

KOSS CORP
Form 10-Q
October 27, 2017
Index

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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended September 30, 2017

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)

DELAWARE 39-1168275
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

4129 North Port Washington Avenue, Milwaukee, Wisconsin 53212
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

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

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

At October 23, 2017, there were 7,382,706 shares outstanding of the registrant's common stock.

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FORM 10-Q
September 30, 2017

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IndexPART I
FINANCIAL INFORMATION

Item 1. Financial Statements

KOSS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| | (Unaudited) | |
|--|-----------------------|------------------|
| | September 30, 2017 | June 30, 2017 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 241,148 | \$432,283 |
| Accounts receivable, less allowance for doubtful accounts of \$53,626 and \$55,872, respectively | 3,965,214 | 3,931,541 |
| Inventories | 8,371,937 | 8,345,343 |
| Prepaid expenses and other current assets | 332,629 | 206,395 |
| Income taxes receivable | 67,607 | 32,814 |
| Total current assets | 12,978,535 | 12,948,376 |
| Equipment and leasehold improvements, net | 1,433,974 | 1,408,091 |
| Other assets: | | |
| Deferred income taxes | 2,986,999 | 3,042,257 |
| Cash surrender value of life insurance | 6,328,047 | 6,024,929 |
| Total other assets | 9,315,046 | 9,067,186 |
| Total assets | \$ 23,727,555 | \$23,423,653 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,433,391 | \$2,243,110 |
| Accrued liabilities | 1,155,487 | 1,149,395 |
| Total current liabilities | 3,588,878 | 3,392,505 |
| Long-term liabilities: | | |
| Deferred compensation | 2,302,824 | 2,294,418 |
| Other liabilities | 163,000 | 164,418 |
| Total long-term liabilities | 2,465,824 | 2,458,836 |
| Total liabilities | 6,054,702 | 5,851,341 |
| 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 | 5,503,751 | 5,420,710 |
| Retained earnings | 12,132,188 | 12,114,688 |
| Total stockholders' equity | 17,672,853 | 17,572,312 |

| | | |
|--|---------------|---------------|
| Total liabilities and stockholders' equity | \$ 23,727,555 | \$ 23,423,653 |
|--|---------------|---------------|

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

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KOSS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

| | Three Months Ended September 30 | |
|--|------------------------------------|-------------|
| | 2017 | 2016 |
| Net sales | \$6,066,630 | \$6,348,706 |
| Cost of goods sold | 4,392,676 | 4,406,447 |
| Gross profit | 1,673,954 | 1,942,259 |
| Selling, general and administrative expenses | 1,647,706 | 1,775,771 |
| Unauthorized transaction related (recoveries) costs, net | (14,409) | 37,500 |
| Interest expense | 2,692 | 846 |
| Income before income tax provision | 37,965 | 128,142 |
| Income tax provision | 20,465 | 43,931 |
| Net income | \$17,500 | \$84,211 |
| Income per common share: | | |
| Basic | \$— | \$0.01 |
| Diluted | \$— | \$0.01 |

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

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KOSS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Three Months Ended September 30 | |
|---|------------------------------------|------------|
| | 2017 | 2016 |
| Operating activities: | | |
| Net income | \$ 17,500 | \$ 84,211 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| (Recovery of) provision for doubtful accounts | (3,653) | 705 |
| Depreciation of equipment and leasehold improvements | 131,359 | 123,837 |
| Stock-based compensation expense | 83,041 | 88,523 |
| Deferred income taxes | 55,258 | 66,990 |
| Change in cash surrender value of life insurance | (172,382) | (181,176) |
| Change in deferred compensation accrual | 45,906 | 38,777 |
| Deferred compensation paid | (37,500) | (37,500) |
| Net changes in operating assets and liabilities (see note 10) | (22,686) | (121,922) |
| Cash provided by operating activities | 96,843 | 62,445 |
| Investing activities: | | |
| Purchase of equipment and leasehold improvements | (157,242) | (206,309) |
| Life insurance premiums paid | (130,736) | (131,608) |
| Cash (used in) investing activities | (287,978) | (337,917) |
| Net (decrease) in cash and cash equivalents | (191,135) | (275,472) |
| Cash and cash equivalents at beginning of period | 432,283 | 735,393 |
| Cash and cash equivalents at end of period | \$ 241,148 | \$ 459,921 |

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

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KOSS CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2017
 (Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated balance sheet of Koss Corporation (the "Company") as of June 30, 2017, has been derived from audited financial statements. The unaudited condensed consolidated financial statements presented herein are based on interim amounts. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") have been condensed or omitted. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. The operating results for the three months ended September 30, 2017, are not necessarily indicative of the operating results that may be experienced for the full fiscal year ending June 30, 2018.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

2. NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 (Topic 606), Revenue from Contracts with Customers. This new standard supersedes nearly all existing revenue recognition guidance and provides a five-step analysis to determine when and how revenue is recognized. The underlying principle is to recognize revenue when promised goods or services transfer to the customer. The amount of revenue recognized is to reflect the consideration expected to be received for those goods or services. The new standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenues and cash flows arising from customer contracts. The standard permits the use of either the retrospective or cumulative effect transition method. The Company will adopt the new standard in the first quarter of fiscal 2019 and anticipates using the retrospective method.

The Company has begun the assessment of the new standard through review of customer contracts and identification of what performance obligations exist. The preliminary results of our assessment indicate that the Company does not expect a material impact on its consolidated financial statements. The Company is continuing its assessment and may identify other impacts.

3. 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 three months ended September 30, 2016, the costs incurred were for legal fees related to claims initiated against third parties (see Note 13). For the three months ended September 30, 2017 and 2016, the costs and recoveries were as follows:

| Three Months Ended September 30 | |
|---------------------------------------|------|
| 2017 | 2016 |

| | | |
|--|------------|----------|
| Legal fees incurred | \$— | \$37,500 |
| Proceeds from asset forfeitures | (14,409) | — |
| Unauthorized transaction related (recoveries) costs, net | \$(14,409) | \$37,500 |

4. INVENTORIES

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The components of inventories were as follows:

| | September 30, June 30, | |
|----------------------------------|------------------------|--------------|
| | 2017 | 2017 |
| Raw materials | \$ 2,848,202 | \$ 2,900,499 |
| Work-in process | 2,603 | — |
| Finished goods | 7,978,627 | 7,895,561 |
| | 10,829,432 | 10,796,060 |
| Allowance for obsolete inventory | (2,457,495) | (2,450,717) |
| Total inventories | \$ 8,371,937 | \$ 8,345,343 |

5. INCOME TAXES

The Company files income tax returns in the United States federal jurisdiction and in several state jurisdictions. The Company's federal tax returns for tax years beginning July 1, 2013 or later 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, 2013 and forward. For the three months ended September 30, 2017, the Company recorded an income tax expense of \$20,465, compared to income tax expense of \$43,931 for the three months ended September 30, 2016.

The Company does not believe it has any unrecognized tax benefits as of September 30, 2017 and as of June 30, 2017. Any changes to the Company's unrecognized tax benefits as of September 30, 2017, if recognized, would impact the effective tax rate.

6. 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 May 31, 2016, the Credit Agreement was amended to extend the expiration to July 31, 2018, and to amend certain financial covenants. On June 29, 2017, the Credit Agreement was amended to reduce the facility to \$4,000,000 and to eliminate the 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 of up to a sublimit of \$2,000,000 and subject to certain other limitations. The loan may be used only for general corporate purposes of the Company. 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. The Company is currently in compliance with all covenants related to the Credit Facility. As of September 30, 2017 and June 30, 2017, there were no outstanding borrowings on the facility.

The Company incurs interest expense primarily related to its secured credit facility. Interest expense was \$2,692 and \$846 for the three months ended September 30, 2017 and 2016, respectively.

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7. ACCRUED LIABILITIES

Accrued liabilities were as follows:

| | September 30, 2017 | June 30, 2017 |
|--|-----------------------|------------------|
| Cooperative advertising and promotion allowances | \$ 336,986 | \$415,050 |
| Product warranty obligations | 214,230 | 220,541 |
| Customer credit balances | 183,941 | 21,175 |
| Current deferred compensation | 150,000 | 150,000 |
| Accrued returns | 46,364 | 53,915 |
| Interest | 1,932 | — |
| Employee benefits | 50,442 | 54,074 |
| Legal and professional fees | 40,000 | 86,500 |
| Management bonuses and profit-sharing | 3,527 | — |
| Sales commissions and bonuses | 53,433 | 83,654 |
| Other | 74,632 | 64,486 |
| Total accrued liabilities | \$ 1,155,487 | \$ 1,149,395 |

8. INCOME PER COMMON AND COMMON STOCK EQUIVALENT SHARE

Basic income 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 periods ended September 30, 2017 and 2016. When dilutive, stock options are included in income per share as share equivalents using the treasury stock method. For the periods ended September 30, 2017 and 2016, there were no common stock equivalents related to stock option grants that were included in the computation of the weighted-average number of shares outstanding for diluted income per share. Shares issuable upon the exercise of outstanding options of 2,395,000 and 2,365,000 were excluded from the diluted weighted-average common shares outstanding for the periods ended September 30, 2017 and 2016, respectively, as they would be anti-dilutive.

9. STOCK OPTIONS

The Company recognizes stock-based compensation expense for options granted under both the 1990 Flexible Incentive Plan and the 2012 Omnibus Incentive Plan. The stock-based compensation relates to stock options granted to employees, non-employee directors and non-employee consultants. In the three months ended September 30, 2017, options to purchase 490,000 shares were granted under the 2012 Omnibus Incentive Plan at a weighted average exercise price of \$1.89. In the three months ended September 30, 2016, options to purchase 485,000 shares were granted under the 2012 Omnibus Incentive Plan at a weighted average exercise price of \$2.33. Stock-based compensation expense during the three months ended September 30, 2017 was \$83,041. Stock-based compensation expense during the three months ended September 30, 2016 was \$88,523.

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10. ADDITIONAL CASH FLOW INFORMATION

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

| | Three Months Ended | |
|---|--------------------|-------------|
| | September 30 | |
| | 2017 | 2016 |
| Accounts receivable | \$(30,020) | \$270,170 |
| Inventories | (26,594) | 1,207,792 |
| Income taxes receivable | (34,793) | (23,059) |
| Prepaid expenses and other current assets | (126,234) | (226,315) |
| Accounts payable | 190,281 | (1,332,411) |
| Accrued liabilities | 6,092 | (11,599) |
| Other liabilities | (1,418) | (6,500) |
| Net change | \$(22,686) | \$(121,922) |

Net cash paid during the period for:

| | | |
|--------------|---------|-------|
| Income taxes | \$— | \$10 |
| Interest | \$1,759 | \$846 |

11. STOCKHOLDERS' EQUITY

The following table summarizes the changes in stockholders' equity:

| | Three Months | |
|----------------------------------|--------------|-----------|
| | Ended | |
| | September 30 | |
| | 2017 | 2016 |
| Net income | \$17,500 | \$84,211 |
| Stock-based compensation expense | 83,041 | 88,523 |
| Increase in stockholders' equity | \$100,541 | \$172,734 |

12. COMMITMENTS AND CONTINGENCIES

The Company leases its facility in Milwaukee, Wisconsin from Koss Holdings, LLC, which is wholly-owned by the former Chairman. On January 5, 2017, the lease was renewed for a period of five years, ending June 30, 2023, 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.

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13. LEGAL MATTERS

As of September 30, 2017, the Company is party to the following matter related to the unauthorized transactions described below:

On December 17, 2010, the Company filed an action against Park Bank in Circuit Court of Milwaukee County, Wisconsin alleging a claim of breach of the Uniform Fiduciaries Act relating to the unauthorized transactions, as previously reported. 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. On or around March 11, 2016, the Court entered an order granting Park Bank's motion for summary judgment that dismissed the case. On March 22, 2016, the Company filed a Notice of Appeal that appeals the order granting Park Bank's motion for summary judgment and the Court's denial of the motion to dismiss the subrogation claims. Park Bank also filed a cross–appeal that appeals the Court's order that granted the motions to dismiss the contribution claims against Grant Thornton LLP and Michael Koss. The case remains on appeal.

The ultimate resolution of this matter is not determinable unless otherwise noted.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

Overview

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

Results of Operations Summary

Net sales for the quarter ended September 30, 2017, decreased \$282,076 to \$6,066,630, compared to the same quarter last year. This decrease was primarily caused by a decrease in sales to export distributors in general and an OEM customer in Asia, partially offset by an increase in sales to the Scandinavian distributor and domestic customers. Gross profit as a percent of sales decreased for the three months ended September 30, 2017 compared to the same periods last year. The decrease was primarily driven by the sale of certain products at lower margin due to associated burden that was capitalized in prior periods.

Selling, general and administrative expenses for the three months ended September 30, 2017 decreased compared to the same period in the prior year primarily due to decreases in employment related expenses and travel expense.

Financial Results

The following table presents selected financial data for the three months ended September 30, 2017 and 2016:

| Financial Performance Summary | Three Months Ended September 30 | | | |
|--|------------------------------------|----|-------------|---|
| | 2017 | | 2016 | |
| Net sales | \$6,066,630 | | \$6,348,706 | |
| Net sales (decrease) increase % | (4.4 |)% | 14.8 | % |
| Gross profit | \$1,673,954 | | \$1,942,259 | |
| Gross profit as % of net sales | 27.6 | % | 30.6 | % |
| Selling, general and administrative expenses | \$1,647,706 | | \$1,775,771 | |
| Selling, general and administrative expenses as % of net sales | 27.2 | % | 28.0 | % |
| Unauthorized transaction related (recoveries) costs, net | \$(14,409 |) | \$37,500 | |
| Interest expense | \$2,692 | | \$846 | |
| Income before income tax provision | \$37,965 | | \$128,142 | |
| Income before income tax as % of net sales | 0.6 | % | 2.0 | % |
| Income tax provision | \$20,465 | | \$43,931 | |
| Income tax provision as % of income before income tax | 53.9 | % | 34.3 | % |

2017 Results Compared with 2016

For the three months ended September 30, 2017, sales decreased 4.4% to \$6,066,630. A decline in sales to export distributors in general and an OEM customer in Asia were partially offset by increased sales to domestic customers.

Net sales in the domestic market were approximately \$4,280,000 in the three months ended September 30, 2017, which is an increase from last year's approximately \$3,872,000. Increased sales through mass retail and music stores were partially offset by a decline in sales to an OEM customer.

Export net sales decreased to approximately \$1,787,000 for the three months ended September 30, 2017, compared to approximately \$2,477,000 for the three months ended September 30, 2016. Sales to distributors in Europe and Asia in general decreased, however the decrease was partially offset by increased sales to the Scandinavian distributor as they started to replenish their inventory and add new items.

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Gross profit decreased to 27.6% for the three months ended September 30, 2017, compared to 30.6% for the three months ended September 30, 2016. The decrease is primarily driven by a reduction of burden in inventory during the three months ended September 30, 2017 as the related product was sold.

Selling, general and administrative expenses for the three months ended September 30, 2017 decreased compared to the prior year. Lower expense for incentive compensation, travel, salary and 401(k) match expense contributed to this decrease.

Interest expense for the three months ended September 30, 2017 was higher than the same period last year due to more extended periods of borrowing to cover timing differences between cash provided and used by operations.

The effective income tax rate for the three months ended September 30, 2017, was 53.9%, which is comprised of the U.S. federal statutory rate of 34%, plus an increase caused by a permanent tax difference related to stock-based compensation, and the effect of state income taxes. It is anticipated that the effective income tax rate will be approximately 50-54% for the year ending June 30, 2018

Liquidity and Capital Resources

Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for the three months ended September 30, 2017 and 2016:

| | | |
|---|-------------|-------------|
| Total cash provided by (used in): | 2017 | 2016 |
| Operating activities | \$96,843 | \$62,445 |
| Investing activities | (287,978) | (337,917) |
| Financing activities | — | — |
| Net (decrease) in cash and cash equivalents | \$(191,135) | \$(275,472) |

Operating Activities

An increase in accounts payable partially offset by an increase in prepaid expenses during the three months ended September 30, 2017, drove the increase in cash provided by operating activities.

Investing Activities

Cash used in investing activities was lower for the three months ended September 30, 2017, as the Company had decreased expenditures for tooling related to new product introductions. During the fiscal year ending June 30, 2018, the Company anticipates it will incur total expenditures for tooling, leasehold improvements and capital expenditures similar to last fiscal year. The Company expects to generate sufficient cash flow through operations or through the use of its credit facility to fund these expenditures.

Financing Activities

As of September 30, 2017 and 2016, the Company had no outstanding borrowings on its bank line of credit facility.

There were no purchases of common stock in 2017 or 2016 under the stock repurchase program. No stock options were exercised in 2017 or 2016.

Liquidity

The Company's capital expenditures are primarily for tooling. In addition, it has interest payments on its borrowings when it uses its line of credit facility. The Company believes that cash generated from operations, together with cash reserves and borrowings available under its credit facility, provide it with adequate liquidity to meet operating requirements, debt service requirements and planned capital expenditures for the next twelve months and thereafter for the foreseeable future. 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.

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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 letters of credit for the benefit of the Company of up to a sublimit of \$2,000,000. On May 31, 2016, the Credit Agreement was amended to extend the expiration to July 31, 2018, and to amend certain financial covenants. On June 29, 2017, the Credit Agreement was amended to reduce the facility to \$4,000,000 and to eliminate the financial covenants. 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. The Company is currently in compliance with all covenants related to the Credit Facility. As of September 30, 2017 and June 30, 2017, there were no outstanding borrowings on the facility.

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 the former Chairman. On January 5, 2017, the lease was renewed for a period of five years, ending June 30, 2023, 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.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are designed to ensure that: (1) information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms; and (2) such information is accumulated and communicated to management, including the chief 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 September 30, 2017. The Company’s management has concluded that the Company’s disclosure controls and procedures as of September 30, 2017 were effective.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

IndexPART II
OTHER INFORMATION

Item 1. Legal Proceedings

As of September 30, 2017, the Company is currently involved in legal matters that are described in Note 13 to the condensed consolidated financial statements, which description is incorporated herein by reference.

Item 1A. Risk Factors

Not applicable.

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

The following table presents information with respect to purchases of common stock of the Company made during the three months ended September 30, 2017, by the Company.

COMPANY REPURCHASES OF EQUITY SECURITIES

| Period (2017) | Total # of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (1) | Approximate Dollar Value of Shares Available under Repurchase Plan |
|-----------------------|-----------------------------|------------------------------|---|--|
| July 1 - September 30 | — | \$ | — | \$ 2,139,753 |

(1) In April of 1995, the Board of Directors approved a stock repurchase program authorizing the Company to purchase from time to time up to \$2,000,000 of its common stock for its own account. Subsequently, the Board of Directors periodically has approved increases in the stock repurchase program. The most recent increase was for an additional \$2,000,000 in October 2006, for a maximum of \$45,500,000 of which \$43,360,247 had been expended through September 30, 2017.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No. Exhibit Description

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer *

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer *

32.1 Section 1350 Certification of Chief Executive Officer **

32.2 Section 1350 Certification of Chief Financial Officer **

101 The following financial information from Koss Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2017 and June 30, 2017, (ii) Condensed Consolidated Statements of Income (Unaudited) for the three months ended September 30, 2017 and 2016 (iii) Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended September 30, 2017 and 2016 and (iv) the Notes to Condensed Consolidated Financial Statements (Unaudited). *

* Filed herewith

**Furnished herewith

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SIGNATURES

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

KOSS
CORPORATION

/s/ Michael J. Koss October 27, 2017

Michael J. Koss
Chairman
Chief Executive
Officer

/s/ David D. Smith October 27, 2017

David D. Smith
Chief Financial
Officer
Principal
Accounting Officer