

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 0-3295

KOSS CORPORATION
(Exact Name of Registrant as Specified in its Charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

39-1168275

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

4129 North Port Washington Avenue, Milwaukee, Wisconsin

(Address of principal executive offices)

53212

(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

At January 26, 2015, there were 7,382,706 shares outstanding of the registrant's common stock.

KOSS CORPORATION
FORM 10-Q
December 31, 2014

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

KOSS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended December 31		Six Months Ended December 31	
	2014	2013	2014	2013
Net sales	\$ 7,040,150	\$ 6,524,215	\$ 12,509,636	\$ 13,348,554
Cost of goods sold	4,629,843	4,426,388	8,256,612	8,939,082
Impairment of capitalized software, inventory and related items	—	4,535,747	—	4,535,747
Gross profit (loss)	<u>2,410,307</u>	<u>(2,437,920)</u>	<u>4,253,024</u>	<u>(126,275)</u>
Operating expenses:				
Selling, general and administrative expenses	2,069,746	2,861,659	4,008,739	5,746,140
Unauthorized transaction related costs and (recoveries), net	25,000	112,171	77,492	(596,545)
Total operating expenses	<u>2,094,746</u>	<u>2,973,830</u>	<u>4,086,231</u>	<u>5,149,595</u>
Income (loss) from operations	315,561	(5,411,750)	166,793	(5,275,870)
Other expense:				
Interest expense	(8,480)	(8,193)	(12,813)	(15,799)
Income (loss) before income tax provision (benefit)	307,081	(5,419,943)	153,980	(5,291,669)
Income tax provision (benefit)	141,495	(1,967,102)	83,392	(1,918,230)
Net income (loss)	<u>\$ 165,586</u>	<u>\$ (3,452,841)</u>	<u>\$ 70,588</u>	<u>\$ (3,373,439)</u>
Income (loss) per common share:				
Basic	<u>\$ 0.02</u>	<u>\$ (0.47)</u>	<u>\$ 0.01</u>	<u>\$ (0.46)</u>
Diluted	<u>\$ 0.02</u>	<u>\$ (0.47)</u>	<u>\$ 0.01</u>	<u>\$ (0.46)</u>
Dividends declared per common share	<u>\$ —</u>	<u>\$ 0.06</u>	<u>\$ —</u>	<u>\$ 0.12</u>

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

KOSS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	December 31, 2014	June 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 751,154	\$ 1,899,411
Accounts receivable, less allowance for doubtful accounts of \$44,710 and \$20,501, respectively	2,985,548	3,160,887
Inventories	6,258,842	7,054,932
Prepaid expenses and other current assets	612,106	148,200
Income taxes receivable	165,331	1,109,276
Deferred income taxes	2,237,995	2,576,023
Total current assets	13,010,976	15,948,729
Equipment and leasehold improvements, net	1,731,562	1,840,491
Other assets:		
Deferred income taxes	1,822,558	1,623,329
Cash surrender value of life insurance	5,314,214	4,977,409
Total other assets	7,136,772	6,600,738
Total assets	\$ 21,879,310	\$ 24,389,958
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,224,116	\$ 2,464,755
Accrued liabilities	2,275,342	3,853,473
Income taxes payable	175,000	175,000
Total current liabilities	3,674,458	6,493,228
Long-term liabilities:		
Deferred compensation	2,320,826	2,320,091
Other liabilities	255,080	336,772
Total long-term liabilities	2,575,906	2,656,863
Total liabilities	6,250,364	9,150,091
Stockholders' equity:		
Common stock, \$0.005 par value, authorized 20,000,000 shares; issued and outstanding 7,382,706 shares	36,914	36,914
Paid in capital	4,314,733	3,996,242
Retained earnings	11,277,299	11,206,711
Total stockholders' equity	15,628,946	15,239,867
Total liabilities and stockholders' equity	\$ 21,879,310	\$ 24,389,958

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

KOSS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended	
	December 31	
	2014	2013
Operating activities:		
Net income (loss)	\$ 70,588	\$ (3,373,439)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for (recoveries of previously written off) doubtful accounts	29,304	(84,482)
Loss on disposals of fixed assets	3,359	—
Impairment of capitalized software, inventory and related items	—	4,535,747
Depreciation of equipment and leasehold improvements	328,800	422,178
Amortization of product software development expenditures	—	364,539
Stock-based compensation expense	318,491	344,352
Deferred income taxes	138,799	(2,072,009)
Change in cash surrender value of life insurance	(105,185)	(78,666)
Deferred compensation	735	(239,868)
Net changes in operating assets and liabilities (see note 10)	(1,478,298)	3,780,904
Cash provided by (used in) operating activities	(693,407)	3,599,256
Investing activities:		
Life insurance premiums paid	(231,620)	(242,658)
Purchase of equipment and leasehold improvements	(223,230)	(435,864)
Cash used in investing activities	(454,850)	(678,522)
Financing activities:		
Dividends paid to stockholders	—	(885,925)
Cash used in financing activities	—	(885,925)
Net increase (decrease) in cash and cash equivalents	(1,148,257)	2,034,809
Cash and cash equivalents at beginning of period	1,899,411	859,636
Cash and cash equivalents at end of period	\$ 751,154	\$ 2,894,445

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

KOSS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014
(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated balance sheet of Koss Corporation (the "Company") as of June 30, 2014 has been derived from audited financial statements. The unaudited condensed consolidated financial statements presented herein are based on interim amounts. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") have been condensed or omitted. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. The operating results for the six months ended December 31, 2014 are not necessarily indicative of the operating results that may be experienced for the full fiscal year ending June 30, 2015.

In the three months ended December 31, 2013, the Company formed Koss U.K. Limited to comply with certain European Union (EU) requirements. The entity is non-operating and holds no assets.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

2. UNAUTHORIZED TRANSACTION RELATED COSTS AND RECOVERIES

In December 2009, the Company learned of significant unauthorized transactions as previously reported. The Company has ongoing costs and recoveries associated with the unauthorized transactions. For the three and six months ended December 31, 2014 and 2013, the costs incurred were for legal fees related to claims initiated against third parties (see Note 12). The Company has received recoveries related to the unauthorized transactions, which are summarized below. The Company will continue to incur legal fees for the claims initiated against third parties. The Company expects to receive additional forfeiture related funds in the fiscal year ended June 30, 2015. However, the remaining amounts to be received are not expected to be significant. For the three and six months ended December 31, 2014 and 2013, the costs and recoveries were as follows:

	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2014	2013	2014	2013
Legal fees incurred	\$ 25,000	\$ 112,171	\$ 77,492	\$ 219,984
Proceeds from asset forfeitures	—	—	—	(816,529)
Unauthorized transaction related costs and (recoveries), net	\$ 25,000	\$ 112,171	\$ 77,492	\$ (596,545)

3. IMPAIRMENT OF CAPITALIZED SOFTWARE, INVENTORY AND RELATED ITEMS

The Company recorded an impairment charge to the condensed consolidated statements of operations line item titled "Impairment of capitalized software, inventory and related items" in the three months ended December 31, 2013. The impairment charge is detailed in the following table:

	Three and Six Months Ended December 31, 2013	
Product software development expenditures	\$	2,308,752
Inventories		1,759,710
Product design costs		263,503
Tooling		203,782
Impairment of capitalized software, inventory and related items	\$	4,535,747

The Company determined that the capitalized software needed to be replaced by a new architecture under development, which began in the three months ended December 31, 2013. As a result, the remaining value was expensed for the three months ended December 31, 2013. The Company continues to believe in the viability of this technology but has temporarily suspended its research and development effort until the base business is restored to more profitable levels.

In conjunction with the review of the capitalized software, it was determined that certain inventory items were obsolete or the Company had quantities that are not expected to be used over the product forecast period. These inventory items are included net of expected recoveries. Product design costs and assumed liabilities to wrap up the current architecture design were expensed. The Company will incur future costs for the continued development, software code and product launch of the WiFi-based products and those costs will be expensed as incurred. Tooling related to products that are no longer expected to be launched was expensed. Refer to the Company's 10-K dated June 30, 2014 for a detail of additional impairment charges recorded in the three months ended June 30, 2014.

4. INVENTORIES

The components of inventories at December 31, 2014 and June 30, 2014 were as follows:

	December 31, 2014		June 30, 2014	
Raw materials	\$	5,284,006	\$	5,593,159
Finished goods		5,529,953		6,327,221
		10,813,959		11,920,380
Allowance for obsolete inventory		(4,555,117)		(4,865,448)
Total inventories	\$	6,258,842	\$	7,054,932

5. INCOME TAXES

The Company files income tax returns in the United States federal jurisdiction and in several state jurisdictions. The Company's federal tax returns for tax years beginning July 1, 2011 or later are open. During the quarter ended December 31, 2014, the Company's federal return for the fiscal year ended June 30, 2013 was under examination. That examination closed during the same quarter with no adjustments to the return. For states in which the Company files state income tax returns, the statute of limitations is generally open for tax years ended June 30, 2010 and forward.

For the six months ended December 31, 2014, the Company recorded an income tax expense of \$83,392, compared to an income tax benefit of \$1,918,230 for the six months ended December 31, 2013. The increase in the Company's tax expense for the six months ended December 31, 2014 relative to the prior year resulted from pre-tax book income compared to a loss after the impairment charge in the prior year period.

The Company's unrecognized tax benefits, including interest and penalties, were \$175,000 as of December 31, 2014 and as of June 30, 2014. All of the Company's unrecognized tax benefits as of December 31, 2014, if recognized, would impact the effective tax rate.

6. CREDIT FACILITY

On May 12, 2010, the Company entered into a secured credit facility ("Credit Agreement") with JPMorgan Chase Bank, N.A. ("Lender"). The Credit Agreement provided for an \$8,000,000 revolving secured credit facility with interest rates either ranging from 0.0% to 0.75% over the Lender's most recently publicly announced prime rate or 2.0% to 3.0% over LIBOR, depending on the Company's leverage ratio. The Company pays a fee of 0.3% to 0.45% for unused amounts committed in the credit facility. On July 24, 2013, the Credit Agreement was amended to extend the expiration to July 31, 2015. On July 23, 2014 the Credit Agreement was amended to reduce the facility to \$5,000,000, subject to a borrowing base calculation as defined in the Credit Agreement, and to amend certain financial covenants. 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 minimum EBITDA and minimum tangible net worth requirements. The Company and the Lender also entered into the Pledge and Security Agreement dated May 12, 2010 under which the Company granted the Lender a security interest in substantially all of the Company's assets in connection with the Company's obligations under the Credit Agreement.

7. INTEREST EXPENSE

The Company incurs interest expense primarily related to its secured credit facility (see Note 6) and to its liabilities for its tax positions related to the unauthorized transactions. As the tax returns have been settled and statute of limitations have expired, the accrued interest expense on certain items has been reversed. Interest expense detail was as follows for the three and six months ended December 31, 2014 and 2013, respectively:

	Three Months Ended December 31		Six Months Ended December 31	
	2014	2013	2014	2013
Interest (expense) benefit on secured credit facility	\$ (8,480)	\$ —	\$ (12,813)	\$ 587
Interest expense for tax positions related to unauthorized transactions	—	(8,193)	—	(16,386)
Interest expense	\$ (8,480)	\$ (8,193)	\$ (12,813)	\$ (15,799)

8. INCOME (LOSS) PER COMMON AND COMMON STOCK EQUIVALENT SHARE

Basic income (loss) per share is computed based on the weighted-average number of common shares outstanding. The weighted-average number of common shares outstanding was 7,382,706 for the quarters ended December 31, 2014 and 2013. When dilutive, stock options are included in income (loss) per share as share equivalents using the treasury stock method. For the periods ended December 31, 2014 and 2013, there were no common stock equivalents related to stock option grants that were included in the computation of the weighted-average number of shares outstanding for diluted income (loss) per share. Shares issuable upon the exercise of outstanding options of 2,376,555 and 2,186,000 were excluded from the diluted weighted-average common shares outstanding for the periods ended December 31, 2014 and 2013, respectively, as they would be anti-dilutive.

9. STOCK OPTIONS

The Company recognizes stock-based compensation expense for options granted under both the 1990 Flexible Incentive Plan and the 2012 Omnibus Incentive Plan. The stock-based compensation relates to stock options granted to employees, non-employee directors and non-employee consultants. In the six months ended December 31, 2014, options to purchase 445,000 shares were granted under the 2012 Omnibus Incentive Plan at a weighted average exercise price of \$3.19. In the six months ended December 31, 2013, options to purchase 445,000 shares were granted under the 2012 Omnibus Incentive Plan at a weighted average exercise price of \$5.64. Stock-based compensation expense during the three and six months ended December 31, 2014 was \$155,904 and \$318,491, respectively. Stock-based compensation expense during the three and six months ended December 31, 2013 was \$171,822 and \$344,352, respectively.

10. ADDITIONAL CASH FLOW INFORMATION

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

	Six Months Ended	
	December 31	
	2014	2013
Accounts receivable	\$ 146,035	\$ 8,026,234
Inventories	796,090	(345,202)
Income taxes receivable	943,945	—
Prepaid expenses and other current assets	(463,906)	(102,903)
Income taxes payable	—	(1,871,723)
Accounts payable	(1,240,639)	244,590
Accrued liabilities	(1,578,131)	(2,021,152)
Other liabilities	(81,692)	(148,940)
Net change	<u>\$ (1,478,298)</u>	<u>\$ 3,780,904</u>
Net cash (refunded) paid during the period for:		
Income taxes	\$ (988,835)	\$ 2,029,000
Interest	\$ 11,821	\$ 2,185

11. STOCKHOLDERS' EQUITY

The following table summarizes the changes in stockholders' equity for the six months ended December 31, 2014 and 2013:

	Six Months Ended	
	December 31	
	2014	2013
Net income (loss)	\$ 70,588	\$ (3,373,439)
Dividends declared	—	(885,925)
Stock-based compensation expense	318,491	344,352
Income tax benefit from dividends paid to employee stock ownership plan	—	12,432
Increase (decrease) in stockholders' equity	<u>\$ 389,079</u>	<u>\$ (3,902,580)</u>

12. LEGAL MATTERS

As of December 31, 2014, the Company is party to the matters related to the unauthorized transactions and the termination of a vendor contract described below:

- On February 18, 2010, the Company filed an action against American Express Company, American Express Travel Related Services Company, Inc., AMEX Card Services Company, Decision Science, and Pamela S. Hopkins in Superior Court of Maricopa County, Arizona, case no. CV2010-006631. The claims alleged include aiding and abetting breach of fiduciary duty, aiding and abetting fraud, and conversion relating to the unauthorized transactions. The case is proceeding in the Superior Court with respect to those claims.
- On December 17, 2010, the Company filed an action against Park Bank in Circuit Court of Milwaukee County, Wisconsin alleging claims of negligence and breach of fiduciary duty relating to the unauthorized transactions. The Company voluntarily dismissed the negligence claim and the case is proceeding in the Circuit Court.
- On March 6, 2014, the Company filed an action against Red Fusion Studios, Inc. ("Red Fusion") in Circuit Court of Milwaukee County, Wisconsin, Case No. 14CV001885, seeking the return of the Company's property and damages following the termination of the agreement that the Company had with Red Fusion for the development of the Company's Striva Technology. Red Fusion filed counterclaims relating to fees that Red Fusion alleges it is owed as a result of the termination. The Parties have reached a confidential settlement in principle that would result in the dismissal of this action and are in the process of finalizing the settlement documents.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

In December 2009, the Company learned of significant unauthorized transactions, details of which have been disclosed in depth in the Company's previous periodic reports filed with the SEC. References to unauthorized transactions below should be read in conjunction with those reports.

Results of Operations Summary

- Net sales in the quarter ended December 31, 2014 increased 7.9%, compared to the same quarter last year, to \$7,040,150 with increased sales in export markets but also in certain domestic distributors and retail outlets. For the six months ended December 31, 2014, net sales were down 6.3% compared to the same period last year, with lower sales in export markets and certain domestic mass retailers.
- Gross profit as a percent of sales increased to 34.2% and 34.0% for the three and six months ended December 31, 2014, respectively, compared to (37.4)% and (0.9)% for the three and six months ended December 31, 2013, respectively. This increase is primarily due to the impairment charge recorded in the quarter ended December 31, 2013.
- Selling, general and administrative spending was lower primarily due to reduced software development expenditures, reduced expense for legal fees and other outside services, reduced 401(k) match and reduced endorsement fees. In addition, the sales office in Switzerland was closed in October 2013.

Financial Results

The following table presents selected financial data for the three and six months ended December 31, 2014 and 2013.

Financial Performance Summary	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2014	2013	2014	2013
Net sales	\$ 7,040,150	\$ 6,524,215	\$ 12,509,636	\$ 13,348,554
Net sales increase (decrease) %	7.9%	(24.5)%	(6.3)%	(24.0)%
Impairment of capitalized software, inventory and related items	\$ —	\$ 4,535,747	\$ —	\$ 4,535,747
Gross profit (loss)	\$ 2,410,307	\$ (2,437,920)	\$ 4,253,024	\$ (126,275)
Gross profit (loss) as % of net sales	34.2%	(37.4)%	34.0 %	(0.9)%
Gross profit (loss) as % of net sales before impairment	34.2%	32.2 %	34.0 %	33.0 %
Selling, general and administrative expenses	\$ 2,069,746	\$ 2,861,659	\$ 4,008,739	\$ 5,746,140
Selling, general and administrative expenses as a % of sales	29.4%	43.9 %	32.0 %	43.0 %
Unauthorized transaction related costs	\$ 25,000	\$ 112,171	\$ 77,492	\$ 219,984
Unauthorized transaction related recoveries	\$ —	\$ —	\$ —	\$ (816,529)
Unauthorized transaction related costs and (recoveries), net	\$ 25,000	\$ 112,171	\$ 77,492	\$ (596,545)
Income (loss) from operations	\$ 315,561	\$ (5,411,750)	\$ 166,793	\$ (5,275,870)
Income (loss) from operations as % of net sales	4.5%	(82.9)%	1.3 %	(39.5)%
Interest expense	\$ (8,480)	\$ (8,193)	\$ (12,813)	\$ (15,799)
Income tax provision (benefit)	\$ 141,495	\$ (1,967,102)	\$ 83,392	\$ (1,918,230)
Income tax provision (benefit) as % of income before income tax provision (benefit)	46.1%	36.3 %	54.2 %	36.2 %

2014 Results Compared with 2013
(comments refer to both the three and six month periods unless otherwise stated)

Net sales increased in the three months ended December 31, 2014, by \$515,935 or 7.9% as sales in certain export markets increased. For the six months ended December 31, 2014, net sales decreased by \$838,918 or 6.3%, due to lower export sales in the quarter ended September 30, 2014.

The fiscal year started with export sales well behind last year with weakness in most of the major export markets. This trend changed in the quarter ended December 31, 2014 as improved sales in Scandinavia and continued strong sales in Russia and Malaysia offset the continued weakness in markets such as Ukraine, Czech Republic and Japan. The distributor in Scandinavia appears to have worked through their excess inventory and had a very strong quarter. Management believes many other customers in Europe are dealing with the impact of weak economies, which affect sell-through and their ability to properly balance inventories. The distributor in Ukraine continues to be affected by political unrest in that region. In addition, sales to our distributor in the Czech Republic were down considerably as they adjust inventory levels following two very strong years ended June 30, 2014.

In the domestic market, net sales were very similar to last year with an approximate 3% improvement for the quarter ended December 31, 2014 bringing the six month decrease to approximately 2%. Sales through distributors, e-commerce, OEM, certain mass retailers and grocery chains helped to offset the decreased sales in one mass retailer and the loss of sales through electronics and drug store chains. Last year's promotional load-in of products to a domestic drug store customer resulted in net sales for the three and six months ended December 31, 2013 of approximately \$990,000 and \$1,380,000, respectively. The improvements in certain channels helped to offset the load-in shipments to certain customers last year were not repeated in the current year.

Gross profit as a percent of sales was higher than last year primarily as a result of the impairment charge recorded in the three months ended December 31, 2013. This impairment charge is explained in Note 3 to the condensed consolidated financial statements.

Gross profit before the impairment charge was 34.2% and 34.0% for the three and six months ended December 31, 2014, respectively. This is an improvement from the 32.2% and 33.0% recorded in the three and six months ended December 31, 2013, respectively. The higher gross profit margins are the result of decreased overhead costs and no longer recording amortization expense for the software written off as part of the impairment charge recorded in the quarter ended December 31, 2013. The expenses are lower due to closing the Mexico operations, which were just beginning to come on line last year, as well as reduced overhead spending in Milwaukee. These helped offset lower contribution margins driven by competitive pricing and the impact of some closeout sales at very low margins.

Selling, general and administrative expenses were lower than the same period last year. The Company reduced spending on the development of the STRIVA product line resulting in a decrease of approximately \$430,000 and \$795,000 for the three and six months ended December 31, 2014, respectively. Legal fees and outside service fees declined by approximately \$48,000 and \$354,000 for the three and six months ended December 31, 2014, respectively, due to changes in the scope of work being done as well as price discounts. The 401(k) match was lower by approximately \$52,000 and \$180,000 for the three and six months ended December 31, 2014, respectively, resulting from a reduced match percentage this year. Endorsement fees were lower than last year by approximately \$129,000 and \$172,000 for the three and six months ended December 31, 2014, respectively. The sales office in Switzerland was closed following the quarter ended September 30, 2013 and reduced expenses by approximately \$80,000 for the six months ended December 31, 2014. Sales for Europe are now supported from an office in Ireland. Sales for Asia and Latin America are supported by U.S. based personnel.

The Company believes that most of the proceeds from asset forfeitures have been received as of December 31, 2014. Final proceeds are expected to be received in the fiscal year ended June 30, 2015 but are not expected to be significant.

The increase in income from operations for the quarter ended December 31, 2014 was primarily due to the increase in net sales and the cost reductions.

The effective income tax rate for the six months ended December 31, 2014 was 54.2% which is comprised of the U.S. federal statutory rate of 34%, the effect of state income taxes and the impact of certain discrete items recorded in the quarter. It is anticipated that the effective income tax rate will be between 40-45% in the year ended June 30, 2015.

Non-GAAP Financial Measures

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

	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2014	2013	2014	2013
Net income (loss)	\$ 165,586	\$ (3,452,841)	\$ 70,588	\$ (3,373,439)
Interest expense	8,480	8,193	12,813	15,799
Income tax provision (benefit)	141,495	(1,967,102)	83,392	(1,918,230)
Unauthorized transaction related costs and (recoveries), net	25,000	112,171	77,492	(596,545)
Depreciation of equipment and leasehold improvements	167,147	212,359	328,800	422,178
Amortization of product software development expenditures	—	—	—	364,539
Impairment of capitalized software, inventory and related items	—	4,535,747	—	4,535,747
Stock-based compensation expense	155,904	171,822	318,491	344,352
EBITDA from operations	\$ 663,612	\$ (379,651)	\$ 891,576	\$ (205,599)

Non-GAAP EBITDA from operations increased to 9.4% of net sales for the three months ended December 31, 2014 compared to (5.8)% of net sales in the three months ended December 31, 2013. For the six months ended December 31, 2014 and 2013, Non-GAAP EBITDA from operations was 7.1% and (1.5)% of net sales, respectively. This increase reflects the cost reductions achieved through suspending operations in Mexico, suspending development of the STRIVA product line and the other reductions in selling, general and administrative spending described above.

Liquidity and Capital Resources
Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for the six months ended December 31, 2014 and 2013:

Total cash provided by (used in):	2014	2013
Operating activities	\$ (693,407)	\$ 3,599,256
Investing activities	(454,850)	(678,522)
Financing activities	—	(885,925)
Net increase (decrease) in cash and cash equivalents	\$ (1,148,257)	\$ 2,034,809

Operating Activities

In the six months ended December 31, 2014, the Company paid approximately \$1.1 million for returned product received in the year ended June 30, 2014, as the customer did not buy sufficient new products to offset these returns. In addition, there were payments to vendors for inventory related to new products and fall customer promotions, issuance of volume rebates for export customers and payments related to the suspension of operations in Mexico. These items were partially offset by receiving approximately \$1.0 million of federal tax refunds. During the six months ended December 31, 2013, cash provided by operations was primarily due to receiving the proceeds of the settlement of the lawsuit against the Company's former auditors. Pursuant to the settlement, in July 2013, the Company received gross proceeds of \$8,500,000, or \$6,380,000 net of associated legal fees. During the quarter ended September 30, 2013, the Company paid approximately \$2,000,000 for federal taxes.

Inventories decreased by approximately \$796,000 in the six months ended December 31, 2014. This decrease was caused by the improvement in sales, balancing key stock levels to activity and closeout sales of slow moving items.

Investing Activities

Cash used in investing activities was lower for the six months ended December 31, 2014 as the Company had lower capital expenditures for tooling related to new products. The Company anticipates it will incur total expenditures of approximately \$400,000 to \$500,000 for tooling, leasehold improvements, and capital expenditures during the fiscal year ending June 30, 2015. The Company expects to generate sufficient cash flow through operations to fund these expenditures.

Financing Activities

The payment of quarterly dividends resulted in a net use of cash in financing activities for the six months ended December 31, 2013. The Company has suspended payments of quarterly dividends until operations and earnings improve. The Company will determine whether to declare and the amount of any future dividends based upon its assessment of the Company's financial condition and liquidity, improvement in sales as a whole and in particular in the export markets, an increased generation of cash from operations, and the Company's earnings. As of December 31, 2014, the Company had no outstanding borrowings on its bank line of credit facility.

There were no purchases of common stock in 2014 or 2013 under the stock repurchase program. No stock options were exercised in 2014 or 2013.

Liquidity

In addition to capital expenditures for tooling, the Company has interest payments on its borrowings when it uses its line of credit facility, and has paid regular quarterly dividends until no dividend was declared for the quarter ended June 30, 2014. The Company will not declare a dividend for the quarter ended December 31, 2014. The Company believes that cash generated from operations, together with cash reserves and borrowings available under its credit facility, provide it with adequate liquidity to meet operating requirements, debt service requirements, and planned capital expenditures for the next twelve months and thereafter for the foreseeable future. Whether there is adequate liquidity to resume paying quarterly dividends, and if so, the amount per share of such dividends, will be dependent on certain factors, including the Company's financial condition and liquidity, an improvement in sales as a whole and in particular in the export markets, an increased generation of cash from operations, and the Company's overall earnings. Management believes an improvement in sales, and controlling the amount of both capital expenditures and operating expenses, are important factors for improving the Company's liquidity. The Company regularly evaluates new product offerings, inventory levels and capital expenditures to ensure that it is effectively allocating resources in line with current market conditions.

Credit Facility

On May 12, 2010, the Company entered into a secured credit facility ("Credit Agreement") with JPMorgan Chase Bank, N.A. ("Lender"). The Credit Agreement provided for an \$8,000,000 revolving secured credit facility and for letters of credit for the benefit of the Company of up to a sublimit of \$2,000,000. On July 24, 2013, the Credit Agreement was amended to extend the expiration to July 31, 2015. On July 23, 2014, the Credit Agreement was amended to lower the revolving credit line to \$5,000,000 and to amend certain financial covenants. The Company and the Lender also entered into a Pledge and Security Agreement dated May 12, 2010 under which the Company granted the Lender a security interest in substantially all of the Company's assets in connection with the Company's obligations under the Credit Agreement. The Company is currently in compliance with all covenants related to the Credit Facility. As of June 30, 2014 and December 31, 2014, there were no outstanding borrowings on the facility. Refer to Note 6 for additional details on the Company's secured credit facility.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements other than the lease for the facility in Milwaukee, Wisconsin. The Company leases the facility from Koss Holdings, LLC, which is wholly-owned by the Company's Chairman. On May 15, 2012, the lease was renewed for a period of five years, ending June 30, 2018, and is being accounted for as an operating lease. The lease extension maintained the rent at a fixed rate of \$380,000 per year. The Company is responsible for all property maintenance, insurance, taxes and other normal expenses related to ownership. The facility is in good repair and, in the opinion of management, is suitable and adequate for the Company's business purposes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") are designed to ensure that: (1) information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms; and (2) such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2014. The Company's management has concluded that the Company's disclosure controls and procedures as of December 31, 2014 were effective.

Changes in Internal Control Over Financial Reporting

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

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

As of December 31, 2014, the Company is currently involved in legal matters against third parties related to the unauthorized transactions and related to termination of a vendor contract. A description of these legal matters is included at Note 12 to the condensed consolidated financial statements, which description is incorporated herein by reference.

Item 1A. Risk Factors

Not applicable.

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

The following table presents information with respect to purchases of common stock of the Company made during the three months ended December 31, 2014, by the Company.

COMPANY REPURCHASES OF EQUITY SECURITIES

Period (2014)	Total # of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (1)	Approximate Dollar Value of Shares Available under Repurchase Plan
October 1 - December 31	—	\$ —	—	\$ 2,139,753

(1) In April of 1995, the Board of Directors approved a stock repurchase program authorizing the Company to purchase from time to time up to \$2,000,000 of its common stock for its own account. Subsequently, the Board of Directors periodically has approved increases in the stock repurchase program. The most recent increase was for an additional \$2,000,000 in October 2006, for a maximum of \$45,500,000 of which \$43,360,247 had been expended through December 31, 2014.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index attached hereto.

SIGNATURES

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

KOSS CORPORATION

/s/ Michael J. Koss _____ January 30, 2015
Michael J. Koss
Vice Chairman
President
Chief Executive Officer
Chief Operating Officer

/s/ David D. Smith _____ January 30, 2015
David D. Smith
Executive Vice President
Chief Financial Officer
(Principal Financial and Principal Accounting Officer)
Secretary

EXHIBIT INDEX

Exhibit No.	Exhibit Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer *
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer *
32.1	Section 1350 Certification of Chief Executive Officer **
32.2	Section 1350 Certification of Chief Financial Officer **
101	The following financial information from Koss Corporation's Quarterly Report on Form 10-Q for the quarter ended December 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations (Unaudited) for the three and six months ended December 31, 2014 and 2013, (ii) Condensed Consolidated Balance Sheets as of December 31, 2014 (Unaudited) and June 30, 2014 (iii) Condensed Consolidated Statements of Cash Flows (Unaudited) for the three and six months ended December 31, 2014 and 2013 and (iv) the Notes to Condensed Consolidated Financial Statements (Unaudited). *
*	Filed herewith
**	Furnished herewith

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

I, Michael J. Koss, certify that:

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

Dated: January 30, 2015

/s/ Michael J. Koss

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

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

I, David D. Smith, certify that:

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

Dated: January 30, 2015

/s/ David D. Smith

David D. Smith
Executive Vice President and
Chief Financial Officer

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

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

- (i) the Quarterly Report on Form 10-Q of the Company for the quarter ended December 31, 2014 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael J. Koss

Michael J. Koss
Chief Executive Officer, President and
Chief Operating Officer
Dated: January 30, 2015

Note: This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed, except to the extent required by the Sarbanes-Oxley Act of 2002, by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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

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

(i) the Quarterly Report on Form 10-Q of the Company for the quarter ended December 31, 2014 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David D. Smith

David D. Smith

Executive Vice President and
Chief Financial Officer

Dated: January 30, 2015

Note: This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed, except to the extent required by the Sarbanes-Oxley Act of 2002, by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.