

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, 2022

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**

**53212**

(Address of principal executive offices)

(Zip Code)

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

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

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

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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, 2021, was approximately \$53,187,151 (based on the \$10.68 per share closing price of the Company's common stock as reported on the Nasdaq Stock Market on December 31, 2021).

On August 22, 2022, there were 9,147,795 shares outstanding of the registrant's common stock.

Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference certain information from Koss Corporation's Proxy Statement for its 2022 Annual Meeting of Stockholders to be 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, 2022

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## 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,” “could,” “would,” “shall,” “forecasts,” “predicts,” “potential,” “continue,” “seeks,” “goal,” “projects,” and variations thereof and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified based on current expectations. Consequently, future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements contained in this Form 10-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: continued future fluctuations in economic conditions; the Company’s ability to successfully develop new products and assess potential market opportunities; the receptivity of consumers to new consumer electronics technologies; the Company’s ability to successfully and profitably market its products; the rate and consumer acceptance of new product introductions; the amount and nature of competition for the Company’s products; pricing; the number and nature of customers and their product orders; the Company’s ability to meet demand for products; production by third party vendors; foreign manufacturing, sourcing, and sales (including foreign government regulation, trade and importation concerns); uncertainties associated with the coronavirus (COVID-19) pandemic, including its possible effects on the Company’s operations, including its supply chain; the impact of the Russian-Ukraine conflict on the Company’s operations; the effects of any judicial, executive or legislative action affecting the Company or the audio/video industry; borrowing costs; changes in tax rates; volatility in the price and trading volume of our common stock; the outcome of any litigation, government investigations, enforcement actions or other legal proceedings; the Company’s ability to retain and hire key personnel and other risk factors described in the Risk Factors and Management’s Discussion and Analysis of Financial Condition and Results of Operations sections in this Form 10-K.

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 subsidiaries, Koss Corp B.V. and Koss U.K. Limited. Koss Corporation was incorporated in Delaware in 1971. It formed Koss Corp B.V. and Koss U.K. Limited to comply with certain European Union (“EU”) requirements. Koss U.K. Limited is maintained to comply with certain U.K. requirements.

The Company operates in the audio/video industry segment of the home entertainment and communication 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 only business line is the design, manufacture and sale of stereo headphones and related accessories.

The Company’s products are sold through U.S. distributors, international distributors, audio specialty stores, the internet, national retailers, grocery stores, electronics retailers, military exchanges and prisons under the “Koss” name as well as private label. The Company also sells products to distributors for resale to school systems, and directly to other manufacturers for inclusion with their own products. As of June 30, 2022, the Company had approximately 90 domestic dealers and its products were carried in approximately 2,000 domestic retail outlets and numerous retailers worldwide. International markets are served by domestic sales representatives and sales personnel in the Netherlands and the Caucasus region. The Company utilizes independent distributors in several foreign countries.

Approximately 76% of the Company’s fiscal year 2022 sales were from stereo headphones used for listening to music. The remaining approximately 24% of the Company’s sales were from headphones used in communications, education settings, and in conjunction with metal detectors, as well as to original equipment manufacturers (“OEM”). The products are not significantly differentiated by their retail sales channel or application with the exception of products sold to school systems, prisons, and OEM customers. There are no other product line differentiations other than the quality of the sound produced by the stereo headphone itself, which is highly subjective.

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. 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 contracted 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. As of June 30, 2022, the Company had 427 trademarks registered in 90 countries around the world and 153 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.

Given the significance of the Company’s intellectual property to its business, in 2019 the Company launched a program to enforce its intellectual property rights and protects its patent portfolio. As part of this enforcement program, the Company has filed and pursued lawsuits against a number of companies that the Company believes are infringing upon its patents, and may enter into licensing agreements or initiate additional lawsuits. The Company considers protecting its intellectual property rights to be central to its business model and competitive position in the stereo headphone industry.

## **SEASONALITY**

Although retail sales of consumer electronics have historically been higher during the holiday season, sales of stereo headphones have recently increased throughout the year. Management believes that the Company's business is not seasonal as evidenced by the fact that the Company's net sales for the last couple of years, including the year ended June 30, 2022, 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 consumers are increasingly purchasing stereo headphones throughout the year as replacements for older or lower quality headphones to improve the quality of their listening experience as it relates to 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. While limited, the Company does offer 90-120 day terms to certain customers such as Amazon Vendor Central, computer retailers and office supply stores. From time to time, although rarely, the Company may also extend payment terms to its customers for a special promotion. 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, 2022, is minimal in relation to net sales during fiscal year 2022.

## **CUSTOMERS**

The Company markets a line of products used by consumers to listen to music, to work and study from home, and to listen to other audio related media. The Company distributes these products through distributors and retail channels in the U.S. and independent distributors throughout the rest of the world. Additionally, the Company fills direct-to-consumer orders on its website. The Company markets its products through approximately 2,000 domestic retail outlets and numerous retailers worldwide. The Company also markets products directly to several original equipment manufacturers for use in their products. Sales to this customer base have been growing in recent years. In the year ended June 30, 2022, the Company's largest customer was Amazon Seller Central. In the year ended June 30, 2021, the largest customer was Ingram Micro. The Company's sales to Amazon Seller Central, were approximately 13% and 3% of net sales in fiscal year 2022 and 2021, respectively. Ingram sales were approximately 10% and 18% of net sales in fiscal year 2022 and 2021, respectively. The Company is dependent upon its ability to retain a base of retailers and distributors to sell the Company's line of products. A material loss of retailers or distributors would result in a loss of product placement and have an adverse effect on the Company's financial results. 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 Company's five largest customers accounted for approximately 45% and 48% of net sales in fiscal years 2022 and 2021, respectively.

## **COMPETITION**

The Company focuses on the stereo headphone industry. In the stereo headphone market, the Company competes with all major competitors, many 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, as well as its intellectual property portfolio, 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 \$285,244 during fiscal year 2022. These activities were conducted by both Company personnel and outside consultants. There was \$410,602 in expenses for research and development activities during fiscal year 2021. The Company expects to incur on-going research and development costs related to its Bluetooth® and traditional wired headphones as it is planning to introduce new product offerings on a regular basis.

## **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 fiscal years 2022 and 2021, 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, 2022, the Company employed 34 non-union employees, 3 of which were part-time employees. The Company also engaged temporary personnel at times during the year ended June 30, 2022.

## 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.

The Company has sales personnel currently located in the Netherlands and the Caucasus region to service the international export marketplace. Loss of these personnel 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:

	2022	2021
United States	\$ 13,034,647	\$ 14,298,358
Sweden	1,552,559	1,340,714
Czech Republic	1,195,768	1,400,615
Malaysia	395,914	567,181
Russian Federation	339,873	588,340
Canada	314,607	374,955
Ukraine	256,749	151,863
All other countries	517,150	823,982
Net sales	<u>\$ 17,607,267</u>	<u>\$ 19,546,008</u>

As a result of the Russian-Ukraine conflict, the Company suspended all sales to Russia in accordance with Executive Order 14071 issued by President Biden on April 6, 2022. Sales to Ukraine have also been impacted as a result of the humanitarian crisis there due to the ongoing hostilities. Neither Russia nor Ukraine represents a significant portion of the Company's business; in the aggregate, less than 3.4% of net sales for the year ended June 30, 2022. The Company is uncertain, however, how the conflict will impact future sales.

## OPERATIONS

The Company has a manufacturing facility in Milwaukee, Wisconsin and uses contract manufacturing facilities in the People's Republic of China and Taiwan. A contract employee is based in China to manage supplier quality and to assist with development of new products. Since these independent suppliers are not located in the United States, the Company is 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 an estimated six to twelve months, in which case the Company believes that it could restore production of its top 10 selling models (which represent approximately 62% of the Company's 2022 net sales) within 12-18 months. Required compliance testing impacts the time it takes to bring a product to market as well as the time necessary to retool a product and re-enter the marketplace. 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.

## **CYBERSECURITY**

The Company depends on information technology as an enabler to improve the effectiveness of its operations and to interface with its customers, as well as to maintain financial accuracy and efficiency. Information technology system failures, including suppliers' or vendors' system failures, could disrupt the Company's operations by causing transaction errors, processing inefficiencies, delays or cancellation of customer orders, the loss of customers, impediments to the manufacture or shipment of products, other business disruptions, or the loss of or damage to intellectual property through a security breach. The Company's information systems, or those of its third-party service providers, could also be penetrated by outside parties intent on extracting information, corrupting information or disrupting business processes. Such unauthorized access could disrupt the Company's business, increase costs and/or could result in the loss of assets. Cybersecurity attacks are becoming more sophisticated and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information, corruption or destruction of data and other manipulation or improper use of systems or networks. These events could negatively impact the Company's customers and/or reputation and lead to financial losses from remediation actions, loss of business, production downtimes, operational delays or potential liability, penalties, fines or other increases in expense, all of which may have a material adverse effect on the Company's business. In addition, as security threats and cybersecurity and data privacy and protection laws and regulations continue to evolve and increase in terms of sophistication, we may invest additional resources in the security of our systems. Any such increased level of investment could adversely affect our financial condition or results of operations. The Company has programs in place intended to address and mitigate the cybersecurity risks. These programs include regular monitoring of outside threats, continuous updating of software to mitigate risk and education of employees to the risks of external threats, and simplification of infrastructure to minimize servers. Additionally, the Company seeks to minimize its risk by keeping the number of physical servers at the HQ location and its exposure to public systems to a minimum. Additional e-commerce improvements have further mitigated exposure and business critical systems, including the Company's ERP system, have been migrated to Tier-1 cloud service providers, with more anticipated in the future. While the Company devotes resources to security measures to protect its systems and data, these measures cannot provide absolute security.

## **AVAILABLE INFORMATION**

The Company's internet website is <https://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 <https://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 1A. RISK FACTORS

We are subject to various risks that may materially harm our business, prospects, financial condition and results of operations. This discussion highlights some of the risks that may affect future operating results. These are the risks and uncertainties we believe are most important for you to consider. We cannot be certain that we will successfully address these risks. If we are unable to address these risks, our business may not grow, our stock price may suffer, and we may be unable to stay in business. Additional risks and uncertainties not presently known to us, which we currently deem immaterial, or which are similar to those faced by other companies in our industry or business in general, may also impair our business, prospects, results of operations and financial condition. The risks discussed below include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

### **Risks Related to Our Operations and Financial Results**

#### ***Reduction in present levels of cash flow could adversely affect the Company's business.***

The Company's primary source of liquidity historically has been operating cash flows. The Company's future cash flows from operations (on both a short-term and long-term basis) are dependent upon the following factors, among others:

- the Company's ability to attract new customers that will sell the Company's products and pay for them;
- the Company's ability to retain its existing customers at the level of sales previously produced;
- the volume of sales for these customers; and
- maintaining business from one or more primary customers;

Similarly, the Company's future cash flows from operations are subject to the following risks and, among others:

- changes in types of products that customers purchase in their sales mix;
- poor or deteriorating economic conditions which would directly impact the ability of the Company's customers to remain in business and pay for their products on a timely basis;
- timely, efficient and cost effective movement of products from suppliers and to export customers;
- management's ability to minimize the impact of requests for increases in material or labor cost; and
- the ability to collect in full and in a timely manner amounts due to the Company.

In addition, the Company's cash flow is also dependent, to some extent, upon the ability to maintain operating margins. Weakening consumer demand, including due to recessionary and inflationary concerns, could adversely impact the Company's cash flow and profitability.

***We are dependent on the proper functioning of our critical facilities, our contract manufacturers in China, our supply chain and distribution networks and the financial stability of our customers, all of which have been negatively impacted by the COVID-19 pandemic in a manner that may have a materially adverse effect on our business, financial condition or results of operations.***

*Our ability to produce products may be materially adversely impacted by COVID-19.*

The Company has closely monitored the impact of COVID-19 (including the emergence of variants) to protect the health and safety of its employees and customers. Business plans are being continuously updated and executed to maintain supply of the Company's products to our customers throughout the world. While the impacts of COVID-19 on our business have moderated, there still remains uncertainty around the pandemic. As a result of the COVID-19 pandemic, uncertainty with respect to its economic effects has impacted not only our operating results but also the global economy. The extent and nature of government actions to ease restrictions are varied based upon the current extent and severity of the COVID-19 pandemic within their respective countries and localities. In the prior year, the Company saw a surge in demand for communication headsets in the education market that did not repeat at the same level in fiscal year 2022. Also, certain retail businesses throughout the Company's markets, particularly in certain European markets due to the spread of the Omicron subvariant BA.2, have seen continued disruption. The Company expects the negative sales impacts caused by this disruption to continue until markets more fully re-open and consumer spending returns to normal.

The ultimate magnitude of the COVID-19 pandemic, including the extent of its impact on the Company's business, financial position, results of operations or liquidity, cannot be reasonably estimated at this time due to the rapid development and fluidity of the situation. The Company's future results will be determined by the effectiveness of vaccines, rollout of vaccine boosters, the duration of the pandemic, impact of variants, its geographic spread, further business disruptions and the overall impact on the economy throughout the globe.

To protect the safety, health and well-being of employees, customers, and suppliers, the Company continues to maintain several preventive measures while also meeting the needs of global customers. They include increased frequency of cleaning and disinfecting of facilities, social distancing practices, remote working when possible, restrictions on business travel, holding certain events virtually and limitations on visitor access to facilities.

The Company is committed to continuing to execute these plans and will remain in close contact with its supply chain to monitor future possible implications, especially on production facilities.

***Company profits can suffer from interruption in its supply chain, including disruptions and price volatility in shipping products from China and Taiwan to the U.S. and from the Company's warehouse in Milwaukee to its customers.***

The Company uses contract manufacturing facilities in the People's Republic of China and Taiwan. The Company is at risk of business interruptions due to natural disaster, war, disease and government intervention through tariffs or trade restrictions, which lately have become of increased concern in these areas. Therefore, any interruptions in the supply chain for any of these reasons could directly impact the Company's profits in a material, negative way. Recovery of a single facility through replacement of a supplier in the event of a disaster or suspension of supply could take an estimated six to twelve months. The Company is also at risk if trade restrictions are imposed on the Company's 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.

We have experienced supply chain and shipping interruptions and constraints, volatility in demand for our products caused by sudden and significant changes in production levels by our suppliers, and disruptions in our manufacturing and supply arrangements caused by the loss or disruption of essential manufacturing and supply elements such as raw materials or other product components, transportation, work force, force majeure events. The increased cost of freight and extended transit time for our products has resulted in backorders. The ultimate impact of these supply chain interruptions on our business, results of operations, and cash flows remain uncertain and could materially adversely affect our results of operations, financial condition, cash flows, prospects and the trading prices of our common stock.

The Company's supply chain is primarily in southern China. Since late fiscal year 2021, the Company has experienced issues related to the availability of containers and routings to move products in a cost effective and time efficient manner. There have also been impacts to the movement of new product introductions and costs. The Company is monitoring the situation closely and the supply chain team has modified business plans, which include, but are not limited to: (1) increasing the investment in inventory; (2) being alert to potential short supply situations; (3) assisting suppliers with acquisition of critical components; and (4) utilizing alternative sources and/or air freight. The latest COVID-19 resurgence resulted in another shut-down of several major ports in China, thus impacting manufacturing of our products and shipments from our suppliers. Additionally, recently there has been increasing geopolitical tension between China and Taiwan that may affect future shipments from Taiwan-based suppliers. The Company is at risk of lower sales due to delays in receiving and shipping products due to interruptions in its supply chain. Any resulting price volatility will directly affect profits.

***Our sales may be materially adversely impacted by COVID-19.***

Our sales efforts include in-person meetings with customers and potential customers to discuss our products. Additionally, much of our customers' sales are conducted in-person by consumers purchasing our products in brick-and-mortar stores. The method and timing of these meetings and the ability of our customers to make in-person sales have been altered due to stay-at-home orders and travel restrictions relating to COVID-19. The extent to which virtual meetings and interactions continue to be used or preferred in lieu of in-person interactions may significantly change business practices for us and our customers, even as COVID-19 restrictions and safety measures subside. This limitation on the ability of our sales personnel and our customers to maintain their customary interaction with customers and consumers may negatively affect demand for our products and have a material adverse effect on our results of operations, financial condition and cash flows.

***Failure to attract and retain customers to sell the Company's products could adversely affect sales volume and future profitability.***

The Company markets a line of products used by consumers to listen to music. The Company distributes these products through retail channels in the U.S. and independent distributors throughout the rest of the world. The Company is dependent upon its ability to attract and retain a base of customers to sell the Company's line of products. The Company has broad distribution across many channels including specialty stores, mass merchants, electronics stores and computer retailers. The Company may not be able to maintain customers or model selections and therefore may experience a reduction in its sales revenue until a model is restored to the mix or a lost customer is replaced by a new customer. The loss of business of one or more principal customers or a change in the sales volume from a particular customer could have a material adverse effect on the Company's sales volume and profitability.

***A shift in customer specifications to lower priced items can reduce profit margins, negatively impacting profitability.***

The Company sells lines of products with a suggested retail prices ranging from less than \$10 up to \$1,000. The gross margin for each of these models varies in terms of percentages. The Company finds the low-priced portion of the market most competitive and therefore most subject to pressure on gross margin percentages, which tends to lower profit contributions. Therefore, a shift in retail customer specifications and preferences toward lower priced items could lead to lower gross margins and lower profit contributions per unit of sale. Due to the range of products that the Company sells, the product sales mix can produce a variation in profit margins. Some distributors sell a limited range of products that yield lower profit margins than others. Most notably, the budget-priced stereo headphone segment of the market (below \$10 retail), which is distributed through mass market retailers, computer stores, and office supply stores tends to yield the lowest gross margins. An increase in business with these types of accounts, if coupled with a simultaneous reduction in sales to customers with higher gross margins, would reduce profit margins and profitability.

***If we are unable to continue to develop innovative and popular products, our brand image may be harmed and demand for our products may decrease.***

Consumer electronics are subject to constantly and rapidly changing consumer preferences based on industry trends and performance features, including technological advancement. Our success depends largely on our ability to lead, anticipate, gauge and respond to these changing consumer preferences and trends in a timely manner, while preserving and strengthening the perception and authenticity of our brand. We must continue to develop high performance products that provide better design and performance attributes than the products of our competitors at similar price points. Market acceptance of new designs and products is subject to uncertainty and we cannot assure you that our efforts will be successful. The inability of new product designs or new product lines to gain market acceptance, or our current products losing traction in the market, could adversely affect our brand image, our business and financial condition. Achieving market acceptance for new products may also require substantial marketing efforts and expenditures to increase consumer demand, which could constrain our management, financial and operational resources. If new products we introduce do not experience broad market acceptance or demand for our existing products wanes, our net sales and market share could decline.

***We may not be able to compete effectively, which could cause our net sales and market share to decline.***

The consumer electronics industry is highly competitive, and characterized by frequent introduction of new competitors, as well as increased competition from established companies expanding their product portfolio, aggressive price cutting and resulting downward pressure on gross margins and rapid consolidation of the market resulting in larger competitors. We face competition from consumer electronics brands that have historically dominated the stereo headphone market, in addition to sport brand and lifestyle companies that also produce headphone products. These companies include, among others, Apple, Sony, Bose, LG and Samsung. These competitors may have significant competitive advantages, including greater financial, distribution, marketing and other resources, longer operating histories, better brand recognition among certain groups of consumers, and greater economies of scale. In addition, these competitors have long-term relationships with many of our larger retailers that are potentially more important to those retailers. As a result, these competitors may be better equipped to influence consumer preferences or otherwise increase their market share by:

- quickly adapting to changes in consumer preferences;
- readily taking advantage of acquisition and other opportunities;
- discounting excess inventory;
- devoting greater resources to the marketing and sale of their products, including significant advertising, media placement and product endorsement;
- adopting aggressive pricing policies; and
- engaging in lengthy and costly intellectual property and other legal disputes.

Additionally, the industry in which we compete generally has low barriers to entry that allow the introduction of new products or new competitors at a fast pace. Some retailers have begun to introduce their own private label headphones, which could reduce the volume of product they buy from us, as well as decrease the shelf space they allocate to our products. If we are unable to protect our brand image and authenticity, while carefully balancing our growth, we may be unable to effectively compete with these new market entrants or new products. The inability to compete effectively against new and existing competitors could have an adverse effect on our net sales and results of operations, preventing us from achieving future growth.

***If we are unable to obtain intellectual property rights and/or enforce those rights against third parties who are violating those rights, our business could suffer.***

We rely on various intellectual property rights, including patents, trademarks, trade secrets and trade dress to protect our brand name, reputation, product appearance and technology. If we fail to obtain, maintain, or in some cases enforce our intellectual property rights, our competitors may be able to copy our designs, or use our brand name, trademarks or technology. As a result, if we are unable to successfully protect our intellectual property rights, or resolve any conflicts effectively, our results of operations may be harmed.

Regardless of the merits of the claims, litigation may be expensive, time-consuming and disruptive to our operations and distracting to management. If resolved against us, such legal proceedings could result in excessive verdicts, injunctive relief or other equitable relief that may affect how we operate our business. Similarly, if we settle such legal proceedings, it may negatively affect how we operate our business. Recently, in connection with its ongoing intellectual property enforcement program, which includes lawsuits alleging infringement of patents relating to its wireless audio technology, the Company has granted licenses covering certain Company patents. Some complaints we have filed remain outstanding. As all litigation is uncertain, there can be no assurance that any of this remaining or future litigation will be decided in our favor.

***We may be adversely affected by the financial condition of our retailers and distributors.***

Some of our retailers and distributors are experiencing financial difficulties as a result of current adverse economic conditions. A retailer or distributor experiencing such difficulties generally will not purchase and sell as many of our products as it would under normal circumstances and may cancel orders. In addition, a retailer or distributor experiencing financial difficulties generally increases our exposure to uncollectible receivables. We extend credit to our retailers and distributors based on our assessment of their financial condition, generally without requiring collateral, and sometimes are not able to obtain information regarding their current financial status. Failure of these retailers or distributors to remain current on their obligations to us could result in losses that exceed the reserves we set aside in anticipation of this risk. We are also exposed to the risk of our customers declaring bankruptcy, exposing us to claims of preferential payment claims. Financial difficulties on the part of our retailers or distributors could have a material adverse effect on our results of operations and financial condition.

***One of our customer's accounts for a significant amount of our net sales, and the loss of, or reduced purchases from, this or other customers could have a material adverse effect on our operating results.***

Our largest fiscal year 2022 customer, Amazon Seller Central, accounted for more than 13% and 3% of our net sales in fiscal years 2022 and 2021, respectively. We do not have long-term contracts with any of our customers and all of our customers generally purchase from us on a purchase order basis. As a result, this customer generally may, with no notice or penalty, cease ordering and selling our products, or materially reduce its orders. If certain customers, individually or in the aggregate, choose to no longer sell our products, to slow their rate of purchase of our products or to decrease the number of products they purchase, our results of operations would be adversely affected.

***Our products may experience quality problems from time to time that can result in decreased sales and operating margin and harm to our reputation.***

We offer products that can be affected by design and manufacturing defects. Defects can also exist in components used for our products. Component defects could make the Company's products unsafe and create a risk of property damage and personal injury. There can be no assurance the Company will be able to detect and fix all issues and defects in the products it offers. Failure to do so can result in widespread technical and performance issues affecting the Company's products. In addition, the Company can be exposed to product liability claims, recalls, product replacements or modifications, write-offs of inventory, property, plant and equipment, and/or intangible assets, and significant warranty and other expenses, including litigation costs and regulatory fines. Quality problems can also adversely affect the experience for users of the Company's products, and result in harm to the Company's reputation, loss of competitive advantage, poor market acceptance, reduced demand for products, delay in new product introductions and lost sales.

***An information systems interruption or breach in security could adversely affect us.***

Privacy, security, and compliance concerns have continued to increase as technology has evolved. We rely on accounting, financial and operational management information systems to conduct our operations. Any disruption in these systems could adversely affect our ability to conduct our business. Furthermore, as part of our normal business activities, we collect and store common confidential information about customers, employees, vendors, and suppliers. This information is entitled to protection under a number of regulatory regimes. Any failure to maintain the security of the data, including the penetration of our network security and the misappropriation of confidential and personal information, could result in business disruption, damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and also result in deterioration in customers confidence in us and other competitive disadvantages, and thus could have a material adverse impact on our financial condition and results of operations.

High-profile security breaches at other companies and in government agencies have increased in recent years, and security industry experts and government officials have warned about the risks of hackers and cyber-attacks targeting businesses. Cyber-attacks are becoming more sophisticated and frequent, and in some cases have caused significant harm. Computer hackers and others routinely attempt to breach the security of technology products, services and systems, and to fraudulently induce employees, customers, or others to disclose information or unwittingly provide access to systems or data. While we devote resources to security measures to protect our systems and data, these measures cannot provide absolute security.

***Changes in tax laws and unanticipated tax liabilities could adversely affect our effective income tax rate and profitability.***

We are subject to income taxes in the United States. Our effective income tax rate could be adversely affected in the future by a number of factors, including: changes in the valuation of deferred tax assets and liabilities and changes in tax laws. We regularly assess all of these matters to determine the adequacy of our tax provision. If our tax strategies are ineffective or we are not in compliance with domestic and international tax laws, our financial position, operating results and cash flows could be adversely affected.

***Our business, financial condition and results of operations may be adversely impacted by the effects of inflation.***

Inflation has the potential to adversely affect our business, financial condition and results of operations by increasing our overall cost structure, particularly if we are unable to achieve commensurate increases in the prices we charge our customers. There have been recent inflationary cost increases in our commodities, packaging materials and transportation costs. Other inflationary pressures could affect wages, the cost and availability of components and materials, and our ability to meet customer demand. Inflation may further exacerbate other risk factors, including customer demand, supply chain disruptions, and risks of international operations and the recruitment and retention of talent.

During fiscal 2022, we have experienced inflationary cost increases in our commodities, packaging materials and transportation costs. These increases have been partially mitigated by pricing actions implemented in the third quarter of the current fiscal year, as well as working with a dedicated freight forwarding partner to minimize freight rate increases.

**Risks Related to our International Operations**

***Economic regulation, trade restrictions, and increasing manufacturing costs in China could adversely impact our business and results of operations.***

The Company uses contract manufacturing facilities in the People's Republic of China. For many years, the Chinese economy has experienced periods of rapid growth. An increase in the cost of labor or taxes on wages in China may lead to an increase in the cost of goods manufactured in China. Significant increases in wages or wage taxes paid by contract manufacturing facilities may increase the cost of goods manufactured in China which could have a material adverse effect on the Company's profit margins and profitability. Additionally, government trade policies, including the imposition of tariffs, export restrictions, sanctions or other retaliatory measures could limit our ability to source materials and products from China at acceptable prices or at all. We do not currently have arrangements with contract manufacturers in other countries that may be acceptable substitutes. We cannot predict what actions may ultimately be taken with respect to tariffs, export controls, countermeasures, or other trade measures between the U.S. and China or other countries and what products may be subject to such actions. To the extent such actions inhibit our transactions with contract manufacturing facilities and suppliers in China, our business may be materially adversely affected.

***Our international operations could be adversely impacted by Russia's invasion of Ukraine***

Financial and credit markets around the world experienced volatility following the invasion of Ukraine by Russia in February 2022. In response to the invasion, the United States, United Kingdom and European Union, along with others, imposed significant new sanctions and export controls against Russia, Russian banks and certain Russian individuals and may implement additional sanctions or take further punitive actions in the future. The full economic and social impact of the sanctions imposed on Russia (as well as possible future punitive measures that may be implemented), as well as the counter measures imposed by Russia, remains uncertain.

The invasion of Ukraine by Russia and the sanctions imposed in response to this conflict have increased global economic and political uncertainty. In accordance with Executive Order 14071 signed on April 6, 2022, the Company suspended sales into Russia. Also, given the current humanitarian crisis in Ukraine and the population seeking refuge in other countries, sales to Ukraine have been impacted. Neither Russia nor Ukraine constitutes a significant portion of the business – in the aggregate less than 4% of net sales for the year ended June 30, 2022, with no sales to Russia or Ukraine in the current quarter. We are uncertain, however, of the impact it will have on our results of operations for the future. We continue to monitor the conflict and will report on its impact as necessary as developments occur.

***We may be subject to risks related to doing business in, and having counterparties based in, foreign countries.***

We engage in operations, and enter into agreements with counterparties, located outside the U.S., which exposes us to political, governmental and economic instability and foreign currency exchange rate fluctuations. Any disruption caused by these factors could harm our business, results of operations, financial condition, liquidity and prospects. Risks associated with potential operations, commitments and investments outside of the U.S. include but are not limited to risks of:

- global and local economic, social and political conditions and uncertainty;
- currency exchange restrictions and currency fluctuations;
- war, such as the invasion of Ukraine by Russia, or terrorist attack;
- local outbreak of disease, such as COVID-19;
- renegotiation or nullification of existing contracts or international trade arrangements;
- labor market conditions and workers' rights affecting our manufacturing operations or those of our customers;
- macro-economic conditions impacting key markets and sources of supply;
- changing laws and policies affecting trade, taxation, financial regulation, immigration, and investment;
- compliance with laws and regulations that differ among jurisdictions, including those covering taxes, intellectual property ownership and infringement, imports and exports, anti-corruption and anti-bribery, antitrust and competition, data privacy, and environment, health, and safety; and
- general hazards associated with the assertion of sovereignty over areas in which operations are conducted, transactions occur, or counterparties are located.

***Fluctuations in currency exchange rates could affect the Company's financial results and operations, including with respect to pricing of products and overall demand for the Company's products.***

The Company receives a material portion of its sales and profits from business in Europe. To the extent that the value of the U.S. dollar increases relative to currencies in those jurisdictions, it increases the cost of the Company's products in those jurisdictions, which could create negative pressure on the foreign demand for the Company's products. The Company is paid by its international customers in U.S. dollars. To the extent that increased prices arising from currency fluctuations decrease the overall demand for the Company's products or motivate customers to purchase lower-priced, lower profit products, the Company's sales, profits and cash flows could be adversely affected.

**Risks Related to our Stock**

***Our stock price is subject to volatility.***

Our stock is subject to substantial price volatility. Additionally, the Company, the technology industry, and the stock market as a whole have experienced extreme stock price and volume fluctuations that have affected stock prices in ways that may have been unrelated to companies' operating performance. Factors such as the depth and liquidity of the market for our common stock, investor perceptions of us and our business, actions by institutional shareholders, strategic actions by us, litigation, changes in accounting standards, policies, guidance, interpretations and principles, additions or departures of key personnel and our results of operations, financial performance and future prospects may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from realizing the liquidity of their shares.

***Our stock price and trading volume has recently been extremely volatile and may be volatile in the future for reasons unrelated to our operating performance or prospects and, as a result, investors in our common stock could incur substantial losses.***

Our stock price has recently been extremely volatile and may be volatile in the future. By way of example, on January 22, 2021, the price of our common stock closed at \$3.34 per share, and on January 29, 2021, our stock price closed at \$64.00 per share with no discernible material announcements or developments relating to our operations. On January 28, 2021, the intra-day sales price of our common stock fluctuated between a reported low sale price of \$25.00 and a reported high sales price of \$127.45. Additionally, the trading volume in shares of our common stock can vary widely. For example, during the fiscal year ended June 30, 2022, daily trading volume ranged from a low of 15,600 shares on June 24, 2022 to a high of 12.2 million on October 13, 2021. Our market capitalization, as implied by various trading prices, has recently reflected valuations that diverge significantly from those seen prior to recent volatility and that are significantly higher than our market capitalization prior to the recent increase, and to the extent these valuations reflect trading dynamics unrelated to our financial performance or prospects, purchasers of our common stock could incur substantial losses if there are declines in market prices driven by a return to earlier valuations. Additionally, the stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may experience losses on their investment in our common stock.

In the past, following periods of volatility in the market, securities class-action litigation has often been instituted against companies. Such litigation, if instituted against us, could result in substantial costs and diversion of management's attention and resources, which could materially and adversely affect our business, financial condition, results of operations and growth prospects. There can be no guarantee that our stock price will remain at current prices or that future sales of our common stock will not be at prices lower than those sold to investors.

***A "short squeeze" due to a sudden increase in demand for shares of our common stock that largely exceeds supply has led to, and may continue to lead to, extreme price volatility in shares of our common stock.***

In the recent past, securities of certain companies have experienced significant and extreme volatility in stock price due to a sudden increase in demand for stock resulting in aggregate short positions in the stock exceeding the number of shares available for purchase, forcing investors with short exposure to pay a premium to repurchase shares for delivery to share lenders. This is known as a "short squeeze." These short squeezes have led to the price per share of those companies to trade at a significantly inflated rate that is disconnected from the underlying value of the company. A large proportion of our common stock has been and may continue to be traded by short sellers which may increase the likelihood that our common stock will be the target of a short squeeze. A short squeeze has led and could continue to lead to volatile price movements in shares of our common stock that are unrelated or disproportionate to our operating performance or prospects and, once investors purchase the shares of our common stock necessary to cover their short positions, the price of our common stock may rapidly decline. Stockholders that purchase shares of our common stock during a short squeeze may lose a significant portion of their investment.

***The Koss family, including certain members of our management, own a significant percentage of our stock, and as a result, the trading price for our shares may be depressed and they can take actions that may be adverse to the interests of our stockholders.***

Michael Koss, our President and Chief Executive Officer, beneficially owned 4,233,410 shares of our common stock as of August 1, 2022, representing 44.5% of shares outstanding on such date, including shares held by a voting trust over which Mr. Koss holds sole voting and dispositive power. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors may perceive disadvantages in owning stock in companies with a controlling stockholder group. The group can significantly influence all matters requiring approval by our stockholders, including the election and removal of directors and any proposed merger, consolidation or sale of all or substantially all of our assets. In addition, due to his significant ownership stake and his service as our Principal Executive Officer and Chairman of the Board and Directors, Michael Koss controls the management of our business and affairs. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control, or impeding a merger or consolidation, takeover or other business combination that could be favorable to our other stockholders.

***Future sales of a substantial amount of our common stock in the public markets by our insiders, or the perception that these sales may occur, may cause the market price of our common stock to decline.***

Our employees, directors and officers, and their affiliates, hold substantial amounts of shares of our common stock and have vested options for purchase of our common stock. Sales of a substantial number of such shares by these stockholders, or the perception that such sales will occur, may cause the market price of our common stock to decline. Other than restrictions on trading that arise under securities laws (or pursuant to our securities trading policy that is intended to facilitate compliance with securities laws), including the prohibition on trading in securities by or on behalf of a person who is aware of nonpublic material information, we have no restrictions on the right of our employees, directors and officers, and their affiliates, to sell their unrestricted shares of common stock.

**ITEM 2. PROPERTIES**

The Company leases its 126,000 square foot facility in Milwaukee, Wisconsin from Koss Holdings, LLC, which is controlled by five equal ownership interests in trusts held by the 5 beneficiaries of the former chairman's revocable trust. On May 24, 2022, the lease was renewed extending the expiration to June 30, 2028 (the "Extended Term"), with a second extension ("Second Extended Term") to June 30, 2033. The lease extension maintains the rent at a fixed rate of \$380,000 per year for Extended Term with an increase to \$397,000 per year for the Second Extended Term. The negotiated increase in rent slated for 2028 will be the first increase in rent since 1996. The lease 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. The Company utilizes its Milwaukee facility for administrative, corporate and production functions. 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 part of its intellectual property enforcement program, on July 22, 2020 the Company brought patent infringement suits against each of Apple Inc., Bose Corporation, PEAG, LLC d/b/a jLab Audio, Plantronics, Inc. and Polycom, Inc., and Skullcandy, Inc., alleging infringement of the Company's patents relating to its wireless headphone technology and seeking monetary relief and attorneys' fees. The lawsuit against Apple, Inc. filed in the U.S. District Court in the Western District of Texas on July 22, 2020 was dismissed on July 23, 2022 following resolution of the litigation between parties. The remaining lawsuits are pending in U.S. District Courts in District of Massachusetts (Bose Corporation), Southern District of California (PEAG, LLC), Northern District of California (Plantronics, Inc. and Polycom, Inc.), and District of Utah (Skullcandy, Inc.).



**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 Capital Market under the trading symbol KOSS. There were 447 record holders of the Company's common stock as of August 22, 2022. This number does not include individual participants in security position listings. There were no dividends declared during the fiscal years ended June 30, 2022 and 2021.

**COMPANY REPURCHASES OF EQUITY SECURITIES**

<b>Period (2022)</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plan (1)</b>	<b>Approximate Dollar Value of Shares Available under Repurchase Plan</b>
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 approved increases in the amount authorized for repurchase under the program. As of June 30, 2022, 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, 2022 or 2021.

**DIVIDENDS**

We have not paid dividends on our capital stock since March 2014 and do not anticipate paying any cash dividends on our Common Stock in the foreseeable future. We intend to retain future earnings to fund ongoing operations and future capital requirements. Any future determination to pay dividends will be at the discretion of our Board of Directors and will be dependent upon financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant.

## **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 financial position, results of operations, cash flows, indebtedness and other key financial information of the Company for fiscal years 2022 and 2021. 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. See also the “Cautionary Statement Regarding Forward-Looking Statements” on page 4 of this Report.*

### **Overview**

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

The Company’s products are sold domestically and internationally through a variety of retailers and distributors, as well as directly to other manufacturers for including with their own products. Changes in sales volume are driven primarily by the addition or loss of customers, a customer adding or removing a product from its inventory, or changes in economic conditions. They are relatively less impacted by seasonality or the traditional holiday shopping season.

Although certain of the Company’s products could be viewed as essential by consumers for use with mobile phones and other portable electronic devices, other products are more of a discretionary spend. The results of the Company’s operations are therefore susceptible to consumer confidence and macroeconomic factors.

### **Fiscal Year 2022 Summary**

Net sales declined 9.9% to \$17,607,267 after decreased sales in the fourth quarter. A strategic shift away from mass retailers and reduced sales to U.S. distributors were the major factors. Export sales fell 13% while domestic sales fell 9%.

Gross profit as a percent of sales increased 3.2% to 37.6%. The increase was primarily due to a change in the mix of sales by channel as higher margin direct-to-consumer (“DTC”) sales grew while we discontinued the sale of a lower margin product to a U.S. mass retailer.

Selling, general and administrative expense declined mainly as a result of income related to the Company’s deferred compensation agreements. The deferred compensation liability related to the founder was released upon his passing in December 2021, resulting in income of \$472,883, and the deferred compensation liability of a current officer was reduced due to increasing interest rates during the year. There was also a significant reduction in employer taxes on stock option exercises year over year.

Tax expense for the year ended June 30, 2022 was minimal due to an offsetting change in the valuation allowance for deferred tax assets.

**Consolidated Results**

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

<b>Consolidated Performance Summary</b>	<b>2022</b>	<b>2021</b>
Net sales	\$ 17,607,267	\$ 19,546,008
Net sales (decrease) increase %	(9.9)%	6.7%
Gross profit	\$ 6,617,378	\$ 6,732,135
Gross profit as % of net sales	37.6%	34.4%
Selling, general and administrative expenses	\$ 5,715,355	\$ 7,122,627
Selling, general and administrative expenses as % of net sales	32.5%	36.4%
Interest income	\$ 11,513	\$ 2,706
Other income	\$ 362,390	\$ 885,505
Income before income tax provision	\$ 1,275,926	\$ 497,719
Income before income tax provision as % of net sales	7.2%	2.5%
Income tax provision	\$ 7,517	\$ 4,125
Income tax provision as % of income before taxes	0.6%	0.8%

**2022 Results of Operations Compared with 2021**

Net sales for 2022 decreased behind reduced sales to U.S. distributors coupled with a strategic shift away from mass retailers in favor of online DTC sales. A 72% increase in DTC sales helped to offset some of the decrease. Sales in the Company's export markets declined 13% compared to 2021.

For the year ended June 30, 2022, domestic net sales decreased \$1,263,353, or 8.8% to \$13,034,267. Excluding DTC, the decline was 21.2%, from \$12,403,400 to \$9,768,601, as a result of the decline in sales to U.S. distributors and a U.S. mass retailer dropping their branded products from its planogram in the third quarter of the prior year. DTC has continued to grow and has become our largest market class at 18.5% of total net sales for the year. At the same time, the Company has shifted away from domestic retail distributors, and the number of retail outlets carrying our products decreased from approximately 7,400 during fiscal year 2021 to 2,000 during fiscal year 2022.

Export net sales lost momentum in the current fiscal year, decreasing \$675,029 or 12.9% to \$4,572,620. Export distributors in the Czech Republic and Ukraine had strong volumes for the year despite lingering COVID-19 restrictions and despite the disruption of sales to Ukraine in the fourth quarter as a result of the continued hostility with Russia. This was more than offset, however, by a 39.6% decrease in sales to distributors in Asia, as well as those in Russia due to the suspension of sales as required by the Executive Order 14071 signed on April 6, 2022.

Gross profit increased to 37.6% for the year ended June 30, 2022, compared to 34.4% for the prior fiscal year. The margin rates are very dependent on mix of sales by customer, product and sales channel. The heightened level of higher margin DTC sales, coupled with the end of low margin sales to a US-based mass retailer, which discontinued the product supplied by the Company late in the third quarter of the prior fiscal year, improved margin rates. The delays throughout the supply chain that began late last fiscal year as a result of the persistence of COVID-19 in all parts of the world, and more recently due in part to the recent conflict in Eastern Europe, continue to affect the Company. COVID related extensions of the Chinese New Year added to the delays in product shipments from suppliers in Asia. The ongoing disruption in ocean freight and congestion at the ports on the U.S. west coast resulting in delivery delays have resulted in increased inbound shipping costs. While rising shipping costs are expected to linger and negatively impact margins in the foreseeable future, the Company did contract with a dedicated freight forwarding partner to secure fixed rates. Rates did stabilize in the current quarter as a result.

Selling, general and administrative expenses for the year ended June 30, 2022, decreased 19.8% or approximately \$1,407,000 to approximately \$5,715,000. The primary factor was \$633,000 of income recorded in the current year as a result of a decrease in the deferred compensation liability compared to an expense of \$308,000 in the prior year. Income of \$473,000 was recognized with the reversal of the deferred compensation liability for the Company's founder who passed away in December 2021, which was offset by \$71,250 of payments accrued and made to the former officer prior to his passing. Also, as a result of increasing interest rates, deferred compensation income of \$231,000 was recorded related to the change in the net present value of the future expected payments to a current officer as a result of increasing interest rates. Employer taxes on stock option exercises of approximately \$134,000 were recorded in the current year compared to \$571,000 in the prior year, a decrease of \$437,000.

As previously reported, the Company maintains a program focused on enforcing its intellectual property and, in particular, certain of its patent portfolio. The Company has enforced its intellectual property by filing complaints against certain parties alleging infringement on the Company's patents relating to its wireless headphone technology. The Company has recovered certain of the fees and costs that were involved with the underlying efforts to enforce this portfolio, as further described in the notes to the financial statements included in this Annual Report on Form 10-K. Part of the litigation related to this enforcement has been recently dismissed and the Company expects to receive non-recurring net proceeds of \$10-\$14 million from the granting of licenses to certain of its patents. If the program continues to be successful, the Company may receive additional royalties, offers to purchase its intellectual property, or other remedies advantageous to its competitive position; however, there is no guarantee of a positive outcome from these efforts, which could ultimately be time consuming and unsuccessful. Additionally, the Company may owe all or a portion of any future proceeds arising from the enforcement program to third parties.

Income tax expense for the year ended June 30, 2022, was comprised of the U.S. federal statutory rate of 21%, and the effect of state income taxes, offset by an adjustment to the valuation allowance for deferred tax assets until it is more likely than not that the Company will be able to use the net operating loss carryforwards at which time the valuation allowance will be removed. The effective tax rate was approximately 0% in the fiscal year ended June 30, 2022. It is anticipated that the effective rate in future years will be reduced by utilization of a portion or all of the approximately \$38,554,000 of federal net operating loss carryforwards.

The Company has closely monitored the impact of COVID-19 (including the continuing emergence of variants) in order to protect the health and safety of its employees and customers. Business plans are being continuously updated and executed to maintain supply of the Company's products to our customers throughout the world. While the impacts of COVID-19 on our business have moderated, there still remains uncertainty around the pandemic. As a result of the COVID-19 pandemic, uncertainty with respect to its economic effects has impacted not only our operating results but also the global economy. The extent and nature of government actions to ease restrictions are varied based upon the current extent and severity of the COVID-19 pandemic within their respective countries and localities. The Company saw a surge in the sale of specific communication headsets in the year ended June 30, 2021 that did not repeat in fiscal year 2022. Also, certain retail businesses throughout the Company's markets, particularly in certain European markets have seen continued disruption due to the spread of the Omicron subvariant BA.2. The Company expects the negative sales impacts caused by this disruption to continue until markets more fully re-open and consumer spending returns to normal.

The ultimate magnitude of the COVID-19 pandemic, including the extent of its impact on the Company's business, financial position, results of operations and liquidity, cannot be reasonably estimated at this time due to the rapid development and fluidity of the situation. The Company's future results will be heavily determined by the duration of the pandemic, impact of the variants, its geographic spread, further business disruptions and the overall impact on the global economy.

During fiscal 2022, inflationary cost increases have impacted our commodities, packaging materials and transportation costs. Pricing actions implemented in the third quarter of the current fiscal year partially mitigated these increases and working with a dedicated freight forwarding partner has helped to minimize freight rate increases.

To protect the safety, health and well-being of employees, customers, and suppliers, the Company implemented several preventive measures while also meeting the needs of global customers. They included increased frequency of cleaning and disinfecting of facilities, social distancing practices, remote working when possible, restrictions on business travel, holding certain events virtually and limitations on visitor access to facilities. The Company is committed to continuing to execute these plans.

The Company's supply chain is primarily in southern China. Since late fiscal year 2021, the Company has continued to experience issues related to the availability of containers and routing to move products in a cost effective and time efficient manner. There have also been impacts to the movement of new product introductions and costs. The Company is monitoring the situation closely and the supply chain team has modified business plans, which include, but are not limited to: (1) increasing the investment in inventory; (2) being alert to potential short supply situations; (3) assisting suppliers with acquisition of critical components; and (4) utilizing alternative sources and/or air freight.

The invasion of Ukraine by Russia and the sanctions imposed in response to this conflict have increased global economic and political uncertainty. In accordance with Executive Order 14071 declared on April 6, 2022, the Company suspended sales into Russia. Given the current humanitarian crisis in Ukraine and the population seeking refuge in other countries as a result of the conflict, sales to Ukraine have also been impacted. Neither Russia nor Ukraine constitutes a significant portion of the business, making up less than 3.4% of total net sales of the Company for the year ended June 30, 2022. There were no sales to Russia or Ukraine in the fourth quarter. We are uncertain, however, of the impact it will have on future operating results.

The Company had \$9,208,170 of cash and available credit facility of \$5,000,000 on June 30, 2022, which the Company expects to be sufficient to fund its operations beyond the next twelve months from the date of filing this Form 10-K.

## 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:

<b>Total cash provided by (used in):</b>	<b>2022</b>	<b>2021</b>
Operating activities	\$ (942,530)	\$ 348,740
Investing activities	1,810,139	(704,206)
Financing activities	1,390,346	3,306,272
Net increase in cash and cash equivalents	<u>\$ 2,257,955</u>	<u>\$ 2,950,806</u>

### Operating Activities

Cash used by the Company in operations was \$942,530 despite having an improvement in net income of \$774,815. Changes in operating assets and liabilities used \$1,762,308 of cash in the year ended June 30, 2022 compared to using \$500,565 in cash during the year ended June 30, 2021. The movement of working capital in the year ended June 30, 2022 is representative of declining sales and a continued investment in critical products to ensure adequate levels were available and maintained given the continued disruption of and delays in the supply chain. This is reflected in the low backorders number at the end of the year.

### Investing Activities

Cash provided by investing activities was \$1,810,139 during the year ended June 30, 2022 and related to the receipt of \$2,014,184 of proceeds on company-owned life insurance policies on the Company's founder who passed away in December 2021. Premiums of \$95,887 were paid during the year on these and other life insurance policies on other executives. Purchases of equipment and leasehold improvements by the Company during the year ended June 30, 2022 were minimal at \$108,158 compared to the \$600,155 spent for tooling and leasehold improvements in the year ended June 30, 2021. No significant capital expenditures are anticipated for fiscal year 2023.

### Financing Activities

The cash generated from financing activities in the years ended June 30, 2022 and 2021 was solely driven by stock option exercises. As of June 30, 2022, the Company had no outstanding borrowings on its bank line of credit facility under the Credit Agreement (described below under "Credit Facility").

There were no purchases of common stock in 2022 or 2021 under the stock repurchase program. In the year ended June 30, 2022, there were stock option exercises of 539,089 shares generating \$1,390,346 of cash.

### Short Term Liquidity

The Company anticipates funding its normal recurring trade payables, accrued expenses, ongoing R&D costs and any potential interest payments, if it utilizes its line of credit facility, through existing working capital and funds provided by operating activities. The majority of the Company's purchase obligations are pursuant to funded contractual arrangements with its customers. The Company believes its existing cash, cash equivalents, cash provided by operating activities and borrowings under its credit facility will be sufficient to meet its anticipated working capital, and capital expenditure requirements during the next twelve months. There can be no assurance, however, that the Company's business will continue to generate cash flow at current levels. If the Company is unable to generate sufficient cash flow from operations, then it may be required to sell assets, reduce capital expenditures or draw on its credit facilities. The Company anticipates that existing sources of liquidity, credit facilities, and cash flows from operations will be sufficient to satisfy its cash needs for the foreseeable future. Management is focused on increasing sales, especially in DTC and the export markets, increasing new product introductions, 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.

### ***Long Term Liquidity***

The Company's future capital requirements, to a certain extent, are also subject to general conditions in or affecting the electronics industry and are subject to general economic, political, financial, competitive, legislative and regulatory factors that are beyond its control. Moreover, to the extent that existing cash, cash equivalents, cash from operations, and cash from its credit facilities are insufficient to fund its future activities, the Company may need to raise additional funds through public or private equity or debt financing, subject to the limitations specified in the Credit Agreement (as defined below). In addition, the Company may also need to seek additional equity funding or debt financing if it becomes a party to any agreement or letter of intent for potential investments in, or acquisitions of, businesses, services or technologies.

### ***Credit Facility***

On May 14, 2019, the Company entered into a secured credit facility ("Credit Agreement") with Town Bank ("Lender") for a two-year term expiring on May 14, 2021. The Credit Agreement provides for a \$5,000,000 revolving secured credit facility with an interest rate of 1.50% over LIBOR. The Credit Agreement also provides for letters of credit for the benefit of the Company of up to a sublimit of \$1,000,000. There are no unused line fees in the credit facility. On January 28, 2021, the Credit Agreement was amended to extend the expiration to October 31, 2022, and to change the interest rate to Wall Street Journal Prime less 1.50%. The Company and the Lender also entered into a General Business Security Agreement dated May 14, 2019 under which the Company granted the Lender a security interest in substantially all of the Company's assets in connection with the Company's obligations under the Credit Agreement. The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type. The negative covenants include restrictions on other indebtedness, liens, fundamental changes, certain investments, disposition of assets, mergers and liquidations, among other restrictions. The Company is currently in material compliance with all covenants related to the Credit Agreement. As of June 30, 2022, and June 30, 2021, 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 approved increases of between \$1,000,000 to \$5,000,000 in the stock repurchase program. As of June 30, 2022, 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, 2022.

There were no stock repurchases under the program in fiscal year 2022 or 2021. As such, as of June 30, 2022, the amount of common stock subject to repurchase by the Company under the Board of Director's prior authorization remained \$2,139,753 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, may occur either on the open market or through privately negotiated transactions and may be financed through the Company's cash flow or by borrowing.

### ***Contractual Obligation***

The Company leases the 126,000 square foot facility from Koss Holdings, LLC, which is controlled by five equal ownership interests in trusts held by the 5 beneficiaries of the former Chairman's revocable trust. On May 24, 2022, the lease was renewed for a period of five years, ending June 30, 2028, and is being accounted for as an operating lease. The lease extension maintained the rent at a fixed rate of \$380,000 per year. The Company has the option to renew the lease for an additional five years beginning July 1, 2028 and ending June 30, 2033 under the same terms and conditions except that the annual rent will increase to \$397,000. The negotiated increase in rent slated for 2028 will be the first increase in rent since 1996. The Company is responsible for all property maintenance, insurance, taxes and other normal expenses related to ownership. The facility is in good repair and, in the opinion of management, is suitable and adequate for the Company's business purposes.

## Critical Accounting Policies

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.

The extent to which COVID-19 impacts the Company's business and financial results will depend on numerous evolving factors including, but not limited to: the magnitude and duration of COVID-19, the impact of COVID-19 variants, the extent to which it will impact worldwide macroeconomic conditions, the speed of the anticipated recovery, access to capital markets, and governmental and business reactions to the pandemic. The Company assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to the Company and the unknown future impacts of COVID-19 as of June 30, 2022 and through the date of the filing of this Annual Report on Form 10-K. The accounting matters assessed included, but were not limited to estimates related to revenue, the accounting for potential liabilities and accrued expenses, the assumptions utilized in valuing stock-based compensation issued for services, the realization of deferred tax assets, the inventory valuation reserve, and assessments of impairment related to long-lived assets. The Company's future assessment of the magnitude and duration of COVID-19, as well as other factors, could result in additional material impacts to the Company's consolidated financial statements in future reporting periods.

Despite the Company's efforts to evaluate the extent to which COVID-19 will continue to impact the Company's business and financial results, the ultimate impact of COVID-19 depends on factors beyond the Company's knowledge or control, including the duration and severity of the outbreak, as well as third-party actions taken to contain its spread and mitigate its public health effects. As a result, the Company is unable to estimate the full extent to which COVID-19 will negatively impact its financial results or liquidity.

### ***Revenue Recognition***

Revenues from product sales are recognized when the customer obtains control of the product, which typically occurs upon shipment from the Company's facility. There are a very limited number of customers for which control does not pass until they have received the products at their facility. Revenue from product sales is adjusted for estimated warranty obligations and variable consideration, which are detailed below. The Company uses a five-step analysis to determine 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. See Note 3 to the Consolidated Financial Statements for additional information on revenue recognition.

### ***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 an allowance for estimated credit losses. 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 collectability 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 using standard cost which approximates the lower of first in first out (“FIFO”) cost or net realizable value. Valuing inventories at the lower of cost or net realizable value requires the use of estimates and judgment. The Company continues to use the same techniques to value inventories that it has 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 net realizable value 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. When a reserve is established, it creates a new cost basis, which is not increased in the future.

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

The Company offers a lifetime warranty to consumers in the United States and certain other countries. This lifetime warranty creates a future performance obligation. There are also certain foreign distributors that receive warranty repair parts and replacement headphones to satisfy warranty obligations in those countries. The Company defers revenue to recognize the future obligations related to these warranties. The deferred revenue is based on historical analysis of warranty claims relative to sales. This deferred revenue reflects the Company’s best estimates of the amount of warranty returns and repairs it will experience during those future periods. If future warranty activity varies from the estimates, the Company will adjust the estimated deferred revenue, which would affect net sales and operating results in the period that such adjustment becomes known.

### ***Deferred Compensation***

The Company’s deferred compensation liability is for a current officer and is calculated based on various assumptions that may include compensation, years of service, expected retirement date, discount rates and mortality tables. The related expense is calculated using the net present value of the expected payments and is included in selling, general and administrative expenses in the Consolidated Statements of Operations. Management makes estimates of life expectancy and discount rates using information available from several sources. In addition, management estimates the expected retirement date for the current officer as that impacts the timing for expected future payments.

The Company had a deferred compensation liability for a former officer and in December 2021, the former officer passed away, and the portion of the deferred compensation liability related to the former officer was relieved. See Note 9 for additional information on deferred compensation.

### ***Stock-Based Compensation***

The Company has a stock-based employee compensation plan, which is described more fully in Note 11. 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. The expected term of the options and volatility are estimated using historical experience for the options by vesting period. The risk-free interest rate is calculated based on the expected life of the options. The Company does not estimate forfeitures as they are recognized when they occur.

### ***Income Taxes***

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

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 included herewith.

### **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, 2022. The Company's management has concluded that the Company's disclosure controls and procedures as of June 30, 2022 were effective at the reasonable assurance level.

#### **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 *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that the Company's internal control over financial reporting as of June 30, 2022 was effective.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in the Company's 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 three months ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

Not applicable

### **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable

**PART III**

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

This information is incorporated by reference to Koss Corporation's Proxy Statement for its 2022 Annual Meeting of Stockholders to be 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 investors.koss.com. 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 Koss Corporation's Proxy Statement for its 2022 Annual Meeting of Stockholders to be 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 Koss Corporation's Proxy Statement for its 2022 Annual Meeting of Stockholders to be 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 Koss Corporation's Proxy Statement for its 2022 Annual Meeting of Stockholders to be 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 Koss Corporation's Proxy Statement for its 2022 Annual Meeting of Stockholders to be 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:

<b>1. <u>Consolidated Financial Statements</u></b>	
<a href="#">Report of Independent Registered Public Accounting Firm</a>	28
<a href="#">Consolidated Balance Sheets as of June 30, 2022 and 2021</a>	30
<a href="#">Consolidated Statements of Income for the Years Ended June 30, 2022 and 2021</a>	31
<a href="#">Consolidated Statements of Cash Flows for the Years Ended June 30, 2022 and 2021</a>	32
<a href="#">Consolidated Statements of Stockholders' Equity for the Years Ended June 30, 2022 and 2021</a>	33
<a href="#">Notes to Consolidated Financial Statements</a>	34
<b>2. <u>Financial Statement Schedules</u></b>	

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 Subsidiaries  
Milwaukee, Wisconsin

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Koss Corporation and Subsidiaries (the “Company”) as of June 30, 2022 and 2021, and the related statements of income, stockholders’ equity, and cash flows for the years ended June 30, 2022 and 2021, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material aspects, the financial position of the Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years ended June 30, 2022 and 2021, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. 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, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgements. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosure to which it relates.

**Deferred Compensation**

As described in Note 9 to the consolidated financial statements, the Company has a deferred compensation agreement with a current officer as of June 30, 2022 and 2021 and had a deferred compensation agreement with a former officer as of June 30, 2021, which are measured at their estimated net present value. The principal consideration for our determination that deferred compensation should be a critical audit matter was based on the subjective nature of the assumptions estimated and used by management to calculate the deferred compensation liability. Assumptions subject to estimate included discount rates, mortality rates, and a future retirement date. Changes to these assumptions may have a material impact on the consolidated financial statements.

The primary audit procedures we performed to address this critical audit matter included:

We evaluated the design effectiveness of controls over the Company's process for accounting and recording the deferred compensation liability. We evaluated management's calculation methodology and its compliance with accounting principles generally accepted in the United States of America regarding deferred compensation liabilities.

We tested the discount and mortality rate assumptions used by management to calculate the deferred compensation liability by independently determining our own assumptions based on the relevant facts and circumstances and recalculating the deferred compensation liability utilizing those assumptions.

We confirmed with the current officer his expected retirement date.

/s/ WIPFLI LLP  
PCAOB ID 344

We have served as the Company's auditor since 2019

Milwaukee, Wisconsin  
August 26, 2022

KOSS CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

<b>As of June 30,</b>	<b>2022</b>	<b>2021</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9,208,170	\$ 6,950,215
Accounts receivable, less allowance for doubtful accounts of \$2,027 and \$41,500, respectively	1,846,620	2,240,785
Inventories	8,631,362	5,901,512
Prepaid expenses and other current assets	188,478	456,004
Total current assets	<u>19,874,630</u>	<u>15,548,516</u>
Equipment and leasehold improvements, net	<u>1,088,017</u>	<u>1,281,180</u>
Other assets:		
Operating lease right-of-use asset	3,247,725	2,305,455
Cash surrender value of life insurance	5,744,724	7,188,994
Total other assets	<u>8,992,449</u>	<u>9,494,449</u>
Total assets	<u>\$ 29,955,096</u>	<u>\$ 26,324,145</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 796,163	\$ 398,433
Accrued liabilities	560,356	665,567
Deferred revenue	543,891	694,632
Operating lease liability	223,530	288,949
Income taxes payable	3,033	4,543
Total current liabilities	<u>2,126,973</u>	<u>2,052,124</u>
Long-term liabilities:		
Deferred compensation	1,937,229	2,491,482
Deferred revenue	169,210	188,932
Operating lease liability	3,024,195	2,016,506
Total long-term liabilities	<u>5,130,634</u>	<u>4,696,920</u>
Total liabilities	<u>7,257,607</u>	<u>6,749,044</u>
Stockholders' equity:		
Common stock, \$0.005 par value, authorized 20,000,000 shares; issued and outstanding 9,147,795 and 8,608,706 shares, respectively	45,739	43,044
Paid in capital	12,653,402	10,802,118
Retained earnings	9,998,348	8,729,939
Total stockholder' equity	<u>22,697,489</u>	<u>19,575,101</u>
Total liabilities and stockholders' equity	<u>\$ 29,955,096</u>	<u>\$ 26,324,145</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

KOSS CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

<b>Years Ended June 30,</b>	<b>2022</b>	<b>2021</b>
Net sales	\$ 17,607,267	\$ 19,546,008
Cost of goods sold	10,989,889	12,813,873
Gross profit	<u>6,617,378</u>	<u>6,732,135</u>
Selling, general and administrative expenses	<u>5,715,355</u>	<u>7,122,627</u>
Income (loss) from operations	902,023	(390,492)
Other income	362,390	885,505
Interest income	<u>11,513</u>	<u>2,706</u>
Income before income tax provision	1,275,926	497,719
Income tax provision	<u>7,517</u>	<u>4,125</u>
Net income	<u>\$ 1,268,409</u>	<u>\$ 493,594</u>
Income per common share:		
Basic	<u>\$ 0.14</u>	<u>\$ 0.06</u>
Diluted	<u>\$ 0.13</u>	<u>\$ 0.05</u>
Weighted-average number of shares:		
Basic	<u>9,070,277</u>	<u>7,864,688</u>
Diluted	<u>9,985,662</u>	<u>9,639,273</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

KOSS CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

<b>Years Ended June 30,</b>	<b>2022</b>	<b>2021</b>
Operating activities:		
Net income	\$ 1,268,409	\$ 493,594
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
(Recovery of) doubtful accounts of accounts receivable	(35,305)	(9,226)
Depreciation of equipment and leasehold improvements	293,465	302,616
Stock-based compensation expense	463,633	619,137
Change in cash surrender value of life insurance	(211,636)	(208,116)
(Benefit) provision for deferred compensation	(160,120)	308,000
Deferred compensation gain	(71,250)	(150,000)
Deferred compensation relieved	(472,883)	—
Other income - SBA loan forgiveness	—	(506,700)
Other income - Net gain from life insurance benefits	(262,391)	—
Loss on disposal of fixed assets	7,856	—
Net changes in operating assets and liabilities:		
Accounts receivable	429,470	85,505
Inventories	(2,729,850)	(362,718)
Prepaid expenses and other current assets	267,526	(188,357)
Income taxes receivable	—	14,622
Income taxes payable	(1,510)	4,543
Accounts payable	397,730	(429,272)
Accrued liabilities	44,789	85,468
Deferred revenue	(170,463)	289,644
Net cash (used in) provided by operating activities	<u>(942,530)</u>	<u>348,740</u>
Investing activities:		
Purchase of equipment and leasehold improvements	(108,158)	(600,155)
Life insurance premiums paid	(95,887)	(104,051)
Proceeds from life insurance policy	2,014,184	—
Net cash provided by (used in) investing activities	<u>1,810,139</u>	<u>(704,206)</u>
Financing activities:		
Proceeds from exercise of stock options	1,390,346	3,306,272
Net cash provided by financing activities	<u>1,390,346</u>	<u>3,306,272</u>
Net increase in cash and cash equivalents	2,257,955	2,950,806
Cash and cash equivalents at beginning of year	6,950,215	3,999,409
Cash and cash equivalents at end of year	<u>\$ 9,208,170</u>	<u>\$ 6,950,215</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.



KOSS CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Paid in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, June 30, 2020	7,404,831	37,024	6,882,729	8,236,345	15,156,098
Net income	—	—	—	493,594	493,594
Stock-based compensation expense	—	—	619,137	—	619,137
Exercise of common stock options	1,203,875	6,020	3,300,252	—	3,306,272
Balance, June 30, 2021	8,608,706	43,044	10,802,118	8,729,939	19,575,101
Net income	—	—	—	1,268,409	1,268,409
Stock-based compensation expense	—	—	463,633	—	463,633
Exercise of common stock options	539,089	2,695	1,387,651	—	1,390,346
Balance, June 30, 2022	9,147,795	\$ 45,739	\$ 12,653,402	\$ 9,998,348	\$ 22,697,489

The accompanying notes are an integral part of these Consolidated Financial Statements.

KOSS CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

**NATURE OF BUSINESS** — Koss Corporation ("Koss"), a Delaware corporation, and its 100%-owned subsidiaries (collectively the "Company"), reports its finances as a single reporting segment, as the Company's only 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 sales personnel in the Netherlands and the Caucasus region which utilize independent distributors in several foreign countries. The Company has two subsidiaries, Koss Corp B.V. and Koss U.K. Limited ("Koss UK"), which were formed to comply with certain European Union ("EU") requirements. Koss Corp B.V. and Koss UK are non-operating and hold no assets.

**BASIS OF CONSOLIDATION** — The Consolidated Financial Statements include the accounts of Koss and its subsidiaries, Koss Corp B.V. and Koss UK, which are 100%-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

**REVENUE RECOGNITION** — Revenues from product sales are recognized when the customer obtains control of the product, which typically occurs upon shipment from the Company's facility. There are a very limited number of customers for which control does not pass until they have received the products at their facility. Revenue from product sales is adjusted for estimated warranty obligations and variable consideration, which are detailed below. The amount of revenue recognized is to reflect the consideration expected to be received for those goods or services.

*Warranties* - The Company offers a lifetime warranty to consumers in the United States and certain other countries. This lifetime warranty creates a future performance obligation. The Company determines the standalone selling price for this performance obligation using the cost-plus method. There are also certain foreign distributors that receive warranty repair parts and replacement headphones to satisfy warranty obligations in those countries. The Company defers revenue to recognize the future obligations related to these warranties. The deferred revenue is based on historical analysis of warranty claims relative to sales. This deferred revenue reflects the Company's best estimates of the amount of warranty returns and repairs it will experience during those future periods. If future warranty activity varies from the estimates, the Company will adjust the estimated deferred revenue, which would affect net sales and operating results in the period that such adjustment becomes known. The Company typically receives payment for product at the time of shipment or under normal collection terms, which are generally 30-60 days. The Company estimates that the warranty related performance obligation is satisfied within one to three years and therefore uses that same time frame for recognition of the deferred revenue, using amortization of 50% in year 1, 30% in year 2, and 20% in year 3 for domestic sales. Export deferred revenue, where applicable, is recognized over a 12 month period from date of shipment.

*Reserves for Variable Consideration* - Revenue from product sales is recorded at the net sales price, which includes estimates of variable consideration for which reserves are established and which result from returns, rebates, and co-pay assistance that are offered within contracts between the Company and its customers. Overall, these reserves reflect the Company's best estimates of the amount of consideration to which it is entitled based on the terms of the contract. If actual results in the future vary from the estimates, the Company will adjust these estimates, which would affect net sales and operating results in the period such variances become known.

*Product Returns* - The Company generally offers customers a limited right of return. The Company estimates the amount of product sales that may be returned by its customers and records the estimate as a reduction of revenue in the period the related product revenue is recognized. Product return liabilities are estimated using historical sales and returns information. If actual results in the future vary from the estimates, the Company will adjust these estimates, which would affect net sales and operating results in the period such variances become known.

*Volume Rebates* - The Company offers volume rebates to certain customers in the United States and certain foreign distributors. These volume rebates are tied to sales volume within specified periods. The amount of revenue is reduced for variable consideration related to customer rebates, which are calculated using expected values and is based on program specific factors such as expected rebate percentages and expected volumes. Changes in such accruals may be required if actual sales volume differs from estimated sales volume, which would affect net sales and operating results in the period such variances become known.

*Sales Commissions* - The Company has elected the practical expedient of not capitalizing sales commissions.

**RESEARCH AND DEVELOPMENT** — Research and development is primarily comprised of product prototypes and testing. These activities, charged to operations as a component of selling, general and administrative expenses in the accompanying Consolidated Statements of Income, amounted to \$285,244 and \$410,602 in 2022 and 2021, respectively.

**ADVERTISING COSTS** — Advertising costs included within selling, general and administrative expenses in the accompanying Consolidated Statements of Income were \$50,513 in 2022 and \$33,976 in 2021. Such costs are expensed as incurred.

**INCOME TAXES** — The Company operates as a C Corporation under the Internal Revenue Code (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 loss carryforwards, capitalization requirements of the Code, allowances for doubtful accounts, provisions for excess and obsolete inventory, stock-based compensation, warranty reserves, and other income tax related carryforwards. A valuation allowance is established when necessary to reduce deferred income tax assets to the amount that is more likely than not to be realized.

**PATENT COSTS** — The Company incurs on-going legal fees and filing costs related to the patent portfolio. These costs are expensed in the period they are incurred since no patent legal costs were probable to provide a future economic benefit.

**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 (loss) 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 10 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.

**INVENTORIES** — As of June 30, 2022 and 2021, the Company’s inventory was recorded using standard cost which approximates the lower of first in first out (“FIFO”) cost or net realizable value. 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 4 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. See Note 5 for additional information on equipment and leasehold improvements.

**LEASES** — The Company determines if a contract is a lease at the date of inception. The Company leases its facility in Milwaukee, Wisconsin from Koss Holdings, LLC, which is controlled by five equal ownership interests in trusts held by the 5 beneficiaries of the former chairman’s revocable trust and is an operating lease.

Operating leases are reported on the Company’s Consolidated Balance Sheets as operating lease right-of-use (“ROU”) assets and operating lease liabilities. Operating lease ROU assets and liabilities are valued at the present value of the future lease payment obligations. Operating lease expense is recorded on a straight-line basis over the life of the lease taking into account expected renewal periods.

**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, net of annual premiums paid, and the proceeds from company-owned life insurance policies are included in selling, general and administrative expenses and other income, respectively, in the Consolidated Statements of Income.

**DEFERRED COMPENSATION** — At June 30, 2022, the Company's deferred compensation liability is for a current officer and at June 30, 2021 is for a current and former officer and is calculated based on various assumptions which may include compensation, years of service, expected retirement date, discount rates, and mortality tables. The related expense is calculated using the net present value of the expected payments and is included in selling, general and administrative expenses in the Consolidated Statements of Income. The selling, general and administrative expenses recorded during the year ended June 30, 2022, also include the gain recorded as a result of the reversal of the deferred compensation current and noncurrent liabilities recorded for the Company's founder who passed away on December 21, 2021. See Note 9 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 an undiscounted future cash flow analysis or other accepted valuation techniques. No impairments of the Company's long-lived assets were recorded in the years ended June 30, 2022, or 2021.

**LEGAL COSTS** — All legal costs related to litigation, for which the Company is liable, are charged to operations as incurred, except settlements, which are expensed when a claim is probable and can be reasonably estimated. Recoveries of legal costs are recorded when the amount and items to be paid are confirmed by the third party. 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 11. 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.

**OTHER INCOME** — In December 2021, the Company recognized approximately \$262,000 of other income related to the proceeds from company-owned life insurance policies on its founder, who passed away on December 21, 2021.

In July 2021, the Company entered into a license agreement with a headphone manufacturer (whereby the manufacturer licensed the use of certain patents in certain of their headphones). The one-time license fee of \$100,000 was also treated as other income. Other income is shown as a separate line on the condensed Consolidated Statements of Income. There was a related payment of \$100,000 to a third party that was charged to legal expense.

On November 3, 2020, the Company was notified that the full \$506,700 of the SBA Loan (see Note 7) was forgiven. The loan forgiveness was treated as other income and shown as a separate line on the Consolidated Statements of Operations for the year ended June 30, 2021. The Company followed the debt and debt extinguishment accounting model for the SBA Loan forgiveness.

Other income also includes \$378,805 received from a director in settlement of a short sale under Rule 144 during the year ended June 30, 2021.

**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 revenue and expenses during the reported periods. Actual results could differ from those estimates.

## 2. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes (Topic 740)", which removes certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. This guidance also clarifies and simplifies other areas of ASC 740. This guidance was effective for the Company July 1, 2021. Certain amendments in this update must be applied on a prospective basis, certain amendments must be applied on a retrospective basis, and certain amendments must be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings in the period of adoption. The adoption of the new standard did not have a material impact to income taxes reported in the financial statements for the year ended June 30, 2022.

## 3. REVENUE RECOGNITION

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

	<b>2022</b>		<b>2021</b>	
United States	\$	13,034,647	\$	14,298,358
Export		4,572,620		5,247,650
Net Sales	\$	<u>17,607,267</u>	\$	<u>19,546,008</u>

Deferred revenue relates primarily to consumer and customer warranties. These constitute future performance obligations and the Company defers revenue related to these future performance obligations. The Company recognized revenue, which was included in the deferred revenue liability at the beginning of the periods, of \$453,693 and \$325,962 in the years ended June 30, 2022 and 2021, respectively, for performance obligations related to consumer and customer warranties. The deferred revenue liability was \$593,920 as of June 30, 2020. The Company estimates that the deferred revenue performance obligations are satisfied within 1 to 3 years and therefore uses the same time frame for recognition of the deferred revenue.

## 4. INVENTORIES

The components of inventories at June 30, 2022 and 2021 were as follows:

	<b>2022</b>		<b>2021</b>	
Raw materials	\$	2,217,621	\$	2,067,572
Finished goods		8,302,546		5,621,228
Inventories, gross		10,520,167		7,688,800
Reserve for obsolete inventory		(1,888,805)		(1,787,288)
Inventories, net	\$	<u>8,631,362</u>	\$	<u>5,901,512</u>

## 5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

The major categories of equipment and leasehold improvements at June 30, 2022 and 2021 are summarized as follows:

	<b>Estimated useful lives (in years)</b>	<b>2022</b>		<b>2021</b>	
Machinery and equipment	5 - 10	\$	601,315	\$	593,595
Furniture and office equipment	5 - 10		337,419		357,351
Tooling	5		4,506,044		4,407,535
Computer & technology equipment	3 - 5		197,073		821,371
Leasehold improvements	3 - 10		2,951,054		3,074,421
Assets in progress	N/A		235,749		276,054
			<u>8,828,654</u>		<u>9,530,327</u>
Less: accumulated depreciation and amortization			7,740,637		8,249,147
Equipment and leasehold improvements, net		\$	<u>1,088,017</u>	\$	<u>1,281,180</u>

## 6. 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 2022 and 2021 consisted of the following:

Year Ended June 30,	2022	2021
Current:		
Federal	\$ —	\$ —
State	7,517	4,125
Deferred	—	—
Total income tax provision	\$ 7,517	\$ 4,125

The 2022 and 2021 tax results in an effective rate different than the federal statutory rate because of the following:

Year Ended June 30,	2022	2021
Federal income tax liability at statutory rate	\$ 267,945	\$ 104,522
State income tax liability, net of federal income tax effect	5,938	3,259
Increase in valuation allowance	1,486,001	7,741,570
Stock option (deduction)	(1,966,822)	(8,326,662)
Non-deductible officers' compensation	127,612	657,464
All other permanent items	(50,573)	(172,863)
R&D credit	(34,936)	(30,000)
Return-to-provision	(38,863)	(3,303)
Expiration of stock options and tax credits	7,573	40,572
State tax rate change	157,716	(30,887)
Other	45,926	20,453
Total income tax provision	\$ 7,517	\$ 4,125

Temporary differences which give rise to deferred income tax assets and liabilities at June 30, 2022 and June 30, 2021 include:

	2022	2021
Deferred income tax assets:		
Deferred compensation	\$ 479,340	\$ 664,705
Stock-based compensation	107,499	116,582
Accrued expenses and reserves	551,562	543,940
Deferred revenue	176,447	222,341
Federal and state net operating loss carryforwards	9,942,511	8,333,391
Credit carryforwards	292,155	252,192
Equipment and leasehold improvements	122,764	57,639
Lease liability	803,603	580,053
Valuation allowance	(11,671,606)	(10,185,605)
Total deferred income tax assets	804,275	585,238
Deferred income tax liabilities:		
ROU asset	(803,603)	(580,053)
Other	(672)	(5,185)
Net deferred income tax assets	\$ -	\$ -

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 value of such expected benefits. The Company has federal net operating loss carryforwards of approximately \$352,000 which expire in fiscal year 2037 and approximately \$38,202,000 which can be carried forward indefinitely. The Company has state net operating loss carryforwards totaling approximately \$12,323,000 in Wisconsin, which expire in tax years 2029 through 2041, and approximately \$17,961,000 in other states. In the year ended June 30, 2022, the Company generated federal net operating losses of approximately \$7,199,000. At the state level, the fiscal 2022 net operating loss generated in Wisconsin was approximately \$1,144,000 and approximately \$3,536,000 in all other states combined.

The need for a valuation allowance is evaluated each accounting period based on the Company's evaluation of positive and negative evidence concerning the usage of their deferred tax assets. As of the end of the period, the Company has evaluated all evidence concerning the usage of their deferred tax assets and the determination has been made to maintain a full valuation allowance on the Company's net deferred tax asset. The need for a valuation allowance is an estimate at period-end, which is subject to change once additional evidence is obtained in future periods. Future evidence includes, but is not limited to, license agreement proceeds which are expected to be recorded into earnings in the subsequent period. This is a subsequent event that was not known or knowable at June 30, 2022. When the license proceeds are recognized in a future period, the evidence will be considered in determining the Company's expected usage of their deferred tax assets, and may have a material impact on the Company's financial statements.

Generally accepted accounting principles in the United States ("GAAP") prescribe 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 years ended June 30, 2022 and 2021.

Additionally, GAAP provides guidance on the recognition of interest and penalties related to income taxes. No interest or penalties related to income taxes has been accrued or recognized as of and for the years ended June 30, 2022 or 2021. The Company records interest related to unrecognized tax benefits in interest expense.

The Company does not believe it has any unrecognized tax benefits as of June 30, 2022 or 2021. Any changes to the Company's unrecognized tax benefits during the fiscal years ended June 30, 2022 and 2021 would have impacted 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 for tax years and state income tax returns are open for the standard statutory period.

The following are the changes in the valuation allowance:

Year Ended June 30,	Balance, beginning of year	Decrease (Increase) in valuation allowance	Balance, end of year
2022	\$ (10,185,605)	\$ (1,486,001)	\$ (11,671,606)
2021	\$ (2,444,035)	\$ (7,741,570)	\$ (10,185,605)

## 7. CREDIT FACILITY AND SBA LOAN

On May 14, 2019, the Company entered into a secured credit facility ("Credit Agreement") with Town Bank ("Lender"). The Credit Agreement provides for a \$5,000,000 revolving secured credit facility with an interest rate of 1.50% over LIBOR. The Credit Agreement also provides for letters of credit for the benefit of the Company of up to a sublimit of \$1,000,000. There are no unused line fees in the credit facility. On January 28, 2021, the Credit Agreement was amended to extend the expiration to October 31, 2022, and to change the interest rate to Wall Street Journal Prime less 1.50%. The Company and the Lender also entered into a General Business Security Agreement dated May 14, 2019 under which the Company granted the Lender a security interest in substantially all of the Company's assets in connection with the Company's obligations under the Credit Agreement. The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type. The negative covenants include restrictions on other indebtedness, liens, fundamental changes, certain investments, disposition of assets, mergers and liquidations, among other restrictions. As of June 30, 2022, the Company was in material compliance with all covenants related to the Credit Agreement. As of June 30, 2022 and 2021, there were no outstanding borrowings on the facility.

On November 3, 2020, the Company was notified that the full principal amount of the SBA Loan received under the Small Business Administration ("SBA") Paycheck Protection Program (the "PPP") of the CARES Act through Town Bank had been forgiven and \$506,700 was recorded as other income in the 2021 Consolidated Statement of Income.

The Company incurs interest expense primarily related to its secured credit facility. There was no interest expense for the years ended June 30, 2022 or 2021.

## 8. ACCRUED LIABILITIES

Accrued liabilities as of June 30, 2022 and 2021 were as follows:

	2022	2021
Cooperative advertising and promotion allowances	\$ 200,175	\$ 201,006
Customer credit balances	30,515	1,008
Current deferred compensation	—	150,000
Employee benefits	75,101	83,463
Legal and professional fees	86,500	73,200
Bonus and profit-sharing	91,784	38,199
Sales commissions and bonuses	39,195	70,175
Other	37,086	48,516
Total accrued liabilities	<u>\$ 560,356</u>	<u>\$ 665,567</u>



## 9. DEFERRED COMPENSATION

As of June 30, 2022 and 2021, the Company has a deferred compensation agreement with a current officer. As of June 30, 2021 the Company also had a deferred compensation agreement with a former officer, who has since passed away. 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 Income. 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 Board of Directors entered into an agreement to continue the 1991 base salary of the Company's founder and former chairman beginning in fiscal year ended June 30, 2015 and continuing for the remainder of his life. In December 2021, the former officer passed away. In fiscal year 2022 payments totaling \$71,250 were made to the former officer under the deferred compensation arrangement until December 31, 2021 and were expensed as paid. At June 30, 2021, the Company had a total deferred compensation liability of \$472,883 recorded related to the former officer, which at his death was relieved. As a result, deferred compensation income of \$472,883 was recognized in selling, general and administrative expenses during the year ended June 30, 2022.

The remaining deferred compensation liability of \$1,937,229 and \$2,168,599 recorded at June 30, 2022 and June 30, 2021, respectively, relates to a supplemental retirement plan for a current 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. Deferred compensation (income)/expense of (\$231,370) and \$102,000 was recognized under this arrangement during the years ended June 30, 2022 and 2021, respectively, to record the liability at net present value of the future expected payments. The net present value was calculated using a discount factor of 4.78% at June 30, 2022 and 3.29% as of June 30, 2021. The life expectancies used in the calculation of net present value were 19.70 and 21.00 years for fiscal years ended June 30, 2022 and 2021, respectively. The current officer's retirement date is estimated to be October 2029.

## 10. INCOME PER COMMON AND COMMON STOCK EQUIVALENT SHARE

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

	Year Ended	
	2022	2021
<b>Numerator</b>		
Net income	\$ 1,268,409	\$ 493,594
<b>Denominator</b>		
Weighted average shares, basic	9,070,277	7,864,688
Dilutive effect of stock compensation awards (1)	915,385	1,774,585
Diluted shares	<u>9,985,662</u>	<u>9,639,273</u>
Net income attributable to common shareholders per share:		
Basic	\$ 0.14	\$ 0.06
Diluted	\$ 0.13	\$ 0.05

(1) No stock options were anti-dilutive for the years ended June 20, 2022 and 2021.

## 11. 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 that expired or were otherwise forfeited, canceled or terminated after July 25, 2012, the Effective Date of the 2012 Plan. As of June 30, 2022, there were 690,308 options available for future grants. Options vest over a 3-to-5-year period from the date of grant, with a maximum term of 5 to 10 years. The Company's policy is to issue new shares when stock options are exercised. As of July 25, 2022, the tenth anniversary of the 2012 Plan, no further awards may be made under the 2012 Plan.

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. Forfeitures are accounted for as they occur. 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.

As of June 30, 2022, there was \$553,237 of total unrecognized compensation cost related to stock options granted under the 2012 Plan. This cost is expected to be recognized over a weighted average period of 1.99 years. The Company recognized stock-based compensation expense of \$463,633 and \$619,137 in 2022 and 2021, respectively. These expenses were included in selling, general and administrative expenses.

Options are granted at a price equal to or greater than the market value of the common stock on the date of grant. The per share weighted average fair value of the stock options granted during the year ended June 30, 2021 was \$1.12. No options were granted during the year ended June 30, 2022. 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 2021, the Company used the following weighted-average assumptions:

	2022	2021
Expected stock price volatility	n/a	77%
Risk free interest rate	n/a	0.34%
Expected dividend yield	n/a	—%
Expected life of options (years)	n/a	6.0

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 June 30, 2020	2,721,875	\$ 1.77 - \$6.00	\$ 2.73	4.82	\$ —
Granted	615,000	\$ 1.73 - \$2.11	\$ 1.84		
Exercised	(1,203,875)	\$ 1.77 - \$6.00	\$ 2.75		
Expired	(385,000)	\$ 1.77 - \$5.24	\$ 3.24		
Forfeited	—	—	—		
Shares under option at June 30, 2021	1,748,000	\$ 1.73 - \$6.00	\$ 2.29	4.86	\$ 36,594,280
Granted	—	\$ —	\$ —		
Exercised	(539,089)	\$ 1.73 - \$6.00	\$ 2.58		
Expired	—	\$ —	\$ —		
Forfeited	(150,000)	1.73 - \$2.65	2.00		
Shares under option at June 30, 2022	1,058,911	\$ 1.73 - \$2.92	\$ 2.18	3.72	\$ 5,055,797
Exercisable as of June 30, 2021	288,000	\$ 1.73 - \$6.00	\$ 3.19	2.81	\$ 5,767,425
Exercisable as of June 30, 2022	264,577	\$ 1.73 - \$2.92	\$ 2.45	2.06	\$ 1,180,591

The aggregate intrinsic value of outstanding and exercisable stock options is defined as the difference between the market value of the Company's stock on any given date and the exercise price, multiplied by the number of in-the-money outstanding and exercisable stock options.

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, 2022 and 2021 is as follows:

	2022		2021	
Total intrinsic value of stock options exercised	\$	9,032,778	\$	31,877,285
Cash received from stock option exercises	\$	1,390,346	\$	3,306,272
Total fair value of stock options vested	\$	620,018	\$	550,093
Total recognized tax benefit	\$	1,778,981	\$	6,545,430

	Shares	Weighted Average Grant Date Fair Value
Non-vested as of June 30, 2020	1,313,166	1.26
Granted	615,000	1.12
Vested	(468,166)	1.17
Forfeited	—	—
Non-vested as of June 30, 2021	1,460,000	1.23
Granted	—	—
Vested	(515,666)	1.20
Forfeited	(150,000)	1.38
Non-vested as of June 30, 2022	794,334	1.22

## 12. 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 approved increases in the amount authorized for repurchase under the program. As of June 30, 2022, the repurchase of an aggregate of \$45,500,000 of common stock was authorized under the stock repurchase program, of which \$43,360,247 had been expended. No shares were repurchased in fiscal year 2022 or 2021.

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 up to \$2,000,000 of Company common stock from his estate. The Company did not have the right to require the estate to sell stock to the Company. Upon his passing, the estate has twelve months to exercise the right to require the Company to repurchase the stock. The estate did not exercise this right as of June 30, 2022 and is not expected to do so. As of June 30, 2022, the estate of the former chairman did not hold a material amount of Company stock.

## 13. LEASES

The Company leases its facility in Milwaukee, Wisconsin from Koss Holdings, LLC, which is controlled by five equal ownership interests in trusts held by the 5 beneficiaries of the former Chairman's revocable trust. On May 24, 2022, the lease was renewed for a period of five years, ending June 30, 2028 (the "Extended Term", and is being accounted for as an operating lease. The lease extension maintained the rent at a fixed rate of \$380,000 per year and included an option to renew at an increased rate of \$397,000 for an additional five years ending June 30, 2033 (the "Second Extended Term"). The negotiated increase in rent slated for 2028 will be the first increase in rent since 1996. The Company is responsible for all property maintenance, insurance, taxes and other normal expenses related to ownership.

The Company used its incremental borrowing rate as of the date of renewal, May 24, 2022, to recalculate the net present value of the operating lease ROU asset and liability. Both the Extended Term and the Second Extended Term renewal options were included in the calculation of the ROU asset and liability as the Company believes it is reasonably certain to exercise both rights to renew. The non-lease components of the agreement related to common area maintenance charges are accounted for separately.

Supplemental information related to lease expense and valuation of the ROU asset and liability was as follows:

	Year Ended	
	2022	2021
Operating lease cost	\$ 380,000	\$ 380,000
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ (380,000)	\$ (380,000)
Weighted-average remaining lease term (in years)	11	7
Weighted-average discount rate	5.25%	4.25%

The maturity schedule of future minimum lease payments and reconciliation to the operating lease liabilities reported on the 2022 Consolidated Balance Sheet is as follows:

Year Ending June 30,		
2023	\$	380,000
2024		380,000
2025		380,000
2026		380,000
2027		380,000
Thereafter		2,365,000
<b>Total lease payments</b>		<b>4,265,000</b>
Present value adjustment		(1,017,275)
<b>Total lease liabilities</b>	<b>\$</b>	<b>3,247,725</b>

#### 14. 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 2022 or 2021.

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 2022 and 2021, the matching contribution was 25% of employee contributions to the plan. Vesting of Company contributions occurs immediately. Company contributions were \$89,314 and \$79,481 during 2022 and 2021, respectively.

#### 15. CONCENTRATIONS

In the years ended June 30, 2022 and 2021, the Company's largest customers were Amazon Seller Central and Ingram Micro, respectively. The Company's sales to Amazon Seller Central were approximately 13% and 3% of net sales in fiscal year 2022 and 2021, respectively. Ingram Micro sales were approximately 10% and 18% of net sales in fiscal year 2022 and 2021, respectively. The five largest customers of the Company accounted for approximately 45% of net sales in fiscal year 2022 and 48% in fiscal year 2021.

The two customers with the largest accounts receivable balances as of June 30, 2022 and 2021 were Ingram Micro and Amazon Vendor Central. Accounts receivable from Ingram Micro as of June 30, 2022 and June 30, 2021, represented 19% and 24% of total trade accounts receivables, respectively. Amazon Vendor Central accounts receivable as of June 30, 2022 and June 30, 2021, were approximately 18% and 19% of total trade account receivables, respectively. The majority of international customers, outside of Canada, purchase products on a cash against documents or cash in advance basis. Approximately 4% and 6% of the Company's trade accounts receivable at June 30, 2022 and 2021, were foreign receivables denominated in U.S. dollars.

The Company uses contract manufacturing facilities in the People's Republic of China. The majority of the contract manufacturing is done by two vendors with one vendor representing approximately 59% and 52% of the manufacturing costs in fiscal years 2022 and 2021, respectively. The Company has a long-term relationship with this vendor. However, increased costs from the vendor or an interruption of supply from this vendor could have a material adverse effect on the Company's profit margins and profitability.

## 16. LEGAL MATTERS

As of June 30, 2022, the Company is involved in the following matters described below:

As previously reported, the Company has launched a program focused on enforcing its intellectual property and, in particular, certain of its patent portfolio. The Company has continued to enforce its intellectual property by filing complaints against certain parties alleging infringement on the Company's patents relating to its wireless audio technology. In the event that a monetary award or judgment is received by the Company in connection with these complaints, all or portions of such amounts will be due to third parties. The Company does not expect to incur additional fees and costs related to these lawsuits that may have a material impact to its financial statements. Depending on the response to and the underlying results of the enforcement program, the Company may continue to litigate its claims, enter into licensing arrangements or reach some other outcome potentially advantageous to its competitive position.

The Company was notified by One-E-Way, Inc. that some of the Company's wireless products may infringe on certain One-E-Way patents. No lawsuits involving these allegations have yet been filed and served on the Company. The Company is currently investigating whether these allegations have any merit. Depending on the results of the investigation and the defense of these allegations, the ultimate resolution of this matter may have a material effect on the Company's financial statements. The Company estimates that this matter will ultimately be resolved at a cost of approximately \$41,000 to \$140,000 and has accrued the lower amount as of June 30, 2022 and 2021.

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.

## 17. SUBSEQUENT EVENTS

In July 2022, in connection with its ongoing intellectual property enforcement program, which includes lawsuits alleging infringement of patents relating to its wireless audio technology, the Company has granted licenses covering certain Company patents and will realize approximately \$12 million in non-recurring net proceeds, after fees and expenses, in the first quarter of fiscal year 2023.

## EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Exhibit Description</b>
3.1	<a href="#">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.</a>
3.2	<a href="#">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.</a>
3.3	<a href="#">Amendment to the By-Laws of Koss Corporation. Filed as Exhibit 3.3 to the Company's Current Report on Form 8-K on March 7, 2006 and incorporated herein by reference.</a>
3.4	<a href="#">Amendment to the By-Laws of Koss Corporation. Filed as Exhibit 3.4 to the Company's Annual report on Form 10-K for the year ended June 30, 2020 and incorporated herein by reference.</a>
4.1	<a href="#">Description of Common Stock of Koss Corporation. Filed as Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended June 30, 2020 and incorporated herein by reference.</a>
10.1	<a href="#">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. *</a>
10.2	<a href="#">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. *</a>
10.3	<a href="#">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. *</a>
10.6	<a href="#">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. *</a>
10.7	<a href="#">Revolving Credit Agreement dated May 14, 2019, between Koss Corporation and Town Bank Filed as Exhibit 10.1 to the Company's Form 8-K on May 16, 2019 and incorporated by reference herein.</a>
10.8	<a href="#">First Amendment to Revolving Credit Agreement dated January 28, 2021, and between Koss Corporation and Town Bank filed as Exhibit 10.1 to the Company's Form 10-Q on January 29, 2021 and incorporated by reference here.</a>
10.9	<a href="#">General Business Security Agreement dated May 14, 2019, between Koss Corporation and Town Bank Filed as Exhibit 10.2 to the Company's Form 8-K on May 16, 2019 and incorporated by reference herein.</a>
10.10	<a href="#">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). *</a>
14	<a href="#">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.</a>
21.1	<a href="#">Subsidiaries of Koss Corporation. Filed as Exhibit 21.1 to the Company's Annual report on Form 10-K for the year ended June 30, 2020 and incorporated herein by reference.</a>
23.1	<a href="#">Consent of Wipfli LLP. **</a>
31.1	<a href="#">Rule 13a -14(a)/15d-14(a) Certification of Chief Executive Officer. **</a>
31.2	<a href="#">Rule 13a -14(a)/15d-14(a) Certification of Chief Financial Officer. **</a>
32.1	<a href="#">Section 1350 Certification of Chief Executive Officer. ***</a>
32.2	<a href="#">Section 1350 Certification of Chief Financial Officer. ***</a>
101	The following financial information from Koss Corporation's Annual Report on Form 10-K for the year ended June 30, 2022, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2022 and 2021 , (ii) Consolidated Statements of Income for the years ended June 30, 2022 and 2021, (iii) Consolidated Statements of Cash Flows for the years ended June 30, 2022 and 2021 , (iv) Consolidated Statements of Stockholders' Equity for the years ended June 30, 2022 and 2021 and (v) the Notes to Consolidated Financial Statements.
104	The cover page from Koss Corporation's Annual Report on Form 10-K for the year ended June 30, 2022, filed with the Securities and Exchange Commission on August 26, 2022, formatted in XBRL Cover Page Interactive Data File **

\* Denotes a management contract or compensatory plan or arrangement  
\*\* Filed herewith  
\*\*\* Furnished herewith

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  
Michael J. Koss  
Chairman  
Chief Executive Officer

August 26, 2022

By: /s/ Kim M. Schulte  
Kim M. Schulte  
Chief Financial Officer  
Principal Accounting Officer

August 26, 2022

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 26, 2022.

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

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

/s/ Steven A. Leveen  
Steven A. Leveen, Director

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

/s/ William J. Sweasy  
William J. Sweasy, Director

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement (Nos. 333-89872, 333-37986, 333-20405 and 333-184754) on Form S-8 of our report dated August 26, 2022, relating to the consolidated financial statements of Koss Corporation and Subsidiaries as of and for the years ended June 30, 2022 and 2021 appearing in this Annual Report on Form 10-K of Koss Corporation for the year ended June 30, 2022.

/s/ WIPFLI LLP

Milwaukee, Wisconsin  
August 26, 2022

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**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 26, 2022

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

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

I, Kim M. Schulte, certify that:

1. I have reviewed this 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 26, 2022

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

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**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, 2022 (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  
Chief Executive Officer and President  
August 26, 2022

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

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

- (i) the Annual Report on Form 10-K of the Company for the year ended June 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kim M. Schulte  
Kim M. Schulte  
Chief Financial Officer  
August 26, 2022

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.

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