

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended December 31, 2016

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

(State or other jurisdiction of
incorporation or organization)

39-1168275

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

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

53212
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

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

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

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FORM 10-Q
December 31, 2016

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

KOSS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

| | Three Months Ended December 31 | | Six Months Ended December 31 | |
|---|-----------------------------------|--------------|---------------------------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net sales | \$ 6,687,797 | \$ 7,229,341 | \$ 13,036,503 | \$ 12,760,603 |
| Cost of goods sold | 4,481,086 | 4,566,518 | 8,887,533 | 8,451,445 |
| Gross profit | 2,206,711 | 2,662,823 | 4,148,970 | 4,309,158 |
| Selling, general and administrative expenses | 1,987,391 | 1,989,114 | 3,763,162 | 3,754,860 |
| Unauthorized transaction related (recoveries) costs, net | (3,404) | 37,475 | 34,096 | 74,950 |
| Interest expense | 118 | 757 | 964 | 6,075 |
| Income before income tax provision | 222,606 | 635,477 | 350,748 | 473,273 |
| Income tax provision | 82,494 | 248,845 | 126,425 | 187,445 |
| Net income | \$ 140,112 | \$ 386,632 | \$ 224,323 | \$ 285,828 |
| Income per common share: | | | | |
| Basic | \$ 0.02 | \$ 0.05 | \$ 0.03 | \$ 0.04 |
| Diluted | \$ 0.02 | \$ 0.05 | \$ 0.03 | \$ 0.04 |

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

KOSS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| | (Unaudited) | |
|--|----------------------|----------------------|
| | December 31, 2016 | June 30, 2016 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 807,909 | \$ 735,393 |
| Accounts receivable, less allowance for doubtful accounts of \$54,237 and \$55,175, respectively | 3,678,523 | 3,530,854 |
| Inventories | 7,980,299 | 8,595,485 |
| Prepaid expenses and other current assets | 407,367 | 281,099 |
| Income taxes receivable | 533,134 | 583,507 |
| Total current assets | 13,407,232 | 13,726,338 |
| Equipment and leasehold improvements, net | 1,595,033 | 1,514,472 |
| Other assets: | | |
| Deferred income taxes | 3,136,503 | 3,212,556 |
| Cash surrender value of life insurance | 5,979,416 | 5,667,105 |
| Total other assets | 9,115,919 | 8,879,661 |
| Total assets | \$ 24,118,184 | \$ 24,120,471 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,998,121 | \$ 1,966,656 |
| Accrued liabilities | 1,168,773 | 1,601,652 |
| Total current liabilities | 3,166,894 | 3,568,308 |
| Long-term liabilities: | | |
| Deferred compensation | 2,190,268 | 2,187,714 |
| Other liabilities | 173,460 | 178,255 |
| Total long-term liabilities | 2,363,728 | 2,365,969 |
| Total liabilities | 5,530,622 | 5,934,277 |
| 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 | 5,248,001 | 5,070,956 |
| Retained earnings | 13,302,647 | 13,078,324 |
| Total stockholders' equity | 18,587,562 | 18,186,194 |
| Total liabilities and stockholders' equity | \$ 24,118,184 | \$ 24,120,471 |

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

KOSS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Six Months Ended | |
|---|------------------|--------------|
| | December 31 | |
| | 2016 | 2015 |
| Operating activities: | | |
| Net income | \$ 224,323 | \$ 285,828 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Recovery of doubtful accounts | (1,811) | (14,179) |
| Loss on disposal of equipment and leasehold improvements | — | 4,987 |
| Depreciation of equipment and leasehold improvements | 254,820 | 251,936 |
| Stock-based compensation expense | 177,045 | 245,408 |
| Deferred income taxes | 76,053 | 46,969 |
| Change in cash surrender value of life insurance | (180,542) | (132,293) |
| Change in deferred compensation accrual | 77,554 | 47,537 |
| Deferred compensation paid | (75,000) | (75,000) |
| Net changes in operating assets and liabilities (see note 9) | (12,776) | 858,995 |
| Cash provided by operating activities | 539,666 | 1,520,188 |
| Investing activities: | | |
| Life insurance premiums paid | (131,769) | (129,381) |
| Purchase of equipment and leasehold improvements | (335,381) | (259,662) |
| Cash (used in) investing activities | (467,150) | (389,043) |
| Net increase in cash and cash equivalents | 72,516 | 1,131,145 |
| Cash and cash equivalents at beginning of period | 735,393 | 1,000,266 |
| Cash and cash equivalents at end of period | \$ 807,909 | \$ 2,131,411 |

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

KOSS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016
(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated balance sheet of Koss Corporation (the "Company") as of June 30, 2016, 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 six months ended December 31, 2016, are not necessarily indicative of the operating results that may be experienced for the full fiscal year ending June 30, 2017.

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, 2016.

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 three and six months ended December 31, 2016 and 2015, the costs incurred were for legal fees related to claims initiated against third parties (see Note 11). For the three and six months ended December 31, 2016 and 2015, the costs and recoveries were as follows:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------|------------------|-----------|
| | December 31 | | December 31 | |
| | 2016 | 2015 | 2016 | 2015 |
| Legal fees incurred | \$ — | \$ 37,500 | \$ 37,500 | \$ 75,000 |
| Proceeds from asset forfeitures | (3,404) | (25) | (3,404) | (50) |
| Unauthorized transaction related (recoveries) costs, net | \$ (3,404) | \$ 37,475 | \$ 34,096 | \$ 74,950 |

3. INVENTORIES

The components of inventories were as follows:

| | December 31, 2016 | June 30, 2016 |
|----------------------------------|-------------------|---------------|
| Raw materials | \$ 2,893,371 | \$ 3,466,907 |
| Work-in process | 6,522 | — |
| Finished goods | 7,556,560 | 7,570,026 |
| | 10,456,453 | 11,036,933 |
| Allowance for obsolete inventory | (2,476,154) | (2,441,448) |
| Total inventories | \$ 7,980,299 | \$ 8,595,485 |

4. 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, 2012 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, 2012 and forward. For the three and six months ended December 31, 2016, the Company recorded an income tax expense of \$82,494 and \$126,425, respectively, compared to an income tax expense of \$248,845 and \$187,445 for the three and six months ended December 31, 2015, respectively.

The Company does not believe it has any unrecognized tax benefits as of December 31, 2016 and as of June 30, 2016. Any changes to the Company's unrecognized tax benefits as of December 31, 2016, if recognized, would impact the effective tax rate.

5. 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 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 May 31, 2016, the Credit Agreement was amended to extend the expiration to July 31, 2018, and to amend certain financial covenants. On October 31, 2016, the Credit Agreement was amended to amend certain reporting requirements. 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 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 debt service coverage ratio 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. The Company is currently in compliance with all covenants related to the Credit Facility. As of December 31, 2016 and June 30, 2016, there were no outstanding borrowings on the facility.

The Company incurs interest expense primarily related to its secured credit facility. Interest expense was \$118 and \$964 for the three and six months ended December 31, 2016, respectively. For the three and six months ended December 31, 2015, interest expense was \$757 and \$6,075, respectively.

6. ACCRUED LIABILITIES

Accrued liabilities were as follows:

| | December 31, 2016 | June 30, 2016 |
|--|---------------------|---------------------|
| Cooperative advertising and promotion allowances | \$ 335,129 | \$ 479,645 |
| Product warranty obligations | 254,807 | 305,275 |
| Customer credit balances | 19,084 | 47,753 |
| Current deferred compensation | 150,000 | 150,000 |
| Accrued returns | 90,444 | 140,918 |
| Interest | 1,417 | — |
| Employee benefits | 75,581 | 83,113 |
| Legal and professional fees | 92,500 | 127,329 |
| Management bonuses and profit-sharing | 67,581 | 147,450 |
| Sales commissions and bonuses | 45,567 | 70,050 |
| Other | 36,663 | 50,119 |
| Total accrued liabilities | \$ 1,168,773 | \$ 1,601,652 |

7. 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 December 31, 2016 and 2015. When dilutive, stock options are included in income per share as share equivalents using the treasury stock method. For the periods ended December 31, 2016 and 2015, 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 2,365,000 and 2,335,000 were excluded from the diluted weighted-average common shares outstanding for the periods ended December 31, 2016 and 2015, respectively, as they would be anti-dilutive.

8. 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 six months ended December 31, 2016, options to purchase 485,000 shares were granted under the 2012 Omnibus Incentive Plan at a weighted average exercise price of \$2.33. In the six months ended December 31, 2015, options to purchase 390,000 shares were granted under the 2012 Omnibus Incentive Plan at a weighted average exercise price of \$2.76. Stock-based compensation expense during the three and six months ended December 31, 2016 was \$88,522 and \$177,045, respectively. Stock-based compensation expense during the three and six months ended December 31, 2015 was \$129,404 and \$245,408, respectively.

9. ADDITIONAL CASH FLOW INFORMATION

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

| | Six Months Ended December 31 | |
|---|---------------------------------|------------|
| | 2016 | 2015 |
| Accounts receivable | \$ (145,858) | \$ 324,032 |
| Inventories | 615,186 | 142,187 |
| Income taxes receivable | 50,373 | 140,476 |
| Prepaid expenses and other current assets | (126,268) | (40,294) |
| Accounts payable | 31,465 | (545,618) |
| Accrued liabilities | (432,879) | 865,018 |
| Other liabilities | (4,795) | (26,806) |
| Net change | \$ (12,776) | \$ 858,995 |
| Net cash paid during the period for: | | |
| Income taxes | \$ 810 | \$ 800 |
| Interest | \$ 964 | \$ 6,075 |

10. STOCKHOLDERS' EQUITY

The following table summarizes the changes in stockholders' equity:

| | Six Months Ended December 31 | |
|----------------------------------|---------------------------------|------------|
| | 2016 | 2015 |
| Net income | \$ 224,323 | \$ 285,828 |
| Stock-based compensation expense | 177,045 | 245,408 |
| Increase in stockholders' equity | \$ 401,368 | \$ 531,236 |

11. LEGAL MATTERS

As of December 31, 2016, 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. The case remains on appeal.

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

12. SUBSEQUENT EVENTS

The Company leases the 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.

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," "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-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.

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 December 31, 2016, decreased 7.5% to \$6,687,797, compared to the same quarter last year. This decrease was primarily caused by a decline in sales to distributors in Scandinavia and Asia. For the six months ended December 31, 2016, net sales were \$13,036,503 compared to \$12,760,603 for the same period last year for an increase of 2.2%. This sales increase was primarily due to higher sales to an original equipment manufacturer ("OEM") in Asia which was partially offset by a decline in sales to distributors in Scandinavia and Asia.
- Gross profit as a percent of sales decreased for the three and six months ended December 31, 2016 compared to the same periods last year. These fluctuations were primarily due to the change in the mix of business by product, customer and sales channels.
- Selling, general and administrative expenses for the three and six months ended December 31, 2016 were consistent with the same periods in the prior year.

Financial Results

The following table presents selected financial data for the three and six months ended December 31, 2016 and 2015:

| Financial Performance Summary | Three Months Ended | | Six Months Ended | |
|--|---------------------------|--------------|-------------------------|---------------|
| | December 31 | | December 31 | |
| | 2016 | 2015 | 2016 | 2015 |
| Net sales | \$ 6,687,797 | \$ 7,229,341 | \$ 13,036,503 | \$ 12,760,603 |
| Net sales (decrease) increase % | (7.5)% | 2.7% | 2.2% | 2.0% |
| Gross profit | \$ 2,206,711 | \$ 2,662,823 | \$ 4,148,970 | \$ 4,309,158 |
| Gross profit as % of net sales | 33.0 % | 36.8% | 31.8% | 33.8% |
| Selling, general and administrative expenses | \$ 1,987,391 | \$ 1,989,114 | \$ 3,763,162 | \$ 3,754,860 |
| Selling, general and administrative expenses as % of net sales | 29.7 % | 27.5% | 28.9% | 29.4% |
| Unauthorized transaction related (recoveries) costs, net | \$ (3,404) | \$ 37,475 | \$ 34,096 | \$ 74,950 |
| Interest expense | \$ 118 | \$ 757 | \$ 964 | \$ 6,075 |
| Income before income tax provision | \$ 222,606 | \$ 635,477 | \$ 350,748 | \$ 473,273 |
| Income before income tax as % of net sales | 3.3 % | 8.8% | 2.7% | 3.7% |
| Income tax provision | \$ 82,494 | \$ 248,845 | \$ 126,425 | \$ 187,445 |
| Income tax provision as % of income before income tax | 37.1 % | 39.2% | 36.0% | 39.6% |

2016 Results Compared with 2015

For the three months ended December 31, 2016, sales decreased compared to the same period last year. The decline of 7.5% was primarily due to a decline in sales to distributors in Scandinavia and Asia partially offset by increased sales to the OEM customer in Asia. For the six months ended December 31, 2016, sales increased 2.2% to \$13,036,503. Sales to the OEM customer in Asia combined with improved sales to domestic distributors for the first six months more than offset the decline in sales to distributors in Scandinavia and Asia.

Net sales in the domestic market were approximately \$4,083,000 in the three months ended December 31, 2016, which is an increase from last year's approximately \$3,775,000. For the six months ended December 31, 2016, the domestic sales increased

to approximately \$7,906,000 compared to \$7,799,000 last year. Increased sales through on-line retail and certain distributors were the primary drivers of these increases.

Export net sales have decreased to approximately \$2,604,000 for the three months ended December 31, 2016, compared to approximately \$3,454,000 for the three months ended December 31, 2015. The Scandinavian and Asian distributors both have excess inventories of certain products resulting in lower purchases. These declines more than offset the increased sales from the OEM customer in Asia. For the six months ended December 31, 2016, the export net sales increased to approximately \$5,131,000 compared to \$4,962,000 last year. Sales to the OEM customer in Asia and increased sales to distributors in Russia and Ukraine more than offset the decline in sales to distributors in Scandinavia and Asia.

Gross profit decreased to 33.0% for the three months ended December 31, 2016, compared to 36.8% for the three months ended December 31, 2015. This decrease is primarily driven by sales mix as margins on sales to export distributors, which had a decline in sales, are higher than the margins for OEM products, which had an increase in sales.

Selling, general and administrative expenses were consistent with the prior year. Increased expense from higher 401(k) match expense, increased expense for testing related to new product introductions, and higher deferred compensation expense were partially offset by lower expense for stock-based compensation and a higher increase in cash surrender value of life insurance.

Interest expense for the three and six months ended December 31, 2016 was lower than the same periods last year due to positive cash flows from operations which resulted in limited borrowing on the Company's bank line of credit facility.

The effective income tax rate for the six months ended December 31, 2016, was 36.0%, which is comprised of the U.S. federal statutory rate of 34% and the effect of state income taxes. It is anticipated that the effective income tax rate will be approximately 38-40% for the year ending June 30, 2017.

Liquidity and Capital Resources

Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for the six months ended December 31, 2016 and 2015:

| Total cash provided by (used in): | 2016 | 2015 |
|---|------------------|---------------------|
| Operating activities | \$ 539,666 | \$ 1,520,188 |
| Investing activities | (467,150) | (389,043) |
| Financing activities | — | — |
| Net increase in cash and cash equivalents | <u>\$ 72,516</u> | <u>\$ 1,131,145</u> |

Operating Activities

In the six months ended December 31, 2016, the cash generated by operations declined \$980,522 as compared to the same period last year. Approximately \$800,000 of this change is due to advance customer payments received in the six months ended December 31, 2015 for product that shipped in the three months ended March 31, 2016.

Investing Activities

Cash used in investing activities was higher for the six months ended December 31, 2016, as the Company increased expenditures for tooling related to new product introductions. The Company anticipates it will incur total expenditures of approximately \$700,000 to \$900,000 for tooling, leasehold improvements and capital expenditures during the fiscal year ending June 30, 2017. 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 December 31, 2016 and 2015, the Company had no outstanding borrowings on its bank line of credit facility.

There were no purchases of common stock in 2016 or 2015 under the stock repurchase program. No stock options were exercised in 2016 or 2015.

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.

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 July 23, 2014, the Credit Agreement was amended to lower the revolving credit line to \$5,000,000 and to amend certain financial covenants. On May 31, 2016, the Credit Agreement was amended to extend the expiration to July 31, 2018, and to amend certain financial covenants. On October 31, 2016, the Credit Agreement was amended to amend certain reporting 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. The Company is currently in compliance with all covenants related to the Credit Facility. As of December 31, 2016 and June 30, 2016, 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.

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 December 31, 2016. The Company's management has concluded that the Company's disclosure controls and procedures as of December 31, 2016 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.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

As of December 31, 2016, the Company is currently involved in legal matters that are described in Note 11 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 December 31, 2016, by the Company.

COMPANY REPURCHASES OF EQUITY SECURITIES

| Period (2016) | 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 |
|-------------------------|-----------------------------|------------------------------|---|--|
| October 1 - December 31 | — | \$ — | — | \$ 2,139,753 |

(1) In April of 1995, the Board of Directors approved a stock repurchase program authorizing the Company to purchase from time to time up to \$2,000,000 of its common stock for its own account. Subsequently, the Board of Directors periodically has approved increases in the stock repurchase program. The most recent increase was for an additional \$2,000,000 in October 2006, for a maximum of \$45,500,000 of which \$43,360,247 had been expended through December 31, 2016.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index attached hereto.

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 _____ January 26, 2017
Michael J. Koss
Chairman
Chief Executive Officer

/s/ David D. Smith _____ January 26, 2017
David D. Smith
Executive Vice President
Chief Financial Officer
(Principal Financial and Principal Accounting Officer)
Secretary

EXHIBIT INDEX

| Exhibit No. | Exhibit Description |
|-------------|---|
| 10.14 | Amendment No. 6 dated October 31, 2016 to Credit Agreement dated May 12, 2010, between Koss Corporation and JPMorgan Chase Bank, N.A. ** |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer * |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer * |
| 32.1 | Section 1350 Certification of Chief Executive Officer ** |
| 32.2 | Section 1350 Certification of Chief Financial Officer ** |
| 101 | The following financial information from Koss Corporation's Quarterly Report on Form 10-Q for the quarter ended December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Income (Unaudited) for the three and six months ended December 31, 2016 and 2015, (ii) Condensed Consolidated Balance Sheets as of December 31, 2016 (Unaudited) and June 30, 2016 (iii) Condensed Consolidated Statements of Cash Flows (Unaudited) for the three and six months ended December 31, 2016 and 2015 and (iv) the Notes to Condensed Consolidated Financial Statements (Unaudited). * |
| * | Filed herewith |
| ** | Furnished herewith |

AMENDMENT NO. 6 TO CREDIT AGREEMENT

THIS AMENDMENT NO. 6 TO CREDIT AGREEMENT (this "Amendment"), entered into as of October 31, 2016, is by and between Koss Corporation, a Delaware corporation ("Borrower"), and JPMorgan Chase Bank, N.A. ("Lender") under the Credit Agreement defined below.

W I T N E S S E T H:

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 5.01(b) shall be amended in its entirety to read as follows:

(b) within 30 days after the end of each fiscal quarter of Borrower, its consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

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

- a. a fully-executed copy of this Amendment; and
- b. 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 other than that which has been obtained or filed; 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, other than as permitted by the Loan Documents. 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 reasonable 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. 6 to Credit Agreement]

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

I, Michael J. Koss, certify that:

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

Dated: January 26, 2017

/s/ Michael J. Koss

Michael J. Koss

Chairman and Chief Executive Officer

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

I, David D. Smith, certify that:

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

Dated: January 26, 2017

/s/ David D. Smith

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 Quarterly Report on Form 10-Q of the Company for the quarter ended December 31, 2016 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael J. Koss

Michael J. Koss
Chairman and Chief Executive Officer
Dated: January 26, 2017

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 Quarterly Report on Form 10-Q of the Company for the quarter ended December 31, 2016 (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

David D. Smith

Executive Vice President and
Chief Financial Officer

Dated: January 26, 2017

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.