offered a 90-120 day payment period for certain customers, such as computer retailers and office supply stores. Based on historical trends, management does not expect these practices to have a material effect on net sales or net income. The Company's backlog of orders as of June 30, 2015, is not significant in relation to net sales during fiscal year 2015 or projected fiscal year 2016 net sales.

## **CUSTOMERS**

The Company markets a line of products used by consumers to listen to music, DVDs in vehicles, sound bytes on computer systems, and other audio related media. The Company distributes these products through retail channels in the U.S. and independent distributors throughout the rest of the world. The Company markets its products to approximately 12,000 domestic retailers and numerous retailers worldwide. During fiscal year 2015, the Company's sales to its largest single customer, Tura Scandinavia AB, were approximately 15% of net sales. In fiscal year 2014, net sales to Tura Scandinavia AB accounted for 10% of the Company's net sales. The Company is dependent upon its ability to retain a base of retailers and distributors to sell the Company's line of products. Loss of retailers and distributors means loss of product placement. The Company has broad distribution across many channels including specialty stores, mass merchants, and electronics stores. Management believes that any loss of revenues would be partially offset by a corresponding decrease, on a percentage basis, in expenses; thereby partially reducing the impact on the Company's income from operations. The five largest customers of the Company (including Tura Scandinavia AB) accounted for approximately 45% and 37% of net sales in fiscal years 2015 and 2014, respectively.

## **COMPETITION**

The Company focuses on the stereo headphone industry. In the stereo headphone market, the Company competes directly with approximately six major competitors, several of which are large and diversified and have greater total assets and resources than the Company. The extent to which retailers and consumers view the Company as an innovative vendor of high quality stereo headphone products, and a provider of excellent after sales customer service, is the extent to which the Company maintains a competitive advantage. The Company relies upon its unique sound, quality workmanship, brand identification, engineering skills, and customer service to maintain its competitive position.

## **RESEARCH AND DEVELOPMENT**

The amount expensed on engineering and research activities relating to the development of new products or the improvement of existing products was \$1,024,885 during fiscal year 2014. These activities were conducted by both Company personnel and outside consultants. There were no expenses for research and development activities during fiscal year 2015. The Company expects to incur research and development costs related to its traditional wired headphones during fiscal year 2016 as it is planning to introduce several new product offerings. Spending on the wireless Wi-Fi products has been suspended and is not expected to resume in fiscal year 2016.

## ENVIRONMENTAL MATTERS

The Company believes that it has materially complied with all currently existing federal, state and local statutes and regulations regarding environmental standards and occupational safety and health matters to which it is subject. During the fiscal years 2015 and 2014, the amounts incurred in complying with federal, state and local statutes and regulations pertaining to environmental standards and occupational safety and health laws and regulations did not materially affect the Company's operating results or financial condition.

## EMPLOYEES

As of June 30, 2015, the Company employed 54 non-union employees, 6 of which were part-time employees. The Company also engages temporary personnel.

## FOREIGN SALES

The Company's competitive position and risks relating to its business in foreign markets are comparable to those in the domestic market. In addition, the governments of foreign nations may elect to erect trade barriers on imports. The creation of additional barriers would reduce the Company's net sales and net income. In addition, any fluctuations in currency exchange rates could affect the pricing of the Company's products and divert customers who might choose to purchase lower-priced, less profitable products, and could affect overall demand for the Company's products. For further information, see Part II, Item 7 and Note 18 to the consolidated financial statements.

The Company has a small sales office in Ireland to service the international export marketplace. The Company is not aware of any material risks in maintaining this office. Loss of this office would result in a transfer of sales and marketing responsibility. The Company sells its products to independent distributors in countries and regions outside the United States including Europe, the Middle East, Africa, Asia, Australia, South America, Latin America, the Caribbean, Canada and Mexico. During the last two fiscal years, net sales of all Koss products were distributed as follows:

	2015	2014
United States	\$ 16,779,312	\$ 15,514,051
Sweden	3,677,225	2,310,064
Canada	498,026	604,971
Russia	478,012	377,135
United Kingdom	465,647	707,724
Czech Republic	441,754	1,309,697
Cyprus	414,787	1,975,736
All other countries	1,475,293	1,041,504
Net sales	<u>\$ 24,230,056</u>	<u>\$ 23,840,882</u>

The Company has a manufacturing facility in Milwaukee, Wisconsin. The Company uses contract manufacturing facilities in the People's Republic of China, Taiwan and South Korea. Since these independent suppliers are not located in the United States, we are at risk of business interruptions due to natural disasters, war, disease and government intervention through tariffs or trade restrictions that are of less concern domestically. The Company maintains finished goods inventory in its U.S. facility to mitigate this risk. The Company's goal is to stock finished goods inventory at an average of approximately 90 days demand per item. Recovery of a single facility through replacement of a supplier in the event of a disaster or suspension of supply could take 120 days. The Company believes that it could restore production of its top ten selling models (which represent approximately 58% of the Company's 2015 net sales) within one year. The Company is also at risk if trade restrictions are introduced on its products based upon country of origin. In addition, the Company may not be able to pass along most increases in tariffs and freight charges to the Company's customers, which would directly affect profits.



## **AVAILABLE INFORMATION**

The Company's internet website is <http://www.koss.com>. The Company makes available free of charge through its internet website the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and all amendments to those reports as soon as reasonably practicable after they are electronically filed with (or furnished to) the Securities and Exchange Commission. These reports and other information regarding the Company are also available on the SEC's internet website at <http://www.sec.gov>. The information on the Company's website is not part of this or any other report the Company files with or furnishes to the Securities and Exchange Commission.

### **ITEM 2. PROPERTIES.**

The Company leases its facility in Milwaukee, Wisconsin from Koss Holdings, LLC, which is wholly-owned by the former chairman. On May 15, 2012, the lease was renewed extending the expiration to June 30, 2018. The lease extension maintained the rent at a fixed rate of \$380,000 per year and it is being accounted for as an operating lease. 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. LEGAL PROCEEDINGS.**

As of June 30, 2015, the Company is involved in certain legal matters against third parties related to the unauthorized transactions as previously reported. A description of these legal matters is included at Note 20 of the Notes to Consolidated Financial Statements included herein, which description is incorporated herein by reference.

## PART II

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

#### MARKET INFORMATION ON COMMON STOCK

The Company's common stock is traded on The NASDAQ Stock Market under the trading symbol KOSS. There were 440 record holders of the Company's common stock as of August 17, 2015. This number does not include individual participants in security position listings. The quarterly high and low sale prices of the Company's common stock for the last two fiscal years as well as dividends declared are shown below.

Quarter Ended	High	Low	Per Share Dividend
September 30, 2013	\$ 5.35	\$ 4.88	\$ 0.06
December 31, 2013	\$ 5.26	\$ 4.75	\$ 0.06
March 31, 2014	\$ 6.59	\$ 4.38	\$ 0.06
June 30, 2014	\$ 5.15	\$ 2.86	\$ —
September 30, 2014	\$ 3.45	\$ 1.85	\$ —
December 31, 2014	\$ 2.15	\$ 1.26	\$ —
March 31, 2015	\$ 2.90	\$ 1.80	\$ —
June 30, 2015	\$ 3.50	\$ 2.21	\$ —

The Company began paying dividends for the quarter ended September 30, 2002, and paid a dividend for each quarter since, until the fiscal quarter ended June 30, 2014. The decision to pay dividends and the amount of such dividends are within the sole discretion of the Board of Directors, who meet at least quarterly. The decision to pay dividends will depend on the Company's operating results, financial condition, tax considerations, alternative uses for such funds, and other factors the Board of Directors deem relevant, and there can be no assurance that dividends will be paid in the future.

#### COMPANY REPURCHASES OF EQUITY SECURITIES

Period (2015)	Total Number 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
April 1-April 30	—	\$ —	—	\$ 2,139,753
May 1-May 31	—	\$ —	—	\$ 2,139,753
June 1-June 30	—	\$ —	—	\$ 2,139,753

(1) In April 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 amount authorized for repurchase under the program. As of June 30, 2015, the Board had authorized the repurchase of an aggregate of \$45,500,000 of common stock under the stock repurchase program, of which \$43,360,247 had been expended. No purchases were made during the years ended June 30, 2015 and 2014.

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

*The purpose of this discussion and analysis is to enhance the understanding and evaluation of the results of operations, financial position, cash flows, indebtedness and other key financial information of the Company for fiscal years 2015 and 2014 . Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.*

**Overview**

The Company developed stereo headphones in 1958 and has been a leader in the industry. We market a complete line of high-fidelity headphones, wireless Bluetooth® speakers, computer headsets, telecommunications headsets, active noise canceling headphones, wireless headphones and compact disc recordings of American Symphony Orchestras on the Koss Classics label. Koss operates as one business segment.

As headphones become more integral to use of music listening devices in the portable electronics market, the business volume becomes variable throughout the year. Changes in volume are more dependent on adding new customers or changes in economic conditions than they are on seasonality or the traditional holiday shopping season.

Many of the Company's products could be viewed as essential by the consumer and others are more of a discretionary spend. The results of the Company's operations are therefore susceptible to consumer confidence and macroeconomic factors. These economic factors have been evident in results during fiscal year 2015 .

As a result of the unauthorized transactions that the Company previously reported, the Company has on-going activity to recover the amounts lost in the unauthorized transactions. These activities are explained in Note 2 to the Consolidated Financial Statements.

**Fiscal Year 2015 Summary**

- Net sales increased 1.6% to \$24,230,056 on volume gains at a Scandinavian distributor as well as at US distributors offsetting declines in certain export markets.
- Gross profit as a percent of sales increased 36.1% to 34.9% due to the impairment charge, relating to capitalized software, tooling and inventory, incurred during fiscal year 2014 , and reduction in operating costs in fiscal year 2015 .
- Selling, general and administrative spending was lower due to a reduction in spending on Wifi product development, reduction of the 401k match, closure of the sales office in Switzerland, lower outside service fees and the favorable impact of various cost reduction efforts.
- Unauthorized transaction related recoveries decreased as sale of seized property winds down.

## Consolidated Results

The following table presents selected consolidated financial data for each of the past two fiscal years:

<b>Consolidated Performance Summary</b>	<b>2015</b>	<b>2014</b>
Net sales	\$24,230,056	\$23,840,882
Net increase (decrease) %	1.6%	(33.3)%
Gross profit (loss)	\$8,448,567	\$(281,819)
Gross profit (loss) as % of net sales	34.9%	(1.2)%
Selling, general and administrative expenses	\$7,904,739	\$10,468,708
Selling, general and administrative expenses as % of net sales	32.6%	43.9 %
Unauthorized transaction related costs	\$152,492	\$388,287
Unauthorized transaction related recoveries	\$(121,465)	\$(1,134,082)
Unauthorized transaction related costs (recoveries), net	\$31,027	\$(745,795)
Income (loss) from operations	\$512,801	\$(10,004,732)
Income (loss) from operations as % of net sales	2.1%	(42.0)%
Other expense (income)	\$12,813	\$(49,589)
Income tax provision (benefit)	\$17,375	\$(4,401,589)
Income tax provision (benefit) as % of income before taxes	3.5%	44.2 %

### 2015 Results of Operations Compared with 2014

Net sales for 2015 increased primarily due to increases in sales volume to distributors in the U.S. offsetting declines in several export markets. In the domestic market, net sales were up approximately \$1,265,000 over last year with U.S. distributors showing strong increases. The strong sales through distributors, e-commerce, original equipment manufacturers (OEM), certain mass retailers and grocery chains helped to offset the decreased sales in one mass retailer and the loss of sales through electronics and drug store chains. Last year's promotional load-in of products net of returns to a domestic drug store customer resulted in net sales for the fiscal year ended June 30, 2014 of approximately \$426,000 compared to net sales of \$68,000 in the fiscal year ended June 30, 2015 .

The distributor in Scandinavia appears to have worked through their excess inventory and had stronger sales in the current year. Management believes many other customers in Europe are dealing with the impact of weak economies, which affect sell-through and their ability to properly balance inventories. The distributor in Ukraine continues to be affected by political unrest in that region. In addition, sales to our distributor in the Czech Republic were down considerably as they adjust inventory levels following two very strong years ended June 30, 2014.

Gross profit as a percent of sales in 2015 was 34.9% , which was 36.1% higher than 2014 . The increase in gross profit percentage was primarily due to the impairment charge related to the WiFi development and inventory which was charged to cost of goods sold in 2014. In 2014, the Company also incurred costs for the operations in Mexico that were operating at less than optimal levels due to the lower sales levels, especially for products in export markets.

The Company took impairment charges for capitalized software, inventory and related items during the fiscal year ended 2014. It was determined that the capitalized software needed to be replaced by a new architecture as it was unlikely that products would be marketed and sold using the architecture as currently configured. As a result, the capitalized software, inventory and tooling were charged to expense. The Company may still develop the revised software platform, but has temporarily suspended this research and development effort until the base business is restored to more profitable levels. Software development expenditures incurred since December 31, 2013 were expensed as incurred and future software development expenditures will be expensed as incurred as well.

Gross profit as a percent of sales was higher than last year adjusted for the impairment charge. The higher gross profit margin was primarily the result of costs for manufacturing operations in Mexico in fiscal 2014. During fiscal year 2014, the Company commenced manufacturing operations in Juarez, Mexico that focused on certain products aimed at our export markets. The large reduction in export sales did not allow the Company to experience an adequate return on its investment in the Mexican

production facility. As a result, we have temporarily suspended production at the facility. The Company incurred approximately \$1,523,000 of expense in fiscal year 2014 for the Mexican operations. In fiscal 2015, the Mexican operations expenses were approximately \$150,000.

Selling, general and administrative expenses were lower than the prior fiscal year. The Company reduced spending on the development of the STRIVA product line resulting in a decrease of approximately \$941,000 for the fiscal year ended June 30, 2015. Legal fees and outside service fees declined by approximately \$425,000 due to changes in the scope of work as well as price discounts. The 401(k) match was lower by approximately \$340,000 resulting from a reduced match percentage during the fiscal year ended June 30, 2015. Endorsement fees decreased by approximately \$180,000. The Company did not participate in the Consumer Electronics Show (CES) in fiscal 2015 which reduced expenses by approximately \$167,000. The sales office in Switzerland was closed in fiscal year 2014, and fiscal year 2015 expenses were lower by approximately \$131,000. Sales for Europe are now supported from an office in Ireland. Sales for Asia and Latin America are supported by U.S.-based personnel.

The Company believes that most of the proceeds from asset forfeitures have been received as of June 30, 2015. Proceeds from asset forfeitures are expected to be minimal in the fiscal year ending June 30, 2016.

The income from operations increased in 2015 from 2014 primarily due to the impairment charge recorded in 2014, suspending operations in Mexico and cost reductions described above.

In 2014, the Company decreased the interest it had accrued related to its tax reporting of the unauthorized transactions by \$73,725. The Company reversed accrued interest related to the tax returns as they were filed and based upon the expiration of the statute of limitations for certain returns. These impacts are described further in Note 12 of the Notes to the Consolidated Financial Statements.

The effective income tax rate in 2015 was 3.5% which is comprised of the U.S. federal statutory rate of 34%, the effect of state income taxes, and the \$175,000 decrease in unrecognized tax benefits. It is anticipated that the effective income tax rate will be approximately 37% in 2016, which reflects the 35% federal rate and a more typical state tax rate.

#### ***Non-GAAP Financial Measures***

The Company's management uses the non-GAAP measurement of modified earnings before interest, taxes, depreciation and amortization ("EBITDA") to track performance from operations. EBITDA from operations, as calculated below, is one of the amended covenants in the Company's credit agreement with JPMorgan Chase Bank, N.A. This measurement excludes unusual and non-recurring expenses and recoveries related to the unauthorized transactions and the charge to expense for the impairment of capitalized software, inventory and related items. The following table reconciles net income (loss) for the periods presented (GAAP financial measure) to non-GAAP EBITDA from operations.

	<b>2015</b>	<b>2014</b>
Net income (loss)	\$ 482,613	\$ (5,553,554)
Interest expense (income)	12,813	(49,589)
Income tax provision (benefit)	17,375	(4,401,589)
Unauthorized transaction related costs (recoveries), net	31,027	(745,795)
Depreciation of equipment and leasehold improvements	559,631	734,664
Amortization of product software development expenditures	—	364,539
Impairment of capitalized software, inventory and related items	—	6,305,947
Stock-based compensation expense	630,539	684,554
EBITDA from operations	<u>\$ 1,733,998</u>	<u>\$ (2,660,823)</u>

Non-GAAP EBITDA from operations for the fiscal years ended June 30, 2015 and 2014, was 7.2% and (11.2)% of net sales, respectively. This increase reflects the cost reductions achieved through suspending operations in Mexico, suspending development of the STRIVA product line and the other reductions in selling, general and administrative spending described above.

## Liquidity and Capital Resources

### Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for each of the past two fiscal years:

	2015	2014
Total cash provided by (used in):		
Operating activities	\$ (340,590)	\$ 3,591,432
Investing activities	(558,555)	(779,808)
Financing activities	—	(1,771,849)
Net (decrease) increase in cash and cash equivalents	<u>\$ (899,145)</u>	<u>\$ 1,039,775</u>

### Operating Activities

During the fiscal year ended June 30, 2015, the Company paid approximately \$1.5 million for returned product received in the fiscal year ended June 30, 2014, as the customer did not buy sufficient new products to offset these returns. In addition, the Company issued volume rebates for export customers and payments related to the suspension of operations in Mexico. These items were partially offset by receiving approximately \$1.0 million of federal tax refunds. During the fiscal year ended June 30, 2014, cash provided by operations was primarily due to receiving the proceeds of the settlement of the lawsuit against the Company's former auditors. Pursuant to the settlement, in July 2013, the Company received gross proceeds of \$8,500,000, or \$6,380,000 net of associated legal fees.

### Investing Activities

Cash used in investing activities was lower for 2015 as the Company decreased spending on tooling and equipment compared to 2014. In 2016, the Company has budgeted \$600,000 for tooling and leasehold improvements. The Company expects to generate sufficient funds through operations to fund these expenditures.

### Financing Activities

The payment of quarterly dividends resulted in a net use of cash in financing activities for the fiscal year ended June 30, 2014. The Company has suspended payments of quarterly dividends until operations and earnings improve. The Company will determine whether to declare and the amount of any future dividends based upon its assessment of the Company's financial condition and liquidity, improvement in sales as a whole and in particular in the export markets, an increased generation of cash from operations and the Company's earnings. As of June 30, 2015, the Company had no outstanding borrowings on its bank line of credit facility.

There were no purchases of common stock in 2015 or 2014 under the stock repurchase program. No stock options were exercised in 2015 or 2014.

### Liquidity

In addition to capital expenditures for tooling and investment in software development, the Company has interest payments when it uses its line of credit facility. The Company believes that cash generated from operations, together with borrowings available under its credit facility, should provide it with adequate liquidity to meet operating requirements, debt service requirements, and capital expenditures. Management is focusing on increasing sales especially in the export markets, reducing the amount of capital expenditures, increasing the generation of cash from operations, and improving the Company's overall earnings to help improve the Company's liquidity. 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. Whether there is adequate liquidity to resume paying quarterly dividends, and if so, the amount per share of such dividends, will be dependent on certain factors, including the Company's financial condition and liquidity, an improvement in sales as a whole and in particular in the export markets, an increased generation of cash from operations and the Company's overall earnings.

### ***Credit Facility***

On May 12, 2010, the Company entered into a secured credit facility ("Credit Agreement") with JPMorgan Chase Bank, N.A. ("Lender"). The Credit Agreement provided 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. On July 24, 2013, the Credit Agreement was amended to extend the expiration to July 31, 2015. On July 23, 2014, the Credit Agreement was amended to reduce the facility to \$5,000,000 and to amend certain financial covenants. On July 29, 2015, the Credit Agreement was amended to extend the expiration to July 31, 2016, and to amend certain financial covenants. The Company and the Lender also entered into a Pledge and Security Agreement dated May 12, 2010 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 Company is currently in compliance with all covenants related to the Credit Agreement. As of June 30, 2015 and 2014, there were no outstanding borrowings on the facility.

### ***Stock Repurchase Program***

In April 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 of between \$1,000,000 to \$5,000,000 in the stock repurchase program. As of June 30, 2015, the most recently approved increase was for additional purchases of \$2,000,000, which occurred in October 2006, for an aggregate maximum of \$45,500,000, of which \$43,360,247 had been expended through June 30, 2015. The Company intends to effect all stock purchases either on the open market or through privately negotiated transactions and intends to finance all stock purchases through its own cash flow or by borrowing for such purchases.

There were no stock repurchases under the program in fiscal years 2015 and 2014. As of June 30, 2015, the Board of Directors has authorized the repurchase by the Company of up to \$2,139,753 in Company common stock at the discretion of the Chief Executive Officer of the Company. Future stock purchases under this program are dependent on management's assessment of value versus market price.

### ***Off-Balance Sheet Arrangements***

The Company has no off-balance sheet arrangements other than the lease for the facility in Milwaukee, Wisconsin. The Company leases the facility from Koss Holdings, LLC, which is wholly-owned by former chairman. On May 15, 2012, the lease was renewed for a period of five years, ending June 30, 2018, 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 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**

Our discussion and analysis of financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our estimates and judgments, including those related to doubtful accounts, product returns, excess inventories, warranties, impairment of long-lived assets, deferred compensation, income taxes and other contingencies. We base our estimates on historical experience and assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

### ***Revenue Recognition***

The Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; shipment and delivery have occurred; the seller's price to the buyer is fixed and determinable; and collectibility is reasonably assured. When these criteria are generally satisfied, the Company recognizes revenue. The Company also offers certain customers the right to return products that do not meet the standards agreed with the customer. The Company continuously monitors such product returns and cannot guarantee that they will continue to experience the same return rates that they have experienced in the past. Any significant increase in product quality failure rates and the resulting credit returns could have a material adverse impact on the Company's operating results for the period or periods in which such returns materialize.



The Company provides for certain sales incentives. The Company records a provision for estimated incentives based upon the incentives offered to customers on product related sales in the same period as the related revenues are recorded. The provision is recorded as a reduction of sales. The Company also records a provision for estimated sales returns and allowances on product related sales in the same period as the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. If the historical data the Company uses to calculate these estimates does not properly reflect future returns, adjustments may be required in future periods.

### ***Accounts Receivable***

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by the review of the customer's current credit information. The Company continuously monitors collections and payments from customers and maintains a provision for estimated credit losses based upon the Company's historical experience and any specific customer collection issues that have been identified. Accounts receivable are stated net of an allowance for doubtful accounts. The allowance is calculated based upon the Company's evaluation of specific customer accounts where the Company has information that the customer may have an inability to meet its financial obligations. In these cases, management uses its judgment, based on the best available facts and circumstances and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are re-evaluated and adjusted as additional information is received that impacts the amount reserved. However, the ultimate collectibility of the unsecured receivable is dependent upon the financial condition of an individual customer, which could change rapidly and without warning.

### ***Inventories***

The Company values its inventories at the lower of cost or market. Cost is determined using the last-in, first-out ("LIFO") method. As of June 30, 2015 and 2014, 100% of the Company's inventory was valued using LIFO. Valuing inventories at the lower of cost or market requires the use of estimates and judgment. The Company continues to use the same techniques to value inventory as have been used in the past. Our customers may cancel their orders or change purchase volumes. This, or certain additional actions or market developments, could create excess inventory levels, which would impact the valuation of our inventories. Any actions taken by our customers or market developments that could impact the value of our inventory are considered when determining the lower of cost or market valuations. The Company regularly reviews inventory quantities on hand and records a provision for excess and obsolete inventory based primarily on historical and projected usage and production requirements. If the Company is not able to achieve its expectations of the net realizable value of the inventory at its current value, the Company would have to adjust its reserves accordingly.

### ***Product Software Development Costs***

Product software development costs consist of costs incurred by outside parties for the development of software embedded in or used to support new products. These assets have been evaluated to ensure that the capitalized costs do not exceed the estimated net realizable value of the related products. As part of the impairment analysis, we use an undiscounted cash flow model based on estimated net sales and gross profit to be derived in the future from the specific product and other estimated costs directly related to the product. Amortization was started in fiscal year 2012 with introduction of the first products at the end of April 2012. No amortization was recorded prior to the introduction of the new products.

Inherent in the operating results forecasts are certain assumptions regarding revenue growth rates, projected future costs, costs to complete and projected long-term growth rates. In the year ended June 30, 2014, the Company determined that the capitalized software needed to be replaced by a new architecture under development. As a result, the remaining value of the capitalized software was expensed during the year ended June 30, 2014.

### ***Product Warranty Obligations***

Our products carry a lifetime warranty. We record accruals for potential warranty claims based on prior product returns experience. Warranty costs are accrued at the time revenue is recognized. These warranty costs are based upon management's assessment of past claims and current experience. However, actual claims could be higher or lower than amounts estimated, as the amount and value of warranty claims are subject to variation as a result of many factors that cannot be predicted with certainty.



### ***Income Taxes***

We estimate a provision for income taxes based on the effective tax rate expected to be applicable for the full 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.

Deferred income taxes are accounted for under the asset and liability method whereby deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using statutory tax rates. Deferred income tax provisions are based on changes in the deferred tax assets and liabilities from period to period. Additionally, we analyze our ability to recognize the net deferred income tax assets created in each jurisdiction in which we operate to determine if valuation allowances are necessary based on the “more likely than not” criteria.

### ***New Accounting Pronouncements***

Applicable new accounting pronouncements are set forth under Item 15 of this annual report and are incorporated herein by reference.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

See the Consolidated Financial Statements attached hereto.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. 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 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 of June 30, 2015. The Company's management has concluded that the Company's disclosure controls and procedures as of June 30, 2015 were effective.

**Management's Annual Report on Internal Controls over Financial Reporting.**

The Company's management, including its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and designing such internal controls to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations to the effectiveness of any system of internal control over financial reporting, including the possibility of human error or the circumvention or overriding of controls and procedures. Accordingly, even effective internal control over financial reporting can only provide reasonable assurance of achieving its control objectives.

Management conducted its evaluation of the effectiveness of its internal control over financial reporting based on the framework in the "1992 Internal Control-Integrated Framework," the 2006 "Internal Control Over Financial Reporting - Guidance for Smaller Public Companies," and the "2013 COSO Framework & SOX Compliance," all issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In connection with this evaluation, there were no changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) during the quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on this evaluation, management has concluded that the Company's internal control over financial reporting as of June 30, 2015 was effective.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

This information is incorporated by reference to the sections entitled "Information as to the Nominees," "Executive Officers," "Section 16(a) Beneficial Reporting Compliance," "Code of Ethics" and "Board Committees - Audit Committee" from Koss Corporation's Proxy Statement for its 2015 Annual Meeting of Stockholders filed with the Commission under Regulation 14A within 120 days of the end of the fiscal year covered by this Form 10-K. The Company adopted a code of ethics, which is a "code of ethics" as defined by applicable rules of the SEC, which is applicable to its directors, officers and employees. The code of ethics is publicly available on the Company's website at [www.koss.com/en/about/history](http://www.koss.com/en/about/history). If the Company makes any substantive amendments to the code of ethics or grants any waiver, including any implicit waiver, from a provision of the code to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, the Company will disclose the nature of the amendment or waiver on that website or in a report on Form 8-K.

#### **ITEM 11. EXECUTIVE COMPENSATION.**

This information is incorporated by reference to the sections entitled "Summary Compensation Table," "Outstanding Equity Awards at Fiscal Year End," "Director Compensation," and "Board Committees - Compensation Committee" from Koss Corporation's Proxy Statement for its 2015 Annual Meeting of Stockholders filed with the Commission under Regulation 14A within 120 days of the end of the fiscal year covered by this Form 10-K.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

This information is incorporated by reference to the sections entitled "Beneficial Ownership of Company Securities" and "Equity Compensation Plan Information" from Koss Corporation's Proxy Statement for its 2015 Annual Meeting of Stockholders filed with the Commission under Regulation 14A within 120 days of the end of the fiscal year covered by this Form 10-K.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

This information is incorporated by reference to the sections entitled "Independence of the Board," "Board Committees" and "Related Party Transactions" from Koss Corporation's Proxy Statement for its 2015 Annual Meeting of Stockholders filed with the Commission under Regulation 14A within 120 days of the end of the fiscal year covered by this Form 10-K.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

This information is incorporated by reference to the sections entitled "Fees and Services" and "Audit Committee Pre-Approval Policies and Procedures" from Koss Corporation's Proxy Statement for its 2015 Annual Meeting of Stockholders filed with the Commission under Regulation 14A within 120 days of the end of the fiscal year covered by this Form 10-K.

## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

The following documents are filed as part of this report:

1. **Consolidated Financial Statements**

Report of Independent Registered Public Accounting Firm	20
Consolidated Statements of Operations for the Years Ended June 30, 2015 and 2014	21
Consolidated Balance Sheets as of June 30, 2015 and 2014	22
Consolidated Statements of Cash Flows for the Years Ended June 30, 2015 and 2014	23
Consolidated Statements of Stockholders' Equity for the Years Ended June 30, 2015 and 2014	24
Notes to Consolidated Financial Statements	25

2. **Financial Statement Schedules**

All schedules have been omitted because the information is not applicable, is not material or because the information required is included in the consolidated financial statements or the notes thereto.

3. **Exhibits Filed**

See Exhibit Index attached hereto.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors  
Koss Corporation and Subsidiary  
Milwaukee, Wisconsin

We have audited the accompanying consolidated balance sheets of Koss Corporation and Subsidiary (the Company) as of June 30, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Koss Corporation and Subsidiary as of June 30, 2015 and 2014 and the results of their operations and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin  
August 27, 2015

KOSS CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS

<b>Years Ended June 30,</b>	<b>2015</b>	<b>2014</b>
Net sales	\$ 24,230,056	\$ 23,840,882
Cost of goods sold	15,781,489	17,816,754
Impairment of capitalized software, inventory and related items	—	6,305,947
Gross profit (loss)	8,448,567	(281,819)
Operating expenses:		
Selling, general and administrative expenses	7,904,739	10,468,708
Unauthorized transaction related costs (recoveries), net	31,027	(745,795)
Total operating expenses	7,935,766	9,722,913
Income (loss) from operations	512,801	(10,004,732)
Other expense (income):		
Interest expense (income)	12,813	(49,589)
Income (loss) before income tax provision (benefit)	499,988	(9,955,143)
Income tax provision (benefit)	17,375	(4,401,589)
Net income (loss)	<u>\$ 482,613</u>	<u>\$ (5,553,554)</u>
Income (loss) per common share:		
Basic	<u>\$ 0.07</u>	<u>\$ (0.75)</u>
Diluted	<u>\$ 0.07</u>	<u>\$ (0.75)</u>
Dividends declared per common share	<u>\$ —</u>	<u>\$ 0.18</u>

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

KOSS CORPORATION AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

As of June 30,	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,000,266	\$ 1,899,411
Accounts receivable, less allowance for doubtful accounts of \$26,052 and \$20,501, respectively	2,823,980	3,160,887
Inventories	7,182,440	7,054,932
Prepaid expenses and other current assets	348,044	148,200
Income taxes receivable	205,531	1,109,276
Deferred income taxes	2,045,316	2,576,023
Total current assets	13,605,577	15,948,729
Equipment and leasehold improvements, net	1,592,520	1,840,491
Other assets:		
Deferred income taxes	1,869,253	1,623,329
Cash surrender value of life insurance	5,359,663	4,977,409
Total other assets	7,228,916	6,600,738
Total assets	\$ 22,427,013	\$ 24,389,958
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,172,254	\$ 2,464,755
Accrued liabilities	1,575,027	3,853,473
Income taxes payable	—	175,000
Total current liabilities	3,747,281	6,493,228
Long-term liabilities:		
Deferred compensation	2,107,486	2,320,091
Other liabilities	219,227	336,772
Total long-term liabilities	2,326,713	2,656,863
Total liabilities	6,073,994	9,150,091
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	4,626,781	3,996,242
Retained earnings	11,689,324	11,206,711
Total stockholders' equity	16,353,019	15,239,867
Total liabilities and stockholders' equity	\$ 22,427,013	\$ 24,389,958

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

KOSS CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30,	2015	2014
<b>Operating activities:</b>		
Net income (loss)	\$ 482,613	\$ (5,553,554)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Provision for (recoveries of previously written off) doubtful accounts	25,725	(182,020)
Loss on disposals of fixed assets	14,953	—
Impairment of capitalized software, inventory and related items	—	6,305,947
Depreciation of equipment and leasehold improvements	559,631	734,664
Amortization of product software development expenditures	—	364,539
Stock-based compensation expense	630,539	684,554
Deferred income taxes	284,783	(2,608,369)
Change in cash surrender value of life insurance	(150,312)	(120,627)
Deferred compensation	(62,605)	(210,204)
Net changes in operating assets and liabilities (see note 16)	(2,125,917)	4,176,502
Cash (used in) provided by operating activities	(340,590)	3,591,432
<b>Investing activities:</b>		
Life insurance premiums paid	(231,942)	(243,940)
Purchase of equipment and leasehold improvements	(326,613)	(535,868)
Cash (used in) investing activities	(558,555)	(779,808)
<b>Financing activities:</b>		
Dividends paid to stockholders	—	(1,771,849)
Cash (used in) financing activities	—	(1,771,849)
Net (decrease) increase in cash and cash equivalents	(899,145)	1,039,775
Cash and cash equivalents at beginning of year	1,899,411	859,636
Cash and cash equivalents at end of year	<u>\$ 1,000,266</u>	<u>\$ 1,899,411</u>

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



KOSS CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Paid in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, July 1, 2013	7,382,706	\$ 36,914	\$ 3,263,608	\$ 18,089,152	\$ 21,389,674
Net loss	—	—	—	(5,553,554)	(5,553,554)
Dividends declared	—	—	—	(1,328,887)	(1,328,887)
Stock-based compensation expense	—	—	684,554	—	684,554
Income tax benefit from dividends paid to employee stock ownership plan	—	—	48,080	—	48,080
Balance, June 30, 2014	7,382,706	\$ 36,914	\$ 3,996,242	\$ 11,206,711	\$ 15,239,867
Net income	—	—	—	482,613	482,613
Stock-based compensation expense	—	—	630,539	—	630,539
Balance, June 30, 2015	7,382,706	\$ 36,914	\$ 4,626,781	\$ 11,689,324	\$ 16,353,019

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

KOSS CORPORATION AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

**NATURE OF BUSINESS** — Koss Corporation (“Koss”), a Delaware corporation, and its 100% -owned subsidiary (collectively the “Company”), reports its finances as a single reporting segment, as the Company’s principal business line is the design, manufacture and sale of stereo headphones and related accessories. The Company leases its plant and office in Milwaukee, Wisconsin. The domestic market is served by domestic sales representatives and independent manufacturers' representatives working directly with certain retailers, distributors, and original equipment manufacturers. International markets are served by domestic sales representatives and a sales office in Ireland which utilizes independent distributors in several foreign countries. The Company has one subsidiary, Koss U.K. Limited (“Koss UK”), which was formed to comply with certain European Union (EU) requirements. Koss U.K. is non-operating and holds no assets.

**BASIS OF CONSOLIDATION** — The consolidated financial statements include the accounts of Koss and its subsidiary, Koss UK, which is a 100% -owned subsidiary. All significant intercompany accounts and transactions have been eliminated.

**REVENUE RECOGNITION** — The Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; shipment and delivery have occurred; the seller’s price to the buyer is fixed and determinable; and collectibility is reasonably assured. When these criteria are generally satisfied, the Company recognizes revenue. The Company also offers certain customers the right to return products that do not meet the standards agreed with the customer. The Company continuously monitors such product returns and cannot guarantee that they will continue to experience the same return rates that they have experienced in the past. Any significant increase in product quality failure rates and the resulting credit returns could have a material adverse impact on the Company’s operating results for the period or periods in which such returns materialize.

The Company provides for certain sales incentives. The Company records a provision for estimated incentives based upon the incentives offered to customers on product related sales in the same period as the related revenues are recorded. The provision is recorded as a reduction of sales. The Company also records a provision for estimated sales returns and allowances on product related sales in the same period as the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. If the historical data the Company uses to calculate these estimates does not properly reflect future returns, adjustments may be required in future periods.

**SHIPPING AND HANDLING FEES AND COSTS** — Shipping and handling costs charged to customers have been included in net sales. Shipping and handling costs incurred by the Company have been included in cost of goods sold.

**RESEARCH AND DEVELOPMENT** — Research and development activities charged to operations as a component of selling, general and administrative expenses in the accompanying Consolidated Statements of Operations amounted to \$ 1,024,885 in fiscal year 2014 . There were no research and development activities charged to operations in fiscal year 2015 .

**ADVERTISING COSTS** — Advertising costs included within selling, general and administrative expenses in the accompanying Consolidated Statements of Operations were \$ 154,505 in 2015 and \$ 211,196 in 2014 . Such costs are expensed as incurred.

**INCOME TAXES** — The Company operates as a C Corporation under the Internal Revenue Code of 1986, as amended (the “Code”). Amounts provided for income tax expense are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income tax assets and liabilities are computed annually for differences between the financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. As changes in tax laws or rates are enacted, deferred income tax assets and liabilities are adjusted through the provision for income taxes. The differences relate principally to different methods used for depreciation and amortization for income tax purposes, net operating losses, capitalization requirements of the Code, allowances for doubtful accounts, stock-based compensation, warranty reserves, and other income tax related carryforwards. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized.

**INCOME (LOSS) PER COMMON AND COMMON STOCK EQUIVALENT SHARE** — Income (loss) per common and common stock equivalent share is calculated under the provisions of Topic 260 in the Accounting Standards Codification

("ASC") which provides for calculation of "basic" and "diluted" income (loss) per share. Basic income (loss) per common and common stock equivalent share includes no dilution and is computed by dividing net income by the weighted average common shares outstanding for the period. Diluted income (loss) per common and common stock equivalent share reflects the potential dilution of securities that could share in the earnings of an entity. See Note 13 for additional information on income (loss) per common and common stock equivalent share.

**CASH AND CASH EQUIVALENTS** — The Company considers depository accounts and investments with a maturity at the date of acquisition and expected usage of three months or less to be cash and cash equivalents. The Company maintains its cash on deposit at a commercial bank located in the United States of America. The Company periodically has cash balances in excess of insured amounts. The Company has not experienced and does not expect to incur any losses on these deposits.

**ACCOUNTS RECEIVABLE** — Accounts receivable consists of unsecured trade receivables due from customers. An allowance for doubtful accounts is recorded for significant past due receivable balances based on a review of the past due item and general economic conditions. See Note 3 for additional information on accounts receivable.

**INVENTORIES** — The Company's inventory is valued at the lower of last-in, first-out ("LIFO") cost or market. The carrying value of inventory is reviewed for impairment on at least a quarterly basis or more frequently if warranted due to changes in market conditions. See Note 5 for additional information on inventory.

**EQUIPMENT AND LEASEHOLD IMPROVEMENTS** — Equipment and leasehold improvements are stated at cost. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Major expenditures for property and equipment and significant renewals are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are included in operations.

**LIFE INSURANCE POLICIES** — Life insurance policies are stated at cash surrender value or at the amount the Company would receive in the case of split-dollar arrangements. Increases in cash surrender value are included in selling, general and administrative expenses in the Consolidated Statements of Operations, which is where the annual premiums are recorded.

**PRODUCT WARRANTY OBLIGATIONS** — Estimated future warranty costs related to products are charged to cost of goods sold during the period the related revenue is recognized. The product warranty liability reflects the Company's best estimate of probable obligations under those warranties. See Note 10 for additional information on product warranty obligations.

**DEFERRED COMPENSATION** — The Company's deferred compensation liabilities are for a current and former officer and are calculated based on compensation, years of service 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 Consolidated Statements of Operations. See Note 11 for additional information on deferred compensation.

**FAIR VALUE OF FINANCIAL INSTRUMENTS** — Cash equivalents, accounts receivable and accounts payable approximate fair value based on the short maturity of these instruments.

**IMPAIRMENT OF LONG-LIVED ASSETS** — The Company evaluates the recoverability of the carrying amount of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. The Company evaluates the recoverability of equipment and leasehold improvements annually or more frequently if events or circumstances indicate that an asset might be impaired. If an asset is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. Management determines fair value using a undiscounted future cash flow analysis or other accepted valuation techniques. The Company recorded an impairment of capitalized software in the year ended June 30, 2014, detailed in Note 4. No impairments of the Company's long-lived assets were recorded in the year ended June 30, 2015.

**LEGAL COSTS** — All legal costs related to litigation are charged to operations as incurred, except settlements, which are expensed when a claim is probable and can be estimated. Recoveries of legal costs are recorded when the amount and items to be paid are confirmed by the insurance company. Proceeds from the settlement of legal disputes are recorded in income when the amounts are determinable and the collection is certain.

**STOCK-BASED COMPENSATION** — The Company has a stock-based employee compensation plan, which is described more fully in Note 14 . The Company accounts for stock-based compensation in accordance with ASC 718 "Compensation - Stock Compensation". Under the fair value recognition provisions of this statement, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period.

**USE OF ESTIMATES** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**RECLASSIFICATIONS** — Certain amounts previously reported have been reclassified to conform to the current presentation.

## 2. UNAUTHORIZED TRANSACTION RELATED COSTS AND RECOVERIES

In December 2009, the Company learned of significant unauthorized transactions as previously reported. The Company has ongoing costs and recoveries associated with the unauthorized transactions. For the years ended June 30, 2015 and 2014 , the costs incurred were for legal fees related to claims initiated against third parties (see Note 20 ). The Company has received various recoveries related to the unauthorized transactions which are summarized below. The Company will continue to incur legal fees for the claims initiated against third parties. There have been other recoveries of the assets previously owned and forfeited by the former Vice President of Finance. The remaining amounts to be received from the assets forfeited are not expected to be significant. For the years ended June 30, 2015 and 2014 , the costs and recoveries were as follows:

	<b>2015</b>	<b>2014</b>
Legal fees incurred	\$ 152,492	\$ 388,287
Proceeds from asset forfeitures	(121,465)	(1,134,082)
Unauthorized transaction related costs (recoveries), net	<u>\$ 31,027</u>	<u>\$ (745,795)</u>

## 3. ACCOUNTS RECEIVABLE

Accounts receivable includes unsecured trade receivables due from customers. The Company performs credit evaluations of its customers and does not require collateral to establish an account receivable. The Company's largest customer was on cash in advance terms as of June 30, 2015 and 2014 , respectively.

The Company evaluates collectibility of accounts receivable based on a number of factors. Accounts receivable are considered to be past due if unpaid one day after their due date. An allowance for doubtful accounts is recorded for past due receivable balances based on a review of the past due item and general economic conditions. The Company writes off accounts receivable when they become uncollectible. The Company recovered \$112,417 of previously written-off accounts receivable during fiscal 2014 . There were no recoveries during fiscal 2015. Changes in the allowance for doubtful accounts were as follows:

<b>Fiscal Year Ended June 30,</b>	<b>Balance, beginning of year</b>	<b>Provision charged to expense</b>	<b>Amounts written-off</b>	<b>Balance, end of year</b>
2015	\$ 20,501	25,725	(20,174)	\$ 26,052
2014	\$ 43,405	(182,020)	159,116	\$ 20,501

The vast majority of international customers, outside of Canada, purchase products on a cash against documents or cash in advance basis. Approximately 5% and 14% of the Company's trade accounts receivable at June 30, 2015 and 2014 , were foreign receivables denominated in U.S. dollars.

#### 4. IMPAIRMENT OF CAPITALIZED SOFTWARE, INVENTORY AND RELATED ITEMS

The Company recorded an impairment charge in the Consolidated Statements of Operations line item titled " Impairment of capitalized software, inventory and related items " during the fiscal year ended 2014. The impairment is detailed in the following table:

	<b>2014</b>
Product software development expenditures	\$ 2,308,752
Inventories	3,451,911
Product design costs	246,588
Tooling	298,696
Impairment of capitalized software, inventory and related items	<u>\$ 6,305,947</u>

The Company determined that the capitalized software needed to be replaced by a new architecture under development. As a result, the remaining value of the capitalized software was expensed in the year ended ended June 30, 2014. The Company may still develop this technology but has temporarily suspended its research and development effort until the base business is restored to more profitable levels.

In conjunction with the review of the capitalized software, it was determined that certain inventory items were obsolete or the Company had quantities that are not expected to be used over the product forecast period. These inventory items are included net of expected recoveries. Product design costs and assumed liabilities to wrap up the current architecture design were expensed. Tooling related to products that are no longer expected to be launched was expensed. To the extent the Company incurs future costs for the continued development, software code and product launch of the WiFi-based products, then those costs will be expensed as incurred.

#### 5. INVENTORIES

As of June 30, 2015 and 2014 , the Company's inventory was valued using the lower of last-in, first-out ("LIFO") cost or market. If the first-in, first-out ("FIFO") method of inventory accounting had been used by the Company for inventories valued at LIFO, inventories would have been \$ 753,439 and \$ 1,172,262 higher than reported at June 30, 2015 and 2014 , respectively.

The components of inventories at June 30, 2015 and 2014 were as follows:

	<b>2015</b>	<b>2014</b>
Raw materials	\$ 5,374,333	\$ 5,593,159
Finished goods	6,246,072	6,327,221
	11,620,405	11,920,380
Reserve for obsolete inventory	(4,437,965)	(4,865,448)
Total inventories	<u>\$ 7,182,440</u>	<u>\$ 7,054,932</u>

## 6. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

The major categories of equipment and leasehold improvements at June 30, 2015 and 2014 are summarized as follows:

	Estimated useful lives	2015	2014
Machinery and equipment	5-10 years	\$ 642,200	\$ 675,670
Furniture and office equipment	5-10 years	374,616	374,616
Tooling	5 years	4,126,850	3,607,314
Display booths	5-7 years	287,180	287,180
Computer equipment	3-5 years	1,414,517	1,414,517
Leasehold improvements	7-10 years	2,308,246	2,288,706
Assets in progress	N/A	60,600	259,328
		<u>9,214,209</u>	<u>8,907,331</u>
Less: accumulated depreciation and amortization		7,621,689	7,066,840
Equipment and leasehold improvements, net		<u>\$ 1,592,520</u>	<u>\$ 1,840,491</u>

## 7. INCOME TAXES

The Company utilizes the liability method of accounting for income taxes. The liability method measures the expected income tax impact of future taxable income and deductions implicit in the consolidated balance sheets. The income tax provision in 2015 and 2014 consisted of the following:

Year Ended June 30,	2015	2014
Current:		
Federal	\$ (100,126)	\$ (1,863,204)
State	(167,282)	69,984
Deferred	284,783	(2,608,369)
Total income tax provision (benefit)	<u>\$ 17,375</u>	<u>\$ (4,401,589)</u>

The 2015 and 2014 tax results in an effective rate different than the federal statutory rate because of the following:

Year Ended June 30,	2015	2014
Federal income tax expense (benefit) at statutory rate	\$ 169,996	\$ (3,382,307)
State income tax expense (benefit), net of federal income tax benefit	(21,442)	(285,802)
Increase in valuation allowance	—	148,000
Stock-based compensation	53,596	58,187
Adjustments for unrecognized tax benefits	(175,000)	(546,113)
Federal income tax credits	—	(187,349)
Other	(9,775)	(206,205)
Total income tax provision (benefit)	<u>\$ 17,375</u>	<u>\$ (4,401,589)</u>

Temporary differences which give rise to deferred income tax assets and liabilities at June 30, 2015 and June 30, 2014 include:

	<b>2015</b>	<b>2014</b>
<b>Deferred income tax assets:</b>		
Deferred compensation	\$ 835,270	\$ 858,434
Stock-based compensation	889,325	714,350
Accrued expenses and reserves	2,075,601	2,701,144
Federal and state net operating loss carryforwards	463,237	371,744
Valuation allowance	(370,409)	(370,409)
Equipment and leasehold improvements	11,566	—
Other	14,650	22,806
<b>Total deferred income tax assets</b>	<b>3,919,240</b>	<b>4,298,069</b>
<b>Deferred income tax liabilities:</b>		
Equipment and leasehold improvements	—	(98,717)
Other	(4,671)	—
<b>Net deferred income tax assets</b>	<b>\$ 3,914,569</b>	<b>\$ 4,199,352</b>

Deferred income tax assets as presented on the consolidated balance sheets:

	<b>2015</b>	<b>2014</b>
Current deferred income tax assets	\$ 2,045,316	\$ 2,576,023
Noncurrent deferred income tax assets	1,869,253	1,623,329
<b>Net deferred income tax assets</b>	<b>\$ 3,914,569</b>	<b>\$ 4,199,352</b>

Deferred income tax balances reflect the effects of temporary differences between the tax bases of assets and liabilities and their carrying amounts. These differences are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. The recognition of these deferred tax balances will be realized through normal recurring operations and, as such, the Company has recorded the full value of such expected benefits. The Company has no federal net operating loss carryforwards as of June 30, 2015. The Company has net operating loss carryforwards in the state of Wisconsin totaling \$6,095,423 which expire in fiscal years 2026 through 2036.

ASC Topic 740 "Income Taxes" prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. There were no additional significant matters determined to be unrecognized tax benefits taken or expected to be taken in a tax return that have been recorded on the Company's consolidated financial statements for the year ended June 30, 2015. As part of the unauthorized transactions, there was no interest accrued by the Company as of June 30, 2015 and 2014, respectively.

	<b>2015</b>	<b>2014</b>
Accrued interest at beginning of year	\$ —	\$ 49,150
Interest charges to expense	—	24,575
Interest charges reversed	—	(73,725)
<b>Accrued interest at end of year</b>	<b>\$ —</b>	<b>\$ —</b>

Additionally, ASC Topic 740 provides guidance on the recognition of interest and penalties related to income taxes. There were no penalties related to income taxes that have been accrued or recognized as of and for the years ended June 30, 2015 and 2014. The Company records interest related to unrecognized tax benefits in interest expense. For the year ended 2014, the Company decreased the interest it had accrued related to its tax reporting of the unauthorized transactions. The Company reversed the accrued interest related to the tax return that was filed for the year ended June 30, 2008, because the statute of limitations expired for this return.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2015	2014
Unrecognized tax benefits at beginning of year	\$ 175,000	\$ 696,113
Gross increases - tax positions in prior years	—	25,000
Reductions due to lapse in statute	—	(546,113)
Reductions based on settlements with taxing authorities	(175,000)	—
Unrecognized tax benefits at end of year	<u>\$ —</u>	<u>\$ 175,000</u>

In the fiscal year ended June 30, 2015, the Company settled its position with a state tax authority and reduced the unrecognized tax benefits to zero. The Company does not believe it has any unrecognized tax benefits as of June 30, 2015. Any changes to the Company's unrecognized tax benefits during the fiscal years ended June 30, 2015 and 2014 would impact the effective tax rate.

The Company files income tax returns in the United States federal jurisdiction and in several state jurisdictions. The Company's federal tax returns through tax year June 30, 2011 are settled and the income tax returns for tax years beginning July 1, 2011 are open. For states in which the Company files state income tax returns, the statute of limitations is generally open for tax years ended June 30, 2011 and forward. During the quarter ended December 31, 2014, the Company's federal return for the fiscal year ended June 30, 2013, was under examination. That examination closed during the same quarter with no adjustments to the return.

The following are the changes in the valuation allowance:

Year Ended June 30,	Balance, beginning of year	Increase in valuation allowance	Release of valuation allowance	Balance, end of year
2015	\$ (370,409)	—	—	\$ (370,409)
2014	\$ (222,409)	(148,000)	—	\$ (370,409)

## 8. CREDIT FACILITY

On May 12, 2010, the Company entered into a secured credit facility ("Credit Agreement") with JPMorgan Chase Bank, N.A. ("Lender"). The Credit Agreement provided 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 LIBOR, depending on the Company's leverage ratio. The Company pays a fee of 0.3% to 0.45% for unused amounts committed in the credit facility. On July 24, 2013, the Credit Agreement was amended to extend the expiration to July 31, 2015. On July 23, 2014, the Credit Agreement was amended to reduce the facility to \$5,000,000, subject to a borrowing base calculation as defined in the Credit Agreement, and to amend certain financial covenants. On July 29, 2015, the Credit Agreement was amended to extend the expiration to July 31, 2016, and to amend certain financial covenants. 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 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 minimum EBITDA and minimum tangible net worth requirements. The Company and the Lender also entered into the Pledge and Security Agreement dated May 12, 2010, 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. As of June 30, 2015 and 2014, there were no outstanding borrowings on the facility.



## 9. ACCRUED LIABILITIES

Accrued liabilities for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Cooperative advertising and promotion allowances	\$ 400,114	\$ 750,433
Product warranty obligations	312,664	385,852
Customer credit balances	261,977	1,988,052
Current deferred compensation	150,000	—
Accrued returns	97,026	89,663
Employee benefits	93,568	129,518
Legal and professional fees	70,000	79,900
Management bonuses and profit-sharing	71,381	37,500
Sales commissions and bonuses	68,890	148,278
Accrued severance	—	123,720
Other	49,407	120,557
	<u>\$ 1,575,027</u>	<u>\$ 3,853,473</u>

## 10. PRODUCT WARRANTY OBLIGATIONS

The Company records a liability for product warranty obligations at the time of sale based upon historical warranty experience. The majority of the Company's products carry a lifetime warranty. The Company also records a liability for specific warranty matters when they become known and are reasonably estimated. The Company's current and non-current product warranty obligations are included in accrued liabilities and other liabilities, respectively, in the consolidated balance sheets. However, the Company is continuously releasing new and more complex and technologically advanced products. Even though some of these products have a shorter warranty period, it is at least reasonably possible that products could be released with certain unknown quality or design problems resulting in higher than expected warranty and related costs. These costs could have a materially adverse effect on the Company's results of operations and financial condition in the near term.

Changes to the product warranty obligations for the years ended June 30, 2015 and 2014 are as follows:

Year Ended June 30,	Balance, beginning of year	Provision charged to expense	Warranty expenses incurred	Balance, end of year
2015	\$ 722,624	103,925	(294,658)	\$ 531,891
2014	\$ 1,111,500	97,300	(486,176)	\$ 722,624

## 11. DEFERRED COMPENSATION

The Company has deferred compensation agreements with a former and current officer. 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 Consolidated Statements of Operations. The Company's current and non-current deferred compensation obligations are included in accrued liabilities and deferred compensation, respectively, in the consolidated balance sheets. The net present value was calculated for the former officer using a discount factor of 2.70% and 2.60% as of June 30, 2015 and 2014, respectively. The net present value was calculated for the current officer using a discount factor of 4.80% and 4.62% at June 30, 2015 and 2014, respectively.

The Board of Directors entered into an agreement to continue the 1991 base salary of former chairman for the remainder of his life. These payments began in the fiscal year ended June 30, 2015, and payments of \$50,000 were made under this arrangement. The Company has a deferred compensation liability of \$820,720 and \$704,306 recorded as of June 30, 2015 and 2014, respectively. Deferred compensation expense of \$166,414 and \$202,383 was recognized under this arrangement in 2015 and 2014, respectively.

The Board of Directors has approved a supplemental retirement plan with an officer that calls for annual cash compensation following retirement from the Company in an amount equal to 2% of base salary, as defined in the agreement, multiplied by the number of years of service to the Company. The retirement payments are to be paid monthly to the officer until his death and then to his surviving spouse monthly until her death. The Company has a deferred compensation liability of \$1,436,766 and \$1,615,785 recorded as of June 30, 2015 and 2014, respectively. A reversal of deferred compensation expense of \$179,019 and \$257,842 was recognized under this arrangement in 2015 and 2014, respectively.

The Company uses life insurance policies to provide funds to meet its deferred compensation obligations.

## 12. INTEREST EXPENSE

The Company incurs interest expense primarily related to its secured credit facility (see Note 8) and to its liabilities for its tax positions related to the unauthorized transactions. As the tax returns have been settled and statute of limitations have expired, the accrued interest expense on certain items has been reversed. Interest expense detail was as follows for the fiscal years ended June 30, 2015 and 2014, respectively:

	2015	2014
Interest expense (benefit) on secured credit facility	\$ 12,813	\$ (587)
Interest expense for tax positions related to unauthorized transactions	—	24,575
Interest reversals for tax positions related to unauthorized transactions	—	(73,725)
Other interest expense		148
Interest expense (income)	<u>\$ 12,813</u>	<u>\$ (49,589)</u>

## 13. INCOME (LOSS) PER COMMON AND COMMON STOCK EQUIVALENT SHARE

Basic income (loss) per share is computed based on the weighted-average number of common shares outstanding. The weighted-average number of common shares outstanding was 7,382,706 for the years ended June 30, 2015 and 2014. When dilutive, stock options are included in income (loss) per share as share equivalents using the treasury stock method. For the years ended June 30, 2015 and 2014 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 (loss) per share. Shares issuable upon the exercise of outstanding options of 2,245,000 and 2,066,000 were excluded from the diluted weighted average common shares outstanding for the years ended June 30, 2015 and 2014, respectively, as they would be anti-dilutive.

## 14. STOCK OPTIONS

In 2012, pursuant to the recommendation of the Board of Directors, the stockholders ratified the creation of the Company's 2012 Omnibus Incentive Plan (the "2012 Plan"), which superseded the 1990 Flexible Incentive Plan (the "1990 Plan"). The 2012 Plan is administered by a committee of the Board of Directors and provides for granting of various stock-based awards including stock options to eligible participants, primarily officers and certain key employees. A total of 2,000,000 shares of common stock were available under the terms of the 2012 Plan plus shares outstanding under the 1990 Plan which expire or are otherwise forfeited, canceled or terminated after July 25, 2012, the Effective Date of the 2012 Plan. As of June 30, 2015, there were 1,269,308 options available for future grants. Options vest over a three to five year period from the date of grant, 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. 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.

As of June 30, 2015, there was approximately \$881,594 of total unrecognized compensation cost related to stock options granted under the 2012 Plan and 1990 Plan. This cost is expected to be recognized over a weighted average period of 2.39 years. Total unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures. The Company recognized stock-based compensation expense of \$630,539 and \$684,554 in 2015 and 2014, respectively. These expenses were included in selling, general and administrative expenses.

There was no cash received from stock option exercises during 2015 or 2014 .

The per share weighted average fair value of the stock options granted during the years ended June 30, 2015 and 2014 were \$0.73 and \$1.47 , respectively. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. For the options granted in 2015 and 2014 , the Company used the following weighted-average assumptions:

	2015	2014
Expected stock price volatility	43%	47%
Risk free interest rate	1.52%	1.27%
Expected dividend yield	4.00%	4.00%
Expected forfeitures	1.50%	1.50%
Expected life of options	4.6 years	4.6 years

The following table identifies options granted, exercised, canceled, or available for exercise pursuant to the 1990 Plan and the 2012 Plan:

	Number of Shares	Stock Options Price Range	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life - Years	Aggregate Intrinsic Value of In-The- Money Options
Shares under option at July 1, 2013	1,741,000	\$3.90 - \$13.09	\$ 6.40	4.39	\$ 55,160
Granted	445,000	\$5.30 - \$5.83	\$ 5.64		
Exercised	—	—	—		
Expired	(120,000)	\$11.01	\$ 11.01		
Forfeited	—	—	—		
Shares under option at June 30, 2014	2,066,000	\$3.90 - \$13.09	\$ 5.97	4.13	\$ —
Granted	470,000	\$2.24 - \$3.30	\$ 3.14		
Exercised	—	—	—		
Expired	(201,000)	\$4.97 - \$13.09	\$ 7.06		
Forfeited	(90,000)	\$3.00 - \$6.00	\$ 4.69		
Shares under option at June 30, 2015	2,245,000	\$2.24 - \$13.09	\$ 5.33	3.69	\$ 1,676
Exercisable as of June 30, 2014	904,918	\$3.90 - \$13.09	\$ 6.39		
Exercisable as of June 30, 2015	1,134,500	\$3.90 - \$13.09	\$ 6.01		

A summary of intrinsic value and cash received from stock option exercises and fair value of vested stock options for the fiscal years ended June 30, 2015 and 2014 is as follows:

	2015	2014
Total intrinsic value of stock options exercised	\$ —	\$ —
Cash received from stock option exercises	\$ —	\$ —
Total fair value of stock options vested	\$ 696,958	\$ 586,342

During the years ended June 30, 2015 and 2014 total options of 470,000 and 445,000 , respectively, were granted during the year at a price equal to or greater than the market value of the common stock on the date of grant. These options had a weighted-average exercise price of \$3.14 and \$5.64 for the years ended June 30, 2015 and 2014 , respectively.

#### 15. STOCK REPURCHASE PROGRAM

The Company has an agreement with the former chairman, in the event of his death, at the request of the executor of his 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.

As of June 30, 2015, the estate of the former chairman does not hold a material amount of Company stock. As such, there is no exposure that the executor of the former chairman's estate may require the Company to repurchase a material amount of stock in the event of his death. The repurchase price is 95% of the fair market 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 his 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 at the prime rate of interest for the balance payable over four years. The Company maintains a \$1,150,000 life insurance policy to fund a substantial portion of this obligation.

In April 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 amount authorized for repurchase under the program. As of June 30, 2015, the Board had authorized the repurchase of an aggregate of \$45,500,000 of common stock under the stock repurchase program, of which \$43,360,247 had been expended. No shares were repurchased in 2015 or 2014.

#### 16. ADDITIONAL CASH FLOW INFORMATION

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

	<b>2015</b>	<b>2014</b>
Accounts receivable	\$ 311,182	\$ 9,206,295
Inventories	(127,508)	(5,672)
Income taxes receivable	903,745	(1,109,276)
Prepaid expenses and other current assets	(199,844)	317,389
Income taxes payable	(175,000)	(2,509,444)
Accounts payable	(292,501)	(467,581)
Accrued liabilities	(2,428,446)	(851,981)
Other liabilities	(117,545)	(403,228)
Net change	<u>\$ (2,125,917)</u>	<u>\$ 4,176,502</u>
Net cash (refunded) paid during the year for:		
Income taxes	\$ (985,585)	\$ 1,867,181
Interest	\$ 12,813	\$ 2,185

#### 17. EMPLOYEE BENEFIT PLANS

Substantially all domestic employees are participants in the Koss Employee Stock Ownership Trust (KESOT) under which an annual contribution in either cash or common stock may be made at the discretion of the Board of Directors. No contributions were made for the fiscal years 2015 or 2014.

The Company maintains a retirement savings plan under Section 401(k) of the Internal Revenue Code. This plan covers all employees of the Company who have completed one full fiscal quarter of service. Matching contributions can be made at the discretion of the Board of Directors. For fiscal years 2015 and 2014, the matching contribution was 25% and 100% of employee contributions to the plan, respectively. Vesting of Company contributions occurs immediately. Company contributions were \$91,354 and \$431,190 during 2015 and 2014, respectively.

## 18. FOREIGN SALES AND SIGNIFICANT CUSTOMERS

The Company's net foreign sales amounted to \$7,450,744 during 2015 and \$8,326,831 during 2014 .

The Company's sales by country were as follows:

	2015	2014
United States	\$ 16,779,312	\$ 15,514,051
Sweden	3,677,225	2,310,064
Canada	498,026	604,971
Russia	478,012	377,135
United Kingdom	465,647	707,724
Czech Republic	441,754	1,309,697
Cyprus	414,787	1,975,736
All other countries	1,475,293	1,041,504
Net sales	\$ 24,230,056	\$ 23,840,882

Sales during 2015 and 2014 to the Company's five largest customers, which are generally large national retailers or foreign distributors, represented approximately 45% and 37% of the Company's net sales, respectively. Included in these percentages were sales to a single Scandinavian distributor which represented approximately 15% and 10% of the Company's net sales during 2015 and 2014 , respectively.

## 19. COMMITMENTS AND CONTINGENCIES

The Company leases its facility in Milwaukee, Wisconsin from Koss Holdings, LLC, which is wholly-owned by the former chairman. On May 15, 2012 , the lease was renewed for a period of five years, ending June 30, 2018 , 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 is responsible for all property maintenance, insurance, taxes and other normal expenses related to ownership. Total rent expense was \$ 380,000 in both 2015 and 2014 .

## 20. LEGAL MATTERS

As of June 30, 2015 , the Company is party to the matters related to the unauthorized transactions described below:

- 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. The claims alleged include aiding and abetting breach of fiduciary duty, aiding and abetting fraud, and conversion relating to the unauthorized transactions. The case is proceeding in the Superior Court with respect to those claims.
- On December 17, 2010, the Company filed an action against Park Bank in Circuit Court of Milwaukee County, Wisconsin alleging claims of negligence and breach of the Uniform Fiduciaries Act relating to the unauthorized transactions. In 2015, Park Bank filed third party claims based on contribution and subrogation against Grant Thornton LLP and Michael Koss. The Court granted motions to dismiss the contribution claims against Grant Thornton LLP and Michael Koss, but determined that it was premature to decide the subrogation claims at this stage of the proceedings. The case is proceeding in the Circuit Court.

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

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KOSS CORPORATION

By: /s/ Michael J. Koss August 27, 2015  
Michael J. Koss  
Chairman  
President  
Chief Executive Officer

By: /s/ David D. Smith August 27, 2015  
David D. Smith  
Executive Vice President  
Chief Financial Officer  
Principal Accounting Officer  
Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on August 27, 2015 .

/s/ John C. Koss  
John C. Koss, Director

/s/ Michael J. Koss  
Michael J. Koss, Director

/s/ Lawrence S. Mattson  
Lawrence S. Mattson, Director

/s/ John J. Stollenwerk  
John J. Stollenwerk, Director

/s/ Thomas L. Doerr  
Thomas L. Doerr, Director

/s/ Theodore H. Nixon  
Theodore H. Nixon, Director

## EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Exhibit Description</b>
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.
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	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. *
10.6	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. *
10.7	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.
10.8	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.
10.9	Koss Corporation 2012 Omnibus Incentive Plan (Incorporated by reference to Appendix B to Koss Corporation's Definitive Proxy Statement on Schedule 14A filed on August 27, 2012). *
10.10	Amendment No. 2 dated July 24, 2013 to Credit Agreement dated May 12, 2010, between Koss Corporation and JPMorgan Chase Bank, N.A. Filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended June 30, 2014, and incorporated by reference herein.
10.11	Amendment No. 3 dated July 23, 2014 to Credit Agreement dated May 12, 2010, between Koss Corporation and JPMorgan Chase Bank, N.A. Filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended June 30, 2014, and incorporated by reference herein.
10.12	Amendment No. 4 dated July 29, 2015 to Credit Agreement dated May 12, 2010, between Koss Corporation and JPMorgan Chase Bank, N.A. **
14	Koss Corporation Code of Ethics. Filed as Exhibit 14 to the Company's Annual Report on Form 10-K for the year ended June 30, 2011 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 Annual Report on Form 10-K for the year ended June 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended June 30, 2015 and 2014, (ii) Consolidated Balance Sheets as of June 30, 2015 and 2014, (iii) Consolidated Statements of Cash Flows for the years ended June 30, 2015 and 2014, (iv) Consolidated Statements of Stockholders' Equity for the years ended June 30, 2015 and 2014 and (v) the Notes to Consolidated Financial Statements.

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\* Denotes a management contract or compensatory plan or arrangement

\*\* Filed herewith

\*\*\* Furnished herewith

## AMENDMENT NO. 4 TO CREDIT AGREEMENT

THIS AMENDMENT NO. 4 TO CREDIT AGREEMENT (this “Amendment”), entered into as of July 29, 2015, is by and between Koss Corporation, a Delaware corporation (“Borrower”), and JPMorgan Chase Bank, N.A. (“Lender”) under the Credit Agreement defined below.

### WITNESSETH:

**WHEREAS**, Borrower and Lender entered into that certain Credit Agreement dated as of May 12, 2010 (as amended to date, the “Credit Agreement”), pursuant to which Lender agreed to extend credit to Borrower upon the terms and subject to the conditions set forth therein; and

**WHEREAS**, Borrower has requested that Lender enter into this Amendment for the purpose of making certain modifications and amendments to the Credit Agreement as described herein, and Lender is willing to agree to such modifications, all on the terms and subject to the conditions set forth herein.

**NOW, THEREFORE**, in consideration of the terms and conditions contained herein, the parties hereto hereby agree as follows:

1. Definitions. All capitalized terms used and not otherwise defined herein shall have the meanings given to such terms by the Credit Agreement as amended hereby.

2. Amendments. Upon satisfaction of the conditions set forth in Section 3 below, the Credit Agreement shall be amended as follows:

a. All references to the Credit Agreement in the Credit Agreement or any of the Loan Documents shall refer to the Credit Agreement as amended hereby.

b. Section 1.01 (Defined Terms) shall be amended as follows:

i. The definition of “Adjusted One Month LIBO Rate” set forth therein shall be amended to read as follows:

“Adjusted One Month LIBO Rate” means, for any day, an interest rate per annum equal to the sum of (i) 2.50% plus (ii) the Adjusted LIBO Rate for a one-month interest period on such day (or if such day is not a Business Day, the immediately preceding Business Day); provided that, for the avoidance of doubt, the Adjusted LIBO Rate for any day shall be based on the LIBO Screen Rate at approximately 11:00 a.m. London time on such day; provided further, that, if the LIBO Screen Rate at such time shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

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- ii. The definition of “Change in Law” set forth therein shall be amended to read as follows:
- “ Change in Law ” means the occurrence after the date of this Agreement of any of the following: (a) the adoption of or taking effect of any law, rule, regulation or treaty; (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority; or (c) compliance by the Lender (or, for purposes of Section 2.14(b), by any lending office of the Lender or by the Lender’s holding company, if any) with any request, guideline, requirement or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines, requirements or directives thereunder or issued in connection therewith or in the implementation thereof, and (y) all requests, rules, guidelines, requirements or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Change in Law”, regardless of the date enacted, adopted, issued or implemented.
- iii. Clause (k) of the definition of “Eligible Accounts” is amended to read as follows:
- (k) which is owed by an Account Debtor which (i) does not maintain its chief executive office in the U.S. or Canada, (ii) is not organized under applicable law of the U.S., any state of the U.S., Canada, or any province of Canada unless, in either case, such Account is backed by a Letter of Credit acceptable to Lender which is in the possession of, and has been assigned to, Lender, or (iii) is a Sanctioned Person.
- iv. The definition of “Eligible Inventory” shall be amended to add a new clause (p) to read as follows:
- (p) which has been acquired from a Sanctioned Person.
- v. The definition of “Federal Funds Effective Rate” set forth therein shall be amended to read as follows:
- “ Federal Funds Effective Rate ” means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the

Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Lender from three Federal funds brokers of recognized standing selected by it; provided, that, if the Federal Funds Effective Rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

vi. The definition of “LIBO Rate” set forth therein shall be amended to read as follows:

“LIBO Rate” means, with respect to any Eurodollar Borrowing for any applicable Interest Period or for any CB Floating Rate Loan, the London interbank offered rate as administered by ICE Benchmark Administration (or any other Person that takes over the administration of such rate for Dollars) for a period equal in length to such Interest Period as displayed on pages LIBOR01 or LIBOR02 of the Reuters screen that displays such rate (or, in the event such rate does not appear on a Reuters page or screen, on any successor or substitute page on such screen that displays such rate, or on the appropriate page of such other information service that publishes such rate from time to time as shall be selected by the Lender in its reasonable discretion; in each case, the “LIBO Screen Rate”) at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period; provided that, (x) if any LIBO Screen Rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement and (y) if the LIBO Screen Rate shall not be available at such time for a period equal in length to such Interest Period (an “Impacted Interest Period”), then the LIBO Rate shall be the Interpolated Rate at such time, subject to Section 2.13 in the event that the Lender shall conclude that it shall not be possible to determine such Interpolated Rate (which conclusion shall be conclusive and binding absent manifest error); provided further, that, if any Interpolated Rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement. Notwithstanding the above, to the extent that “LIBO Rate” or “Adjusted LIBO Rate” is used in connection with a CB Floating Rate Loan, such rate shall be determined as modified by the definition of Adjusted One Month LIBO Rate.

vii. The definition of “Maturity Date” set forth therein shall be amended to read as follows:

“Maturity Date” means July 31, 2016, or any earlier date on which the Revolving Commitment is reduced to zero or otherwise terminated pursuant to the terms hereof.

viii. The following new definitions shall be added to Section 1.01 in appropriate alphabetical order as follows:

“Anti-Corruption Laws” means all laws, rules, and regulations of any jurisdiction applicable to the Borrower or any of its Affiliates from time to time concerning or relating to bribery or corruption.

“Fourth Amendment Effective Date” means the date on which the conditions to effectiveness of the Amendment No. 4 to Credit Agreement dated as of July 29, 2015 are satisfied.

“Impacted Interest Period” shall have the meaning set forth in the definition of LIBO Rate.

“Interpolated Rate” means, at any time, for any Interest Period, the rate per annum (rounded to the same number of decimal places as the LIBO Screen Rate) determined by the Lender (which determination shall be conclusive and binding absent manifest error) to be equal to the rate that results from interpolating on a linear basis between: (a) the LIBO Screen Rate for the longest period (for which the LIBO Screen Rate is available) that is shorter than the Impacted Interest Period and (b) the LIBO Screen Rate for the shortest period (for which the LIBO Screen Rate is available) that exceeds the Impacted Interest Period, in each case, at such time.

“LIBO Screen Rate” shall have the meaning set forth in the definition of LIBO Rate.

“Sanctioned Country” means, at any time, a country or territory which is itself the subject or target of any Sanctions (at the time of this Agreement, Cuba, Iran, North Korea, Sudan and Syria).

“Sanctioned Person” means, at any time, (a) any Person listed in any Sanctions-related list of designated Persons maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. Department of State or by the United Nations Security Council, the European Union or any European Union member state, (b) any Person operating, organized or resident in a Sanctioned Country or (c) any Person owned or controlled by any such Person or Persons described in the foregoing clauses (a) or (b).

“ Sanctions ” means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by (a) the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State, or (b) the United Nations Security Council, the European Union, any European Union member state or Her Majesty’s Treasury of the United Kingdom.

- c. A new Section 3.17 shall be added to read in its entirety as follows:

SECTION 3.21. Anti-Corruption Laws and Sanctions . Borrower has implemented and maintains in effect policies and procedures designed to ensure compliance by Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions, and Borrower, its Subsidiaries and their respective officers and employees and, to the knowledge of Borrower, its directors and agents, are in compliance with Anti-Corruption Laws and applicable Sanctions in all material respects. None of (a) Borrower, any Subsidiary or, to the knowledge of Borrower or Subsidiary, any of their respective directors, officers or employees, or (b) to the knowledge of Borrower or any Subsidiary, any agent of Borrower or any Subsidiary that will act in any capacity in connection with or benefit from the credit facility established hereby, is a Sanctioned Person. No Borrowing or Letter of Credit, use of proceeds, or other transaction contemplated by this Agreement or the other Loan Documents will violate Anti-Corruption Laws or applicable Sanctions.

- d. Section 5.07 (Compliance with Laws) shall be amended to add the following sentence to the end of such section:

Borrower will maintain in effect and enforce policies and procedures designed to ensure compliance by Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions.

- e. Section 5.08 (Use of Proceeds and Letter of Credit) will be amended to add the following s to the end of such section:

Borrower will not request any Borrowing or Letter of Credit, and Borrower shall not use, and Borrower shall procure that its Subsidiaries and its and their respective directors, officers, employees and agents shall not use, the proceeds of any Borrowing or Letter of Credit (a) in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any Person in violation of any Anti-Corruption Laws, (b) for

the purpose of funding, financing or facilitating any activities, business or transaction of or with any Sanctioned Person, or in any Sanctioned Country, or (c) in any manner that would result in the violation of any Sanctions applicable to any party hereto.

f. Section 6.12(a) shall be amended in its entirety to read as follows:

(a) Minimum EBITDA. Borrower will not permit its EBITDA, determined as of the last day of each fiscal quarter of the Borrower for the twelve month period then ending, commencing with the fiscal quarter of the Borrower ending September 30, 2015, to be less than \$1,600,000.

3. Conditions: Notwithstanding the foregoing, this Amendment shall not become effective unless and until Lender receives:

- a. a fully-executed copy of this Amendment;
- b. a certificate of an officer of Borrower, certifying as to incumbency, organizational documents and authorization of this amendment; and
- c. such other certificates or documents as Lender or its counsel may reasonably request.

4. Representations and Warranties. Borrower repeats and reaffirms the representations and warranties set forth in Article III of the Credit Agreement as though made on and as of the date hereof, except for representations or warranties that are made as of a particular date. Borrower also represents and warrants that the execution, delivery and performance of this Amendment, and the documents required herein, are within the corporate powers of Borrower, have been duly authorized by all necessary corporate action and do not and will not (i) require any consent or approval of the shareholders of Borrower; (ii) violate any provision of the articles of incorporation or by-laws of Borrower or of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Borrower or any subsidiary of Borrower; (iii) require the consent or approval of, or filing a registration with, any governmental body, agency or authority, other than routine filings with the U.S. Securities and Exchange Commission; or (iv) result in any breach of or constitute a default under, or result in the imposition of any lien, charge or encumbrance upon any property of Borrower or any subsidiary of Borrower pursuant to, any indenture or other agreement or instrument under which Borrower or any subsidiary of Borrower is a party or by which it or its properties may be bound or affected. This Amendment constitutes the legal, valid and binding obligation of Borrower enforceable in accordance with its terms, except as such enforceability may be limited by bankruptcy or similar laws affecting the enforceability of creditors' rights generally.

5. Obligations Enforceable, Etc. Borrower acknowledges and agrees that its obligations under the Credit Agreement are not subject to any offset, defense or counterclaim assertable by Borrower and that the Credit Agreement and the Loan Documents are valid, binding

and fully enforceable according to their respective terms. Except as expressly provided above, the Credit Agreement and the Loan Documents shall remain in full force and effect, and this Amendment shall not release, discharge or satisfy any present or future debts, obligations or liabilities to Lender of Borrower or of any debtor, guarantor or other person or entity liable for payment or performance of any of such debts, obligations or liabilities of Borrower, or any security interest, lien or other collateral or security for any of such debts, obligations or liabilities of Borrower or such debtors, guarantors, or other persons or entities, or waive any default, and Lender expressly reserves all of its rights and remedies with respect to Borrower and all such debtors, guarantors or other persons or entities, and all such security interests, liens and other collateral and security. This is an amendment and not a novation. Without limiting the generality of the foregoing, all present and future debts, obligations and liabilities of Borrower under the Credit Agreement, as amended, are and shall continue to be secured by the Security Agreement and any other Collateral Documents.

6. Fees and Expenses. As contemplated by Section 8.03(a) of the Credit Agreement, Borrower shall be responsible for the payment of all fees and out-of-pocket disbursements incurred by Lender in connection with the preparation, execution and delivery of this Amendment. Borrower further acknowledges and agrees that, pursuant to and on the terms set forth in such Section 8.03(a), Borrower is and shall be responsible for the payment of other fees, expenses, costs and charges arising under or relating to the Credit Agreement, as amended hereby, and the Loan Documents, as set forth in such Section 8.03(a).

7. Entire Agreement. This Amendment and the other documents referred to herein contain the entire agreement between Lender and Borrower with respect to the subject matter hereof, superseding all previous communications and negotiations, and no representation, undertaking, promise or condition concerning the subject matter hereof shall be binding upon Lender unless clearly expressed in this Agreement or in the other documents referred to herein.

8. Miscellaneous. The provisions of this Amendment shall inure to the benefit of any holder of any Obligations, and shall inure to the benefit of and be binding upon any successor to any of the parties hereto. All agreements, representations and warranties made herein shall survive the execution of this Amendment and the making of the loans under the Credit Agreement, as so amended. This Amendment shall be governed by and construed in accordance with the internal laws of the State of Wisconsin. This Amendment may be signed in any number of counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument. This Amendment is solely for the benefit of the parties hereto and their permitted successors and assigns. No other person or entity shall have any rights under, or because of the existence of, this Amendment.



IN WITNESS WHEREOF , this Amendment has been duly executed as of the day and year first above written.

**KOSS CORPORATION**

By: /s/ David Smith  
Name: David Smith  
Title: Executive Vice President and Chief Financial Officer

**JPMORGAN CHASE BANK, N.A.**

By: /s/ Glenn M. Margraff  
Name: Glenn M. Margraff  
Title: Authorized Signatory

*[Signature Page to Amendment No. 4 to Credit Agreement]*

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements (Nos. 333-89872, 333-37986, 333-20405 and 333-184754) on Form S-8 of our report dated August 27, 2015 , relating to the consolidated financial statements of Koss Corporation and Subsidiary as of and for the years ended June 30, 2015 and 2014 , appearing in this Annual Report on Form 10-K of Koss Corporation for the year ended June 30, 2015 .

/s/ BAKER TILLY VIRCHOW KRAUSE, LLP

Milwaukee, Wisconsin  
August 27, 2015

**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 annual report on Form 10-K 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 consolidated 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.

August 27, 2015

/s/ Michael J. Koss

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Michael J. Koss

Chief Executive Officer and President

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

I, David D. Smith, certify that:

1. I have reviewed this annual report on Form 10-K 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 consolidated 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.

August 27, 2015

/s/ David D. Smith

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David D. Smith

Executive Vice President and  
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 Annual Report on Form 10-K of the Company for the year ended June 30, 2015 (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

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Michael J. Koss

Chief Executive Officer and President

August 27, 2015

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, David D. Smith, 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 Annual Report on Form 10-K of the Company for the year ended June 30, 2015 (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/ David D. Smith

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David D. Smith

Executive Vice President and

Chief Financial Officer

August 27, 2015

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.