UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

Amendment No. 1

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

for the quarterly period ended March 31, 2010

OR

o 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)

A DELAWARE CORPORATION (State or other jurisdiction of incorporation or organization)	**39-1168275** (I.R.S. Employer Identification No.)
4129 North Port Washington Avenue, Milwaukee, Wisconsin (Address of principal executive offices)	**53212** (Zip Code)

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

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

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

At June 30, 2010, there were 7,382,706 shares outstanding of the registrant's common stock.

KOSS CORPORATION AND SUBSIDIARY
FORM 10-Q/A
March 31, 2010

INDEX

		Page
PART I	FINANCIAL INFORMATION	
	Item 1. Financial Statements	

		Condensed Consolidated Statements of Operations (Unaudited) Three months and nine months ended March 31, 2010 and 2009	4
		Condensed Consolidated Balance Sheets March 31, 2010 (Unaudited) and June 30, 2009	5
		Condensed Consolidated Statements of Cash Flows (Unaudited) Nine months ended March 31, 2010 and 2009	6
		Notes to Condensed Consolidated Financial Statements (Unaudited)	7
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
	Item 4.	Controls and Procedures	30
PART II	OTHER INFORMATION		
	Item 1.	Legal Proceedings	34
	Item 5.	Exhibits	34

Table of Contents

EXPLANATORY NOTE

This Quarterly Report on Form 10-Q/A for the three and nine months ended March 31, 2010 includes our unaudited condensed consolidated balance sheet as of March 31, 2010 and the unaudited condensed consolidated statements of operations for the three and nine months ended March 31, 2010 and the unaudited condensed consolidated statements of cash flows for the nine months ended March 31, 2010. The comparative consolidated balance sheet as of June 30, 2009 has been restated. The comparative unaudited condensed consolidated statements of operations for the three and nine months ended March 31, 2009 and the unaudited condensed consolidated statement of cash flows for the nine months ended March 31, 2009 have been restated.

On December 18, 2009, the Company learned of certain unauthorized transactions made by Sujata Sachdeva, its former Vice President of Finance and Principal Accounting Officer. The Company subsequently learned that Ms. Sachdeva colluded with two other employees of the accounting department in the misappropriation and circumvention of the Company's existing internal controls and established operating procedures. In carrying out the unauthorized transactions, these three former employees failed to adhere to the Company's existing procedures for processing payments and concealed the misappropriations from management, including the directors and remaining officers of the Company. Ms. Sachdeva and these other former employees were terminated shortly after the Company learned of the unauthorized transactions. On January 20, 2010, Ms. Sachdeva was indicted in connection with these misappropriations from the Company.

Koss Corporation and its wholly-owned subsidiary (the "Company") is amending this Quarterly Report on Form 10-Q/A to include its condensed consolidated financial statements and related notes to the condensed consolidated financial statements which were not included in the Form 10-Q filed on May 17, 2010. The condensed consolidated financial information was not included in that filing because the Company was restating its financial information primarily to reflect adjustments relating to the unauthorized transactions previously disclosed in Form 8-K Current Reports filed on December 21 and 24, 2009 and January 4, 7, 11 and 20, 2010. These adjustments are more fully described in Note 2 to our restated condensed consolidated financial statements in this Form 10-Q/A and in our recently filed Annual Report on Form 10-K/A for the year ended June 30, 2009.

The Company has amended its Quarterly Report on Form 10-Q/A for the three months ended September 30, 2009 to restate previously issued financial statements. The Company has also amended its Quarterly Report on Form 10-Q/A for the three and six months ended December 31, 2009 to include financial information. This Quarterly Report on Form 10-Q/A should be read in conjunction with those filings on Form 10-Q/A.

The following items of the Form 10-Q have been modified or revised in this Amendment No. 1 to Form 10-Q/A to reflect these restatements and related events:

Part I, Item 1.	Financial Statements
Part I, Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
Part I, Item 4.	Controls and Procedures
Part II, Item 1.	Legal Proceedings
Part II, Item 5.	Exhibits

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

KOSS CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	2010	2009 (Restated, See Note 2)	2010	2009 (Restated, See Note 2)
Net sales	$ 8,654,630	$ 8,840,780	$ 32,485,330	$ 32,285,285
Cost of goods sold	5,376,392	4,961,188	18,613,704	17,640,239
Gross profit	3,278,238	3,879,592	13,871,626	14,645,046
Operating Expenses:				
Selling, general and administrative expenses	2,370,021	2,213,326	7,600,954	7,711,072
Unauthorized transactions	—	1,990,228	10,286,988	5,782,101
Unauthorized transaction related costs and recoveries, net	310,547	—	550,547	—
Total operating expenses	2,680,568	4,203,554	18,438,489	13,493,173
Income (loss) from operations	597,670	(323,962)	(4,566,863)	1,151,873
Other Income (Expense):				
Royalty income	—	42,500	—	208,750
Interest income	22	3	35	15,502
Interest expense	(131,632)	(60,152)	(309,607)	(166,301)
Total Other (Expense) Income, net	(131,610)	(17,649)	(309,572)	57,951
Income (loss) before income tax provision (benefit)	466,060	(341,611)	(4,876,435)	1,209,824
Income tax provision (benefit)	172,893	(159,468)	(1,727,660)	372,417
Net income (loss)	$ 293,167	$ (182,143)	$ (3,148,775)	$ 837,407
(Loss) earnings per common share:				
Basic	$ 0.04	$ (0.02)	$ (0.43)	$ 0.11
Diluted	$ 0.04	$ (0.02)	$ (0.43)	$ 0.11
Dividends declared per common share	$ 0.060	$ 0.065	$ 0.185	$ 0.195

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

Table of Contents

KOSS CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2010	June 30, 2009 (Restated, See Note 2)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,694,257	$ 1,498,876
Accounts receivable, less allowance for doubtful accounts of $856,751 and $1,588,923, respectively	4,009,492	4,660,727
Inventories	8,667,631	8,708,835
Prepaid expenses	275,714	151,337
Income taxes receivable	2,131,565	—
Deferred income taxes	1,163,805	1,385,497
Total Current Assets	17,942,464	16,405,272
Equipment and leasehold improvements, net	2,211,332	2,240,572
Other Assets:		
Product software development costs	2,215,471	1,727,040
Deferred income taxes	2,199,686	6,311,282
Cash surrender value of life insurance	3,261,631	2,917,223
Other assets	—	25,000
Total Other Assets	7,676,788	10,980,545
Total Assets	$ 27,830,584	$ 29,626,389
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 2,302,538	$ 3,122,721
Accrued liabilities	3,718,790	2,090,054

Dividends payable	442,962	479,876
Income taxes payable	—	4,404,382
Line of credit	5,863,349	—
Total Current Liabilities	12,327,639	10,097,033
Long-Term Liabilities:		
Deferred compensation	1,699,654	1,541,240
Derivative liability	125,000	125,000
Other liabilities	725,000	725,000
Total Long-Term Liabilities	2,549,654	2,391,240
Total Liabilities	14,877,293	12,488,273
Stockholders' Equity:		
Common stock, $0.005 par value, authorized 20,000,000 shares; issued and outstanding 7,382,706 shares	36,914	36,914
Paid in capital	1,386,725	1,056,975
Retained earnings	11,529,652	16,044,227
Total Stockholders' Equity	12,953,291	17,138,116
Total Liabilities and Stockholders' Equity	$ 27,830,584	$ 29,626,389

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

Table of Contents

KOSS CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Nine Months Ended March 31,	2010	2009 (Restated, See Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (3,148,775)	$ 837,407
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Provision for doubtful accounts	452,882	290,361
Provision (reversal of provision) for obsolete inventories	30,855	(40,193)
Loss on disposals of equipment and leasehold improvements	2,007	86,956
Depreciation of equipment and leasehold improvements	502,651	617,519
Stock-based compensation expense	329,750	331,995
Provision for deferred income taxes	4,333,288	(1,711,037)
Change in cash surrender value of life insurance	4,095	8,108
Deferred compensation	158,414	160,907
Net changes in operating assets and liabilities	(5,643,069)	1,570,125
Net cash (used in) provided by operating activities	(2,977,902)	2,152,148
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturity of investments	25,000	75,000
Life insurance premiums paid	(348,503)	(348,503)
Purchases of equipment and leasehold improvements	(475,418)	(959,492)
Product software development expenditures	(488,431)	(755,626)
Net cash used in investing activities	(1,287,352)	(1,988,621)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from line of credit	5,863,349	—
Dividends paid to stockholders	(1,402,714)	(1,440,710)
Purchase of treasury shares	—	(43,620)
Net cash provided by (used in) financing activities	4,460,635	(1,484,330)
Net increase (decrease) in cash and cash equivalents	195,381	(1,320,803)
Cash and cash equivalents at beginning of period	1,498,876	3,162,233
Cash and cash equivalents at end of period	$ 1,694,257	$ 1,841,430

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

Table of Contents

KOSS CORPORATION AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On June 30, 2009, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). This pronouncement establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied in preparation of financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP"). The adoption of this standard had no impact on the Company's condensed consolidated financial statements.

The unaudited condensed consolidated financial statements presented herein are based on interim amounts. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. All significant intercompany transactions have been eliminated. The results of operations for the quarter ended March 31, 2010 are not necessarily indicative of the operating results for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Registrant's June 30, 2009 Annual Report on Form 10-K/A.

2. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

On December 24, 2009 and January 4, 2010, the Company announced that the audited consolidated financial statements included in our Annual Reports on Form 10-K since fiscal year 2005 and the unaudited condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the three months ended September 30, 2009 should no longer be relied upon.

As previously disclosed in Form 8-K Current Reports filed on December 21 and 24, 2009 and January 4, 7, 11 and 20, 2010, Koss Corporation learned of certain unauthorized transactions from at least its fiscal year ended June 30, 2005 and through December 2009. The Company has determined that its previously issued consolidated financial statements contained errors resulting from these unauthorized transactions.

As part of the financial statement review to isolate the unauthorized transactions, it was determined that certain accounting policies had not been applied properly in the current and prior periods. As a result, the restatements also include certain accounting adjustments related to the correction of errors resulting from the noncompliance with the Company's accounting policies.

All share and per-share data have been adjusted to give effect to the stock split on December 1, 2009.

Table of Contents

The following table summarizes the changes to previously reported earnings. The amounts listed as previously recorded in the income statement were recorded as reductions to net sales, increases to cost of goods sold or as increases to selling, general and administrative expenses in the previously issued condensed consolidated financial statements for the three and nine months ended March 31, 2009.

	Three Months ended March 31, 2009		Nine Months ended March 31, 2009	
	Restatement	Per Share	Restatement	Per Share
Unauthorized transaction losses	$ (1,990,228)	$ (0.27)	$ (5,782,101)	$ (0.79)
Unauthorized transaction losses previously recorded in the income statement				
Net sales	765,345	0.10	2,166,631	0.29
Cost of goods sold	154,570	0.02	537,438	0.07
Selling, general and administrative expenses	170,909	0.03	553,844	0.07
Additional restatement adjustments				
Net sales	(70,495)	(0.01)	199,095	0.03
Cost of goods sold	416,180	0.06	1,244,546	0.18
Selling, general and administrative expenses	3,934	0.00	77,879	0.01
Royalty income	42,500	0.01	150,417	0.02
Interest income	1	0.00	1	0.00
Interest expense	(60,152)	(0.01)	(166,301)	(0.02)
Loss before income tax provision	(567,436)	(0.07)	(1,018,551)	(0.14)
Income tax effect of restatement	(247,526)	(0.03)	(481,973)	(0.06)
Total reduction in net income	$ (319,910)	$ (0.04)	$ (536,578)	$ (0.08)

The condensed consolidated statements of operations, condensed consolidated balance sheets and condensed consolidated statements of cash flows detailed below reconcile the previously reported amounts to the restated amounts being reported on in this Quarterly Report on Form 10-Q/A. The restatement adjustments reflected in the financial statement line items are further described below the reconciling consolidated financial statements in the applicable section to which they pertain.

Table of Contents

KOSS CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS INFORMATION

Three Months Ended March 31,	2009 (as previously reported)	Adjustments	2009 (as restated)
Net sales	$ 8,145,930	$ 694,850	$ 8,840,780
Cost of goods sold	5,531,938	(570,750)	4,961,188
Gross profit	2,613,992	1,265,600	3,879,592
Operating Expenses:			
Selling, general and administrative expenses	2,388,169	(174,843)	2,213,326
Unauthorized transactions	—	1,990,228	1,990,228
Total Operating Expenses	2,388,169	1,815,385	4,203,554
Income (loss) from operations	225,823	(549,785)	(323,962)
Other Income (Expense):			
Royalty income	—	42,500	42,500
Interest income	2	1	3
Interest expense	—	(60,152)	(60,152)
Total Other Income (Expense), net	2	(17,651)	(17,649)
Income (loss) before income tax provision (benefit)	225,825	(567,436)	(341,611)
Income tax provision (benefit)	88,058	(247,526)	(159,468)
Net income (loss)	$ 137,767	$ (319,910)	$ (182,143)
Earnings (loss) per common share:			
Basic	$ 0.02	$ (0.04)	$ (0.02)
Diluted	$ 0.02	$ (0.04)	$ (0.02)
Dividends declared per common share	$ 0.065	$ —	$ 0.065

Table of Contents

KOSS CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS INFORMATION

Nine Months Ended March 31,	2009 (as previously reported)	Adjustments	2009 (as restated)
Net sales	$ 29,919,559	$ 2,365,726	$ 32,285,285
Cost of goods sold	19,422,223	(1,781,984)	17,640,239
Gross profit	10,497,336	4,147,710	14,645,046
Operating Expenses:			
Selling, general and administrative expenses	8,342,795	(631,723)	7,711,072
Unauthorized transactions	—	5,782,101	5,782,101
Total Operating Expenses	8,342,795	5,150,378	13,493,173
Income from operations	2,154,541	(1,002,668)	1,151,873
Other Income (Expense):			
Royalty income	58,333	150,417	208,750
Interest income	15,501	1	15,502
Interest expense	—	(166,301)	(166,301)
Total Other Income (Expense), net	73,834	(15,883)	57,951
Income before income tax provision	2,228,375	(1,018,551)	1,209,824
Income tax provision	854,390	(481,973)	372,417
Net income	$ 1,373,985	$ (536,578)	$ 837,407
Earnings per common share:			
Basic	$ 0.19	$ (0.08)	$ 0.11
Diluted	$ 0.19	$ (0.08)	$ 0.11
Dividends declared per common share	$ 0.195	$ —	$ 0.195

Table of Contents

KOSS CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEET INFORMATION

As of June 30,	2009 (as previously reported)	Adjustments	2009 (as restated)
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 1,664,407	$ (165,531)	$ 1,498,876
Accounts receivable, less allowance for doubtful accounts of $1,588,923	8,679,606	(4,018,879)	4,660,727
Inventories	9,763,158	(1,054,323)	8,708,835
Prepaid expenses	179,549	(28,212)	151,337
Deferred income taxes	720,121	665,376	1,385,497
Total Current Assets	21,006,841	(4,601,569)	16,405,272
Equipment and leasehold improvements, net	4,076,198	(1,835,626)	2,240,572
Other Assets:			
Product software development costs	—	1,727,040	1,727,040
Deferred income taxes	1,237,727	5,073,555	6,311,282
Cash surrender value of life insurance	—	2,917,223	2,917,223
Other assets	2,149,586	(2,124,586)	25,000
Total Other Assets	3,387,313	7,593,232	10,980,545
Total Assets	$ 28,470,352	$ 1,156,037	$ 29,626,389
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	$ 1,810,466	$ 1,312,255	$ 3,122,721
Accrued liabilities	1,153,089	936,965	2,090,054
Dividends payable	479,876	—	479,876
Income taxes payable	175,568	4,228,814	4,404,382
Total Current Liabilities	3,618,999	6,478,034	10,097,033
Long-Term Liabilities:			
Deferred compensation	1,095,961	445,279	1,541,240
Derivative liability	125,000	—	125,000
Other liabilities	—	725,000	725,000
Total Long-Term Liabilities	1,220,961	1,170,279	2,391,240
Total Liabilities	4,839,960	7,648,313	12,488,273
Stockholders' Equity:			
Common stock, $0.005 par value, authorized 20,000,000 shares; issued and outstanding 7,382,706 shares	2,049,384	(2,012,470)	36,914
Paid in capital	—	1,056,975	1,056,975
Retained earnings	21,581,008	(5,536,781)	16,044,227
Total Stockholders' Equity	23,630,392	(6,492,276)	17,138,116
Total Liabilities and Stockholders' Equity	$ 28,470,352	$ 1,156,037	$ 29,626,389

Table of Contents

KOSS CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW INFORMATION

Nine Months Ended March 31,	2009 (as previously reported)	Adjustments	2009 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 1,373,895	$ (536,488)	$ 837,407
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for doubtful accounts	—	290,361	290,361
Reversal of provision for obsolete inventories	—	(40,193)	(40,193)
Loss on disposals of equipment and leasehold improvements	—	86,956	86,956
Depreciation of equipment and leasehold improvements	648,841	(31,322)	617,519
Stock-based compensation expense	299,997	31,998	331,995
Provision for deferred income taxes	—	(1,711,037)	(1,711,037)
Change in cash surrender value of life insurance	—	8,108	8,108

Deferred compensation	—	160,907	160,907
Net changes in operating assets and liabilities	267,491	1,302,634	1,570,125
Net cash provided by operating activities	2,590,224	(438,076)	2,152,148
CASH FLOWS FROM INVESTING ACTIVITIES:			
Maturity of investments	—	75,000	75,000
Life insurance premiums paid	—	(348,503)	(348,503)
Purchases of equipment and leasehold improvements	(1,802,011)	842,519	(959,492)
Product software development expenditures	—	(755,626)	(755,626)
Net cash used in investing activities	(1,802,011)	(186,610)	(1,988,621)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid to stockholders	(1,440,191)	(519)	(1,440,710)
Purchase of treasury shares	(43,620)	—	(43,620)
Net cash used in financing activities	(1,483,811)	(519)	(1,484,330)
Net decrease in cash and cash equivalents	(695,598)	(625,205)	(1,320,803)
Cash and cash equivalents at beginning of period	3,322,873	(160,640)	3,162,233
Cash and cash equivalents at end of period	$ 2,627,275	$ (785,845)	$ 1,841,430

Table of Contents

The financial accounts and transactions that were affected and a description of matters that were discovered in the restatement process are summarized as follows:

Net Sales

The Company has determined that its previously filed condensed consolidated financial statements contained errors for understatement of revenue because of the unauthorized transactions. Certain unauthorized transactions improperly reduced various sales accounts through the use of manual journal entries or system transactions. In the three months and nine months ended March 31, 2009, net sales were understated by the amounts set forth in Table A, below.

Table A
Restatement Adjustments Related to Net Sales

	3 mos. ended March 31, 2009	9 mos. ended March 31, 2009
Restatement adjustments to increase gross sales	$ 690,345	$ 2,099,654
Restatement adjustments to sales allowances	4,505	266,072
Total	$ 694,850	$ 2,365,726

Cost of Goods Sold

Cost of goods sold was overstated in the reporting periods as a result of various entries made in connection with the unauthorized transactions. Portions of the unauthorized transactions were improperly charged to cost of goods sold. The majority of the erroneous charges were made to materials, fringe benefit overhead accounts, engineering and depreciation for the three and nine months ended March 31, 2009 as set forth in Table B, below.

Table B
Restatement Adjustments Related to Cost of Goods Sold

	3 mos. ended March 31, 2009	9 mos. ended March 31, 2009
Material and all other	$ (594,133)	$ (1,609,799)
Labor	(29,991)	(156,139)
Freight	216,109	217,892
Fringe benefits	(29,355)	(88,548)
Engineering	(27,500)	(154,161)
Depreciation	(105,880)	8,771
Total	$ (570,750)	$ (1,781,984)

Selling, General and Administrative Expenses

The financial statement review included an evaluation of various balance sheet accounts along with their corresponding income statement items that are included in selling, general and administrative expenses. It was determined that the items listed below were misstated.

- Provision for doubtful accounts was understated as was the allowance for doubtful accounts.
- Accounting for the cash surrender value of life insurance was improperly stated because of not including all of the related life insurance policies.

Table of Contents

- Deferred compensation expense was understated for the three and nine months ended March 31, 2009 as a result of not properly applying the assumptions for mortality and years of service as well as using a discount rate that was too high.

- Costs for professional fees and product development expense were overstated as a result of erroneous manual journal entries to conceal the unauthorized transactions. The erroneous charges were recorded to these line items in both periods.

The amounts related to the above misstatements for the three and nine months ended March 31, 2009 are summarized in Table C, below.

Table C
Restatement Adjustments Related to Selling,
General and Administrative Expenses

	3 mos. ended March 31, 2009	9 mos. ended March 31, 2009
Provision for doubtful accounts	$ (58,469)	6,881
Stock-based compensation expense	10,666	31,998
Change in miscellaneous income	(5,449)	(340,395)
Deferred compensation expense	53,636	160,907
Professional fees	(5,630)	(9,859)
Fringe benefits	(26,966)	(76,466)
Officers' life insurance	(92,950)	81,863
Dealer shows	(55,000)	(55,000)
Bonuses	(25,887)	(17,087)
Koss Employee Stock Ownership Trust/401(k)	415	(83,162)
Donations	(33,334)	(20,834)
Financial Public Relations	9,346	(49,543)
Gain/loss on fixed asset disposals	78,779	86,956
New product development, sales, marketing and commissions	(81,071)	(177,853)
Depreciation	112,419	(40,093)
Miscellaneous expense	(22,177)	(67,506)
Other selling, general and administrative	(33,171)	(62,530)
Total	$ (174,843)	(631,723)

Income Tax Provision

The impact of the various account adjustments on the income tax provision is detailed below in Table D, below for the three and nine months ended March 31, 2009.

Table D
Restatement Adjustments Related to Income Tax Provision

	3 mos. ended March 31, 2009	9 mos. ended March 31, 2009
Federal income tax provision	$ (236,723)	$ (513,226)
State income tax provision	(26,081)	(22,456)
Foreign income tax provision	15,278	53,709
Income tax provision	$ (247,526)	$ (481,973)

Table of Contents

Cash and Cash Equivalents

Cash was improperly overstated because of the unauthorized transactions. The impact on cash is shown in Table E, below.

Table E
Restatement Adjustments Related to Cash

	June 30, 2009
Correction of cash balance	$ (165,531)

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable was overstated because of not properly applying cash received against the outstanding invoices.

The allowance for doubtful accounts was understated. It has been restated to provide for amounts that are expected to not be collected because of bankruptcies and accounts showing slow payment. The impact of accounts receivable and allowance for doubtful accounts is provided in Table F, below.

Table F
Restatement Adjustments Related to Accounts Receivable,
and Allowance for Doubtful Accounts

		June 30, 2009
Accounts receivable because of delayed cash posting	$	(3,407,667)
Allowance for doubtful accounts		(611,212)
Total	$	(4,018,879)

Inventories

Inventories were overstated as a result of not properly accounting for the inventory in transit, insufficient provision for obsolete or slow-moving inventory and treating advance payments as inventory. The impact of these items is provided in Table G, below.

Table G
Restatement Adjustments Related to Inventory

		June 30, 2009
Inventory in transit	$	289,622
Obsolete and slow-moving inventory		(901,229)
Prepaid inventory		(402,642)
LIFO reserve		9,071
Freight on inventory		25,614
Other		(74,759)
Total	$	(1,054,323)

Equipment and Leasehold Improvements

Assets no longer used in the business were not removed from equipment and leasehold improvements. As part of the restatement, the Company reviewed the assets and wrote off certain assets that were no

longer being used in the business. Almost all of the assets which were written off had been fully depreciated prior to these adjustments. Loss on disposal was $0 and $2,007 for the three and nine months ended March 31, 2010, respectively. Loss on disposal was $78,779 and $86,956 for the three and nine months ended March 31, 2009, respectively. Product software development costs were reclassified and reported separately in the restated consolidated balance sheets. The impact of the equipment and leasehold improvements is provided in Table H below.

Table H
Restatement Adjustments Related to Equipment and Leasehold Improvements

		June 30, 2009
Leasehold improvements	$	(77,468)
Machinery, equipment, furniture and fixtures		(511,937)
Tools, dies, molds and patterns		(6,534,676)
		(7,124,081)
Accumulated depreciation		5,288,455
Total	$	(1,835,626)

Product Software Development Costs

The cost of purchased software technology is capitalized and stated at the lower of unamortized cost or expected net realizable value. These amounts were included in equipment and leasehold improvements in the previous filings and have been reclassified to a separate line item in the consolidated balance sheets in the restatement. The balance sheet impact of the restatement to product software development costs is as shown in Table I, below.

Table I
Restatement Adjustments Related to Product Software Development Costs

		June 30, 2009
Reclassification from equipment and leasehold improvements	$	1,727,040

Cash Surrender Value of Life Insurance

Cash surrender value of life insurance has been restated because of an error in the previously calculated amounts. In addition, it was previously reported in “Other assets” but has now been classified separately in the restated consolidated balance sheets. The balance sheet impact of the restatement to cash surrender value is as shown in Table J, below.

Table J
Restatement Adjustments Related to Cash Surrender Value

		June 30, 2009
Correction of an error	$	792,637

Liabilities

Various current liabilities were not properly stated due to the unauthorized transactions or as a result of different estimates at the time the statements were prepared. The following accounts were affected:

Table of Contents

- Accounts payable was understated on the June 30, 2009 consolidated balance sheet because of an erroneous transaction for approximately $1,290,000. Other changes to accounts payable are for reclassification of deposits to an asset account and to include accounts receivable credit balances in accounts payable.

- Accrued liabilities have been revised to:

  - Include proper cutoff on professional fees at each period end;

  - Adjust accrued returns based on detailed analysis of returns, price adjustments, and shipping adjustments;

  - Increase accrued product warranty obligations to reflect the estimated costs of future returns of product based on an analysis of annual returns and the cost of replacing the returned items. The Company believes this properly values the potential liability based on annual returns and cost of replacing the returned items.

- The liability for deferred compensation was understated as a result of not properly applying the assumptions for mortality and years of service as well as using a discount rate that was too high.

Table K
Restatement Adjustments Related to Accounts Payable,
Accrued Liabilities and Long-term Liabilities

	June 30, 2009
Erroneous transactions	$ 1,290,011
Reclassification of advance payments to deposits	110,263
Accounts receivable credit balances	25,573
Erroneous adjustments to accounts payable	167,083
Other accounts payable	(280,675)
Accounts payable	$ 1,312,255

	June 30, 2009
Legal and professional fees	$ 166,939
Accrued returns	219,773
Product warranty obligations	312,420
Cooperative advertising and promotion allowances	(250,000)
Accrued interest	354,644
Accrued product development	5,877
Fringe benefits	4,467
Other accrued liabilities	122,845
Accrued liabilities	$ 936,965

Table of Contents

	June 30, 2009
Long-term product warranty obligations	$ 725,000
Deferred compensation liability	445,279
Long-term liabilities	$ 1,170,279

Income Taxes Payable

The impact of the various account adjustments on income taxes payable is detailed in Table L, below.

Table L
Restatement Adjustments Related to Income Taxes Payable

	June 30, 2009
Accrued federal income tax	$ 3,428,169
Accrued state income tax	1,002,085
Other	(201,440)
Income taxes payable	$ 4,228,814

3.	EARNINGS (LOSS) PER COMMON AND COMMON STOCK EQUIVALENT SHARE

Basic earnings (loss) per common share are computed based on the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the quarters ending March 31, 2010 and 2009 were 7,382,706 and 7,382,751, respectively. When dilutive, stock options are included in earnings per share as share equivalents using the treasury stock method.

For the quarter ended March 31, 2010, common stock equivalents of 50,000, related to stock option grants, were included in the computation of the weighted-average number of shares outstanding for diluted earnings per share. Shares under option of 1,109,308 for which the exercise price was higher than the average market price for the quarter ended March 31, 2010 were excluded from the calculation of diluted earnings per share.

For the quarter ended March 31, 2009 there were no common stock equivalents related to stock option grants that were included in the computation of the weighted-average number of shares outstanding for diluted loss per share. Shares under option of 1,123,308 were excluded from diluted weighted average common shares outstanding for the quarter ended March 31, 2009 as they would be anti-dilutive due to the Company's net loss for the quarter.

4.	INCOME TAXES

The Company files income tax returns in the United States (Federal), Wisconsin (state) and various other state jurisdictions. The Company was notified that the State of Wisconsin will conduct an audit of the tax years 2006 through 2009 which audit is expected to take place in Q1 of fiscal 2011. Tax years open to examination by tax authorities under the statute of limitations include fiscal 2007 through 2009 for Federal and fiscal 2006 through 2009 for most state jurisdictions. The Company recognizes interest related to unrecognized tax benefits as interest expense. As part of the unauthorized transactions, the Company has accrued interest of $576,151 and $354,644 at March 31, 2010 and June 30, 2009, respectively.

The total liability for unrecognized tax benefits was $300,000 as of March 31, 2010 and June 30, 2009. The liability does not include an amount for accrued penalties. The Company recognizes penalties related to unrecognized tax benefits in the provision for income taxes. The Company recognizes interest related to unrecognized tax benefits as interest expense. The Company does not expect a significant increase or decrease to the total amounts of unrecognized tax benefits within the next 12 months. There was no change in the amount of unrecognized tax benefits during the nine months ended March 31, 2010.

Table of Contents

5.	INVENTORIES

The classification of inventories is as follows:

	March 31, 2010	June 30, 2009 (Restated)
Raw materials and work in process	$ 2,978,969	$ 2,609,313
Finished goods	6,652,882	7,032,887
	9,631,851	9,642,200
Allowance for obsolete and slow-moving inventory	964,220	933,365
	$ 8,667,631	$ 8,708,835

6.	STOCK PURCHASE AGREEMENT

The Company has an agreement with its Chairman, John C. Koss, in the event of his death, at the request of the executor of the estate, to repurchase his Company common stock from his estate. The Company does not have the right to require the estate to sell stock to the Company. As such, this arrangement is accounted for as a written put option with the fair value of the put option recorded as a derivative liability.

The fair value of the option at March 31, 2010 and June 30, 2009 was $125,000. The repurchase price is 95% of the fair market value of the common stock on the date that notice to repurchase is provided to the Company. The total number of shares to be repurchased will be sufficient to provide proceeds which are the lesser of $2,500,000 or the amount of estate taxes and administrative expenses incurred by the Chairman's estate. The Company may elect to pay the purchase price in cash or may elect to pay cash equal to 25% of the total amount due and to execute a promissory note for the balance, payable over four years, at the prime rate of interest. The Company maintains a $1,150,000 life insurance policy to fund a substantial portion of this obligation.

7.	DIVIDENDS DECLARED

On February 25, 2010, the Company declared a quarterly cash dividend of $0.06 per share for the stockholders of record on March 31, 2010 to be paid April 15, 2010. Such dividend payable has been recorded at March 31, 2010.

8.	STOCK OPTIONS

In 1990, pursuant to the recommendation of the Board of Directors, the stockholders ratified the creation of the Company's 1990 Flexible Incentive Plan (the "1990 Plan"). The 1990 Plan is administered by a committee of the Board of Directors and provides for the granting of various stock-based awards including stock options to eligible participants, primarily officers and certain key employees. A total of 225,000 shares of common stock were available in the first year of the 1990 Plan's existence. Each year thereafter additional shares equal to 0.25% of the shares outstanding as of the first day of the applicable fiscal year were reserved for issuance pursuant to the 1990 Plan. On July 22, 1992, the Board of Directors authorized the reservation of an additional 250,000 shares for the 1990 Plan, which was approved by the stockholders. In 1993, the Board of Directors authorized the reservation of an additional 300,000 shares for the 1990 Plan, which was approved by the stockholders. In 1997, the Board of Directors authorized the reservation of an additional 300,000 shares for the 1990 Plan, which was approved by the stockholders. In 2001, the Board of Directors authorized the reservation of an additional 300,000 shares for the 1990 Plan, which was also approved by the stockholders. Options vest over four or five year period, with a maximum term of five to ten years.

Table of Contents

The fair value of each stock option grant was estimated as of the date of grant using the Black-Scholes pricing model. The resulting compensation cost for fixed awards with graded vesting schedules is amortized on a straight-line basis over the vesting period for the entire award. The expected term of awards granted is determined based on historical experience with similar awards, giving consideration to the expected term and vesting schedules. The expected volatility is determined based on the Company's historical stock prices over the most recent period commensurate with the expected term of the award. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term commensurate with the expected term of the award. Expected pre-vesting option forfeitures are based on historical data.

A summary of stock option activity under the plan for the nine months ended March 31, 2010 is as follows and is adjusted for the two-for-one stock split on December 1, 2009:

	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, 2009	863,308	$7.76 - $14.40	$ 10.35	3.99	$ —
Granted	390,000	$3.90 - $6.905	$ 6.39		
Exercised	—	—	—		
Expired	—	—	—		
Forfeited	(94,000)	$6.275 - $13.09	$ 9.16		
Shares under option at March 31, 2010	1,159,308	$3.90 - $14.40	$ 9.12	3.95	$ —
Exercisable as of June 30, 2009	532,808	$7.76 - $14.40	$ 10.72		
Exercisable as of March 31, 2010	494,762	$6.275 - $14.40	$ 10.77		

A summary of intrinsic value and cash received from stock option exercises and fair value of vested stock options for the nine months ended March 31, 2010 and 2009 is as follows:

	Nine Months Ended March 31, 2010	Nine Months Ended March 31, 2009
Total intrinsic value of stock options exercised	$ —	$ —
Cash received from stock option exercises	$ —	$ —
Total fair value of stock options vested	$ 45,772	$ 45,772

Table of Contents

9. ADDITIONAL CASH FLOW INFORMATION

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

	March 31, 2010	March 31, 2009 (Restated)
Accounts receivable	$ 198,353	$ 2,353,143
Inventories	10,349	(561,616)
Prepaid expenses and other assets	(124,377)	(48,065)
Income taxes payable	(6,535,947)	883,649
Accounts payable	(820,183)	(464,042)
Accrued liabilities	1,628,736	(592,944)
Net change	$ (5,643,069)	$ 1,570,125
Net cash paid during the year for:		
Income taxes	$ 475,000	$ 1,190,000
Interest	$ 84,596	$ —

10. CREDIT FACILITIES

On February 16, 2009, the Company entered into a credit facility with Harris N.A. for an unsecured line of credit for up to a maximum of $10,000,000 through January 29, 2010. On October 9, 2009 the credit facility was extended to December 31, 2010. The Company could use the credit facility for working capital, to refinance existing indebtedness, for stock repurchase and for general corporate purposes. Borrowings under this credit facility bore interest at either the bank's most recently publicly announced prime rate or at a London Interbank Offered Rate ("LIBOR") based rate plus 1.25% determined in accordance with the loan agreement. The credit facility included financial covenants that require the Company to maintain a minimum tangible net worth, liabilities to tangible net worth ratios and interest coverage ratios. The outstanding balance on this credit facility at March 31, 2010 amounted to $5,863,349. There was no utilization of this credit facility at June 30, 2009. The weighted-average interest rate for the nine months ended March 31, 2010 was 3.25%.

On May 12, 2010, the Company entered into a new secured credit facility with JPMorgan Chase Bank, N.A. ("Lender"). The Credit Agreement dated May 12, 2010 between the Company and the Lender ("Credit Agreement") provides for an $8,000,000 revolving secured credit facility with interest rates either ranging from 0.0% to 0.75% over the Lender's most recently publicly announced prime rate or 2.0% to 3.0% over LIBOR, depending on the Company's leverage ratio. The Credit Agreement expires on July 31, 2013. In addition to the revolving loans, the Credit Agreement also provides that the Company may, from time to time, request the Lender to issue letters of credit for the benefit of the Company of up to a sublimit of $2,000,000, and subject to certain other limitations. The loans may be used only for general corporate purposes of the Company.

The Credit Agreement contains certain affirmative, negative and financial covenants customary for financings of this type. The negative covenants include restrictions on other indebtedness, liens, fundamental changes, certain investments, asset sales, sale and leaseback transactions, and transactions with affiliates, among other restrictions. The financial covenants include a minimum current ratio, minimum tangible net worth and maximum leverage ratio requirements. The Company and the Lender also entered into the Pledge and Security Agreement dated May 12, 2010 under which the Company granted the Lender a security interest in substantially all of the Company's assets in connection with the Company's obligations under the Credit Agreement. On May 12, 2010, the Company also terminated its

loan agreement with Harris N.A. and repaid the entire $5,863,349 balance outstanding as of that date.

11. STOCKHOLDERS' EQUITY

The following table summarizes the changes in stockholders' equity for the nine month periods ended March 31, 2010 and 2009.

	2010	2009 (Restated)
Net (loss) income	$ (3,148,775)	$ 837,407
Dividends declared	(1,365,800)	(1,440,191)
Stock compensation expense	329,750	331,995
Purchase of treasury shares	—	(43,620)
	$ (4,184,825)	$ (314,409)

12. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2009, the FASB issued an update regarding measurement of liabilities at fair value (Accounting Standards Codification 820) which provides additional guidance on how companies should measure liabilities. The update provides clarification on the techniques for measurement of fair value required of a reporting entity when a quoted price in an active market for an identical liability is not available. This update had no impact on the Company's consolidated financial statements.

13. LEGAL MATTERS

Since learning of the unauthorized transactions in December 2009, the Company has been named in the matters described below. The Company has also initiated certain actions against third parties, which are also described below, and may bring additional claims against other third parties.

- On January 11, 2010, the Company received a letter from a law firm stating that it represented a shareholder and demanding that the Company's Board of Directors investigate and take legal action against all responsible parties to ensure compensation for the Company's losses stemming from the unauthorized transactions. The Company's legal counsel has responded preliminarily to the letter indicating that the Board of Directors will determine the appropriate course of action after the Independent Investigation is completed.

- On January 15, 2010, a class action complaint was filed in federal court in Wisconsin against the Company, Michael Koss and Sujata Sachdeva. The suit alleges violations of Section 10(b), Rule 10b-5 and Section 20(a) of the Exchange Act relating to the unauthorized transactions and requests an award of compensatory damages in an amount to be proven at trial. See *David A. Puskala v. Koss Corporation, et al.*, United States District Court, Eastern District of Wisconsin, Case No. 2:2010cv00041.

- On January 26, 2010, the SEC's Division of Enforcement advised the Company that it obtained a formal order of investigation in connection with the unauthorized transactions. The Company voluntarily brought the unauthorized transactions to the SEC staff's attention when they were discovered in December 2009, and is cooperating with the ongoing SEC investigation.

- On February 16 and 18, 2010, separate shareholder derivative suits were filed in Milwaukee County Circuit Court in connection with the previously disclosed unauthorized transactions. The first suit names as defendants Michael Koss, John Koss Sr., the other Koss directors, Sujata Sachdeva, Grant Thornton LLP, and Koss Corporation (as a nominal defendant); the second suit names the same parties except Grant Thornton LLP. Among other things, both suits allege various breaches of fiduciary and other duties, and seek recovery of unspecified damages and other relief. See *Ruiz v. Koss, et al.*, Circuit Court, Milwaukee County, Wisconsin, No. 10CV002422 (February 16, 2010) and *Mentkowski v. Koss, et al.*, Circuit Court, Milwaukee County, Wisconsin, No. 10CV002290 (February 18, 2010). These two shareholder derivative suits have been consolidated under Master File No. 10CV002422.

- On February 18, 2010, the Company filed an action against American Express Company, American Express Travel Related Services Company, Inc., AMEX Card Services Company, Decision Science, and Pamela S. Hopkins in Superior Court of Maricopa County, Arizona, case no. CV2010-006631, alleging various claims of aiding and abetting breach of fiduciary duty, aiding and abetting fraud, conversion, and negligence relating to the unauthorized transactions.

- On June 24, 2010, the Company filed an action against its former independent auditor, Grant Thornton, LLP, and Ms. Sachdeva, in Circuit Court of Cook County, Illinois, alleging various claims of accounting malpractice, negligent misrepresentation, and fraud relating to the unauthorized transactions.

The ultimate resolution of these matters is not determinable.

14. OTHER

As more fully described in the Explanatory Note and Note 2 to the consolidated financial statements in the Company's Form 10-K/A filed on June 30, 2010, and in Note 2 to these condensed consolidated financial statements, the Company learned of certain unauthorized transactions made by Sujata Sachdeva, its former Vice President of Finance and Principal Accounting Officer. As a result of the unauthorized transactions, the Company is restating its consolidated financial information in its Annual Report on 10-K/A for the fiscal year ended June 30, 2009 and its Quarterly Reports in Form 10-Q/A for the three months ended September 30, 2009. The Company is also amending its Quarterly Reports on 10-Q/A for the three months ended December 31, 2009 and March 31, 2010 to include consolidated financial statements, which were not available at the applicable filing deadlines for those reports.

On May 12, 2010, the Company terminated its credit facility with Harris N.A. and entered into a new credit facility with JPMorgan Chase Bank, N.A. The events associated with these credit facilities are described in Note 10.

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

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and related notes. References made to years are for fiscal year periods. All share and per-share data have been adjusted to reflect the stock split in December 2009.

The purpose of this discussion and analysis is to enhance the understanding and evaluation of the results of operations, financial position, cash flows, indebtedness, and other key financial information of Koss Corporation for the three and nine months ended March 31, 2010 and 2009. For a more complete understanding of this discussion, please read the Notes to Condensed Consolidated Financial Statements included in this report.

This discussion and analysis has been updated to reflect the results of the restatement described in the Explanatory Note to this report.

Overview

Koss Corporation developed stereo headphones in 1958 and has been a leader in the industry. We market a complete line of high-fidelity stereophones, speaker-phones, computer headsets, telecommunications headsets, active noise canceling stereophones, wireless stereophones, and compact disc recordings of American Symphony Orchestras on the Koss Classics label. We operate as one business segment.

Unauthorized Transactions — In December 2009, Koss learned of significant unauthorized transactions made by Ms. Sachdeva which totaled approximately $31,500,000 from fiscal 2005 through December 2009. The volume of these unauthorized transactions increased significantly over time from $5,099,900 in 2008 to $8,498,434 in 2009 to $10,286,988 from July 1, 2009 until the unauthorized transactions were discovered in December 2009. The Company subsequently learned that Ms. Sachdeva colluded with two other employees of the accounting department in the misappropriation and circumvention of the Company's existing internal controls and established operating procedures. In carrying out the unauthorized transactions, these three former employees failed to adhere to the Company's existing procedures for processing payments and concealed the misappropriations from management, including the directors and remaining officers of the Company. Various accounting methods and accounting entries were used to conceal the unauthorized transactions. Ms. Sachdeva and these other former employees were terminated shortly after the Company learned of the unauthorized transactions. Please see the Explanatory Note to this Form 10-Q/A and Note 2 to the restated unaudited condensed consolidated financial statements for additional discussion of the unauthorized transactions and restatement.

Restatement — The restated unaudited condensed consolidated financial statements, included in this Form 10-Q/A, correct errors in a majority of the financial statement line items in the previously issued consolidated financial statements for all periods previously issued. The errors resulted from falsifications by the terminated employees, including Ms. Sachdeva, to conceal the misappropriations from management. The most significant revisions are:

· The unauthorized transactions were not properly accounted for as losses and disclosed as a separate line item on the income statement as an expense.

· Net sales were understated due to journal entries made to conceal certain misappropriations.

· Cost of sales was overstated as a result of journal entries made to conceal certain misappropriations.

· Administrative expenses were overstated as a result of journal entries made to conceal certain misappropriations.

· Accounts receivable was overstated due to delayed posting of cash, as a method used to conceal certain misappropriations, and failing to provide for an allowance for certain doubtful accounts that was also used to conceal certain misappropriations.

· Cash was not properly reconciled and was overstated due to the unauthorized transactions at June 30, 2009.

· Disposals of equipment and leasehold improvements were not properly recorded and assets no longer used in the business were not properly removed from the financial records.

· Other assets were improperly stated due to errors in applying accounting principles generally accepted in the United States of America ("GAAP").

· Accounts payable was understated at June 30, 2009 due to an erroneous transaction that was posted to accounts payable in 2009 and improper cutoff of transactions.

- Other accrued liabilities, including product warranty obligations and deferred compensation, have been adjusted to properly apply GAAP or to correct the estimates used to prepare the previously filed consolidated financial statements.

Results of Operations

Quarter Ended March 31, 2010 to Quarter Ended March 31, 2009

Sales and Gross Profit

Net sales for the three months ended March 31, 2010 totaled $8,654,630, compared with $8,840,780 in the three months ended March 31, 2009. This $186,150 or 2.1% decrease in net sales was driven by lower volume in the U.S. large retailer market as well as an increase in cooperative advertising with one major retailer.

Gross profit in the three months ended March 31, 2010 was $3,278,238 or 37.9% of net sales compared to $3,879,592 or 43.9% of net sales in the three months ended March 31, 2009. This decrease in gross margin percentage was primarily due to an increase in cooperative advertising.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for three months ended March 31, 2010 was $2,370,021, as compared to $2,213,326 for the three months ended March 31, 2009. Increased charges for professional and legal fees in support of general corporate initiatives were partially offset by reduced spending for new product development.

Unauthorized Transactions

In the three months ended March 31, 2010, there were no unauthorized transactions. In the three months ended March 31, 2009, losses related to the unauthorized transactions were $1,990,228.

In the three months ended March 31, 2010, the Company incurred net cost of approximately $311,000 related to the investigation of the unauthorized transactions, defense of legal actions and restatement of

---

the financial statements. This net cost was comprised of approximately $1,711,000 of legal and professional fees partially offset by $1,400,000 of insurance proceeds.

Operating Income

The three months ended March 31, 2010 had operating income of $597,670 compared to an operating loss, including the unauthorized transactions as an expense, of $323,962 in the three months ended March 31, 2009. The increase in operating income was the result of decreased unauthorized transactions. The benefit from no unauthorized transactions was partially offset by lower gross margin. Operating income, excluding the unauthorized transactions and related costs and recoveries, was $908,217 or 10.5% of net sales in the three months ended March 31, 2010 compared to $1,666,266 or 18.8% of net sales in the three months ended March 31, 2009.

Provision for Income Taxes

Income tax provision for the three months ended March 31, 2010 was $172,893 as compared to $159,468 of income tax benefit in the three months ended March 31, 2009. The effective income tax rate in the three months ended March 31, 2010 was 37.1% and was 46.7% for the three months ended March 31, 2009.

Nine Months Ended March 31, 2010 to Nine Months Ended March 31, 2009

Sales and Gross Profit

Net sales for the nine months ended March 31, 2010 totaled $32,485,330, compared with $32,285,285 in the nine months ended March 31, 2009. This $200,045 or 0.6% increase in net sales was driven by increased sales to Europe offset by declines in the U.S. large retailer market.

Gross profit in the nine months ended March 31, 2010 was $13,871,626 or 42.7% of net sales compared to $14,645,046 or 45.4% of net sales in the nine months ended March 31, 2009. This decrease in gross margin percentage was due to increased promotional allowances, increased co-op advertising, higher costs for product packaging and liquidation of certain inventory at lower margin.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for nine months ended March 31, 2010 was $7,600,954, as compared to $7,711,072 for the nine months ended March 31, 2009. The decrease in selling, general and administrative expenses was the result of lower spending for dealer shows and new product development. The Company made a decision not to attend the January 2010 Consumer Electronics Show which decreased the spending for dealer shows. The decrease in spending on new product development was due to timing of various project phases. These spending cuts were partially offset by additional provisions for doubtful accounts receivable.

Unauthorized Transactions

In the nine months ended March 31, 2010 the unauthorized transactions totaled $10,286,988. In the nine months ended March 31, 2009, the unauthorized transactions totaled $5,782,101.

The Company incurred net cost of approximately $551,000 in the nine months ended March 31, 2010 for the investigation of the unauthorized transactions, defense of legal actions and restatement of the financial statements. This net cost was comprised of approximately $1,951,000 of legal and professional fees partially offset by $1,400,000 of insurance proceeds.

Operating Income

The nine months ended March 31, 2010 had an operating loss, including the unauthorized transactions and related costs and recoveries as an expense, of $4,566,863 compared to operating income, including the unauthorized transactions as an expense, of $1,151,873 in the nine months ended March 31, 2009. The decrease in operating income was the result of increased unauthorized transactions partially offset by improved volume and decreased spending on dealer shows and new product development. Operating income, excluding the unauthorized transactions and related costs and recoveries, was $6,270,672 or 19.3% of net sales in the nine months ended March 31, 2010 compared to $6,933,974 or 21.5% of net sales in the nine months ended March 31, 2009.

Provision for Income Taxes

Income tax benefit for the nine months ended March 31, 2010 was $1,727,660 as compared to $372,417 of income tax provision in the nine months ended March 31, 2009. The effective income tax rate was 35.4% for the nine months ended March 31, 2010 and 30.8%, for the nine months ended March 31, 2009.

Liquidity and Capital Resources

Operating Activities

We currently use cash generated from operations and underlying working capital as financial measurements to evaluate the performance of our operations and our ability to meet our financial obligations. We believe we have sufficient liquidity for at least the next 12 months. We require working capital investment to maintain our position as a leading developer and manufacturer of high quality stereophones. The primary drivers of these requirements are production costs, distribution costs and finished goods inventories to support our customers' requirements for short lead times. As part of our continuous improvement of purchasing and manufacturing processes, we continue to strive for alignment of inventory levels with customer demand and current production schedules.

During the nine months ended March 31, 2010, cash used in operations was $2,977,902 and during the nine months ended March 31, 2009, cash provided by operations was $2,152,148. Working capital was $5,614,825 at March 31, 2010 and $6,308,239 at June 30, 2009. As of March 31, 2010 the Company had open commitments of approximately $295,000 for software and new product development.

Investing Activities

Cash used in investing activities for the nine months ended March 31, 2010 was $1,287,352 as compared to $1,988,621 used in investing activities for the nine months ended March 31, 2009. Cash used in investing activities for both periods was largely due to capital expenditures which consisted mainly of product software development costs and tooling to support production.

Financing Activities

Net cash provided by financing activities was $4,460,635 in the nine months ended March 31, 2010 compared to a use of $1,484,330 in the nine months ended March 31, 2009. In the nine months ended March 31, 2010, the Company received $5,863,349 from borrowing on its line of credit offset by $1,402,714 of dividend payments. In the nine months ended March 31, 2009, financing activities consisted mainly of dividend payments of $1,440,710. The Company intends to continue its regular quarterly dividends for the foreseeable future.

Credit Facilities

On February 16, 2009, the Company entered into a credit facility with Harris N.A. for an unsecured line of credit for up to a maximum of $10,000,000 through January 29, 2010. On October 9, 2009 the credit facility was extended to December 31, 2010. The credit facility replaced the Company's previous credit facility, which was terminated and contained substantially the same terms as the Company's new credit facility. The Company could use the credit facility for working capital, to refinance existing indebtedness, for stock repurchase and for general corporate purposes. Borrowings under the credit facility bore interest at either the bank's most recently publicly announced prime rate or at a London Interbank Offered Rate ("LIBOR") based rate as determined in accordance with the loan agreement. The credit facility included financial covenants that required the Company to maintain a minimum tangible net worth, liabilities to tangible net worth ratios and interest coverage ratios. Outstanding draws on the credit facility at March 31, 2010 amounted to $5,863,349. There was no utilization of the credit facility at June 30, 2009.

On May 12, 2010, the Company entered into a new secured credit facility with JPMorgan Chase Bank, N.A. ("Lender"). The Credit Agreement dated May 12, 2010 between the Company and the Lender ("Credit Agreement") provides for an $8,000,000 revolving secured credit facility with interest rates either ranging from 0.0% to 0.75% over the Lender's most recently publicly announced prime rate or 2.0% to 3.0% over LIBOR, depending on the Company's leverage ratio. The Credit Agreement expires on July 31, 2013. In addition to the revolving loans, the Credit Agreement also provides that the Company may, from time to time, request the Lender to issue letters of credit for the benefit of the Company of up to a sublimit of $2,000,000 and subject to certain other limitations. The loans may be used only for general corporate purposes of the Company.

The Credit Agreement contains certain affirmative, negative and financial covenants customary for financings of this type. The negative covenants include restrictions on other indebtedness, liens, fundamental changes, certain investments, asset sales, sale and leaseback transactions and transactions with affiliates, among other restrictions. The financial covenants include a minimum current ratio, minimum tangible net worth and maximum leverage ratio requirements.

The Company and the Lender also entered into the Pledge and Security Agreement dated May 12, 2010 under which the Company granted the Lender a security interest in substantially all of the Company's assets in connection with the Company's obligations under the Credit Agreement. As described in the Company's partial 10-Q for the period March 31, 2010 that was filed on May 17, 2010, the Company's credit facility with Harris N.A. was terminated on May 12, 2010 and the outstanding balance of $5,863,349 as of that date was fully repaid.

Stock Split

On September 10, 2009, NASDAQ notified the Company that it no longer met the 750,000 minimum publicly held shares requirement under Listing Rule 5450(b)(1)(B) for continued listing on The NASDAQ Global Market. On September 24, 2009, the Company submitted its compliance plan to NASDAQ proposing to implement a two-for-one forward stock split of the Company's Common Stock. The proposed stock split would cause the Company's total number of publicly held shares to exceed the 750,000 minimum threshold while maintaining the Company's compliance with NASDAQ's other continued listing requirements. On September 29, 2009, NASDAQ granted the Company an extension of time in order to allow the Company to regain compliance with NASDAQ's listing requirements. The Company was granted until December 24, 2009 to regain compliance

At a meeting held on October 7, 2009, the Board of Directors conditionally approved a two-for-one forward stock split to be effected in the form of a stock dividend of one share of Common Stock for each share of Common Stock outstanding on or about November 20, 2009, the record date for the stock split. The stock split was conditioned upon approval by the stockholders of an increase in the number of authorized shares of the Common Stock of the Company from 8,500,000 shares to 20,000,000 shares. At a special meeting of stockholders on November 19, 2009, the Company's stockholders approved the proposed increase. The stock split was distributed to the Company's stockholders on December 1, 2009.

Recent Accounting Pronouncements

In August 2009, the FASB issued an update regarding measurement of liabilities at fair value (Accounting Standards Codification 820) which provides additional guidance on how companies should measure liabilities. The update provides clarification on the techniques for measurement of fair value required of a reporting entity when a quoted price in an active market for an identical liability is not available. This update had no impact on the Company's consolidated financial statements.

Off-Balance Sheet Arrangements

The Company has no other off-balance sheet arrangements other than the lease for the main plant in Milwaukee, Wisconsin, which it leases from its Chairman, John C. Koss. On August 15, 2007, the lease was renewed for a period of five years, and is being accounted for as an operating lease. The lease extension maintained the rent at a fixed rate of $380,000 per year. Management believes the lease is on terms no less favorable to the Company than those that could be obtained from an independent party. The Company is responsible for all property maintenance, insurance, taxes, and other normal expenses related to ownership. All facilities are in good repair and, in the opinion of management, are suitable and adequate for the Company's business purposes.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures.

Disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-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, the circumvention or overriding of controls and procedures and collusion to circumvent and conceal the overriding of controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

In connection with its post remedial measures, 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 March 31, 2010, and has concluded that the Company's disclosure controls and procedures were not sufficiently effective in that they failed to timely detect the circumvention of the internal controls and procedures related to the processing and recording of the unauthorized transactions. The failure to timely detect the circumvention of the Company's disclosure controls and procedures has resulted in the restatement of the Company's financial statements for the periods covered by this filing.

Notwithstanding this conclusion, the Company's management believes that the restatement of the condensed consolidated financial statements in this Quarterly Report on Form 10-Q/A fairly presents, in all material respects, our financial position and results of operations and cash flows as of the dates and for the periods presented, in conformity with GAAP. Such belief is based on a number of factors, including the Company's own internal review that identified restatements to its previously issued financial statements, the Company's efforts to reconcile certain account balances independent of the internal controls, the Company's utilization of third party consulting personnel to supplement this process, the Company's efforts to remediate and strengthen the existing internal controls over assets and financial reporting, and the performance of additional procedures by the Company's management designed to ensure the reliability of financial reporting.

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, continues to evaluate the effectiveness of the Company's disclosure controls and procedures to identify any enhancements that may provide greater comfort that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

<u>Changes in Internal Controls over Financial Reporting</u>.

The Company has concluded that the Company's internal controls and operating procedures were circumvented and the circumvention was concealed from management. As a result, management believes that the Company's internal controls contained material weaknesses by not timely detecting the

circumvention of internal controls related to the processing and recording of the unauthorized transactions.

The Company has identified how its controls over financial reporting were circumvented and how it is addressing these matters below**.**

- *Auditor review*. The circumvention of the Company's internal controls and procedures was not detected as part of the Company's annual audits and quarterly reviews by its former independent auditor Grant Thornton, LLP. On June 24, 2010, the Company filed an action against Grant Thornton, LLP and Ms. Sachdeva.

- *Wire transfers and cashier's checks.* Approximately $30,900,000 or 98.1% of the total $31,500,000 of unauthorized transactions from fiscal year 2005 through December 2009 was misappropriated by circumventing the Company's internal controls and other operating procedures for the payment of Company expenditures by using wire transfers or cashier's checks from the Company's bank accounts to pay for personal expenditures. Of the $30,900,000, approximately $8,500,000 and $5,100,000 was misappropriated by use of these means during fiscal years 2009 and 2008, respectively. These unauthorized transactions were processed by circumventing the Company's policy that all invoices over $5,000 were required to be submitted and approved by Michael Koss as the CEO, and all accounts payable checks generated from the Company's accounts payable system were signed by the CEO. Moreover, wire transfers were to be used only for authorized transactions including certain inventory purchases and transfers of funds between the Company's bank accounts. Wire transfers for inventory purchases and the recurring expense items required the approval by several employees including authorized Vice Presidents, while the wire transfers between the Company's bank accounts were processed and approved by Ms. Sachdeva and one of the other terminated employees in the accounting department. Ms. Sachdeva, by herself and/or by directing other employees in the accounting department, ordered cashier's checks from the Company's bank accounts to pay for personal expenditures directly, thereby circumventing the internal controls and procedures as described above so that these payments would not be submitted through the Company's normal accounts payable system. Ms. Sachdeva, by herself and/or by directing others in the accounting department, processed wire transfers from the Company's bank accounts to pay for personal expenditures directly, thereby circumventing the internal controls and procedures as described above so that these payments would not be submitted through the Company's normal accounts payable system. This has been remediated by: (1) disallowing the use of any cashier's checks; (2) enforcing that all wire transfers are initiated within the financial function and electronically approved by the CEO; and (3) performing an enhanced review, reconciliation and reporting of cash activities.

- *Petty cash, manual checks and traveler's checks*. The remaining misappropriations of approximately $600,000 or 1.9% from the total amount of $31,500,000 from fiscal year 2005 through December 2009 were carried out by circumventing the Company's internal controls and other standard operating procedures involving the Company's petty cash system, manual check system and policy for using traveler's checks. In doing so, the Company's policy requiring that all expense reports be submitted and approved by the CEO was circumvented. Out of the estimated $600,000 of these types of transactions, approximately $83,000 and $110,000 occurred during fiscal years 2009 and 2008, respectively. Approximately $107,000 of misappropriations involving the use of the Company's petty cash system, manual check system and traveler's checks policy occurred during fiscal year 2010. Remediation of these issues has been accomplished by: (1) eliminating the petty cash fund so all reimbursements run through normal controlled accounts payable channels; (2) eliminating the use of manual checks so all check

disbursements are generated from the Company's accounts payable system check run; and (3) eliminating the use of traveler's checks.

- *Recording of unauthorized transactions.* Ms. Sachdeva and one of the other terminated employees further concealed the unauthorized transactions by recording numerous erroneous accounting entries in various accounts to hide the true nature of the transactions. The Company has subsequently improved the controls and procedures related to journal entries and account reconciliations to include improved segregation of duties, review and approval of reconciliations, and approval of all manual journal entries.

- *Performance and review of account reconciliations.* The Company's internal controls and procedures included the performance and review of key account reconciliations, including cash, by the accounting department employees including Ms. Sachdeva, who collectively had over 50 years of experience at the Company. Ms. Sachdeva and one of the other terminated employees further concealed the unauthorized transactions by failing to properly perform and review these key account reconciliations on a regular basis, and failing to properly perform the Company's period end financial close and reporting processes that were designed to accurately report the Company's financial information. The account reconciliation process has been improved and includes proper segregation of duties as well as review and approval by another person in the financial function.

- *Corporate standards and whistleblower policy.* The three terminated employees including Ms. Sachdeva failed to comply with the Company's established standards of integrity, ethical values and its Code of Conduct, Code of Ethics and Whistleblower policy. The Company has taken steps to reinforce these policies with all of its employees, officers and directors.

- *Application of GAAP.* The terminated employees, including Ms. Sachdeva as the principal accounting officer in charge of financial reporting, failed to properly apply the Company's established accounting policies and adherence with GAAP. As a result, certain established accounting policies were not applied correctly and resulted in inaccuracies, both from the fraudulent activity directed by Ms. Sachdeva and the misapplication of GAAP. The affected accounts include equipment and leasehold improvements, cash surrender value of life insurance, accrued deferred compensation and accrued warranty. As part of the restatement of the consolidated financial statements, the accounts were reviewed in detail and reconciled. Integral to the reconciliation process was a review of all critical accounting estimates.

- *Information Technology.* The Company's internal controls and procedures relating to the Company's computer system for processing financial transactions were manipulated to conceal the unauthorized transactions. As the Company continues to evaluate its internal controls, the Company plans to implement a new computer system that will be used to improve its processing of financial transactions and overall segregation of duties.

The undetected circumvention of internal controls required the restatement of the previously reported condensed consolidated financial statements and other related financial disclosures included in this Quarterly Report on Form 10-Q/A.

We believe the subsequent changes to our system of internal controls resulting from these efforts will enhance the Company's control over financial reporting. We continue to diligently and vigorously review our financial and reporting controls and procedures. As we continue to evaluate and work to improve our

---

Table of Contents

internal control over financial reporting, we may take additional measures to address any additional control deficiencies we may identify.

Table of Contents

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

As of June 30, 2010, the Company has been named in several litigation matters and has initiated certain actions against third parties related to the unauthorized transactions. A description of these legal matters is included in Note 13 to the restated condensed consolidated financial statements in this Form 10-Q/A and the Explanatory Note to the Form 10-K/A for the period ended June 30, 2009, which description is incorporated herein by reference.

Item 5. Exhibits.

See Exhibit Index attached hereto.

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

Table of Contents

Signatures

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

KOSS CORPORATION

Date: June 30, 2010	/s/ Michael J. Koss Michael J. Koss Vice Chairman, President, Chief Executive Officer
Date: June 30, 2010	/s/ David D. Smith David D. Smith Executive Vice President, Chief Financial Officer, Secretary

EXHIBIT INDEX

Exhibit No.	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation of Koss Corporation, as in effect on November 19, 2009. Filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2009 and incorporated herein by reference.
3.2	By-Laws of Koss Corporation, as in effect on September 25, 1996. Filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.
10.1	Death Benefit Agreement with John C. Koss. Filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.
10.2	Stock Purchase Agreement with John C. Koss. Filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.
10.3	Salary Continuation Resolution for John C. Koss. Filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.
10.4	1983 Incentive Stock Option Plan. Filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.
10.5	Assignment of Lease to John C. Koss. Filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended June 30, 1988 and incorporated herein by reference.
10.6	Addendum to Lease. Filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended June 30, 1988 and incorporated herein by reference.
10.7	Amendment to Lease. Filed as Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended June 30, 2000 and incorporated herein by reference.
10.8	Partial Assignment, Termination and Modification of Lease. Filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended June 30, 2001 and incorporated herein by reference.
10.9	Restated Lease. Filed as Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended June 30, 2001 and incorporated herein by reference.
10.10	1990 Flexible Incentive Plan. Filed as Exhibit 25 to the Company's Annual Report on Form 10-K for the year ended June 30, 1990 and incorporated herein by reference.
10.11	Consent of Directors (Supplemental Executive Retirement Plan for Michael J. Koss dated March 7, 1997). Filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 and incorporated herein by reference.
10.12	License Agreement dated June 30, 1998 between Koss Corporation and Logitech Electronics

	Inc. (including Addendum to License Agreement dated June 30, 1998). Filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended June 30, 1998 and incorporated herein by reference.
10.13	Amendment and Extension Agreement between Koss Corporation and Logitech Electronics Inc. dated May 1, 2001. Filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference.
10.14	License Agreement dated June 30, 2003 between Koss Corporation and Sonigem Products, Inc. Filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended June 30, 2005 and incorporated herein by reference.
10.15	Amendment to License Agreement dated August 1, 2005, between Koss Corporation and Sonigem Products, Inc. Filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended June 30, 2005 and incorporated herein by reference.
10.17	Credit Agreement dated May 12, 2010, between Koss Corporation and JPMorgan Chase Bank, N.A. Filed as Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and incorporated by reference herein.
10.18	Pledge and Security Agreement dated May 12, 2010, between Koss Corporation and JPMorgan Chase Bank, N.A. Filed as Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and incorporated by reference herein.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer *
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer *
32.1	Section 1350 Certification of Chief Executive Officer **
32.2	Section 1350 Certification of Chief Financial Officer **

---

* Filed herewith
** Furnished herewith

Exhibit 31.1

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

I, Michael J. Koss, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Koss Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the condensed 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 13(a)-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-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 consolidated 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 consolidated 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.

Date: June 30, 2010

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

Exhibit 31.2

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

I, David D. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Koss Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the condensed 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 13(a)-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-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 consolidated 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 consolidated 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.

Date: June 30, 2010

/s/ David D. Smith
David D. Smith
Executive Vice President and
Chief Financial Officer

Exhibit 32.1

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:

(i) the Quarterly Report on Form 10-Q/A of the Company for the quarter ended March 31, 2010 (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 operation of the Company.

/s/ Michael J. Koss
Michael J. Koss
Chief Executive Officer, President and
Chief Operating Officer
Date: June 30, 2010

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.

Exhibit 32.2

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

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

(i) the Quarterly Report on Form 10-Q/A of the Company for the quarter ended September 30, 2009 (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 operation of the Company.

/s/ David D. Smith
David D. Smith
Executive Vice President and
Chief Financial Officer
Date: June 30, 2010

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.