

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended September 30, 2020**

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**

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

At November 2, 2020, there were 7,404,831 shares outstanding of the registrant's common stock.

KOSS CORPORATION
FORM 10-Q
September 30, 2020

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

KOSS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30, 2020	June 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,449,945	\$ 3,999,409
Accounts receivable, less allowance for doubtful accounts of \$89,747 and \$74,082, respectively	3,229,028	2,317,064
Inventories, net	5,297,253	5,538,794
Prepaid expenses and other current assets	467,762	267,647
Income taxes receivable	13,143	14,622
Total current assets	<u>12,457,131</u>	<u>12,137,536</u>
Equipment and leasehold improvements, net	<u>1,174,359</u>	<u>983,641</u>
Other assets:		
Operating lease right-of-use assets	2,514,263	2,582,402
Cash surrender value of life insurance	7,137,680	6,876,827
Total other assets	<u>9,651,943</u>	<u>9,459,229</u>
Total assets	<u>\$ 23,283,433</u>	<u>\$ 22,580,406</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 938,955	\$ 827,705
Accrued liabilities	849,434	580,099
Deferred revenue	544,251	423,639
Operating lease liability	279,900	276,947
Short-term debt	506,700	506,700
Total current liabilities	<u>3,119,240</u>	<u>2,615,090</u>
Long-term liabilities:		
Deferred compensation	2,316,982	2,333,482
Deferred revenue	176,828	170,281
Operating lease liability	2,234,363	2,305,455
Total long-term liabilities	<u>4,728,173</u>	<u>4,809,218</u>
Total liabilities	<u>7,847,413</u>	<u>7,424,308</u>
Stockholders' equity:		
Common stock, \$0.005 par value, authorized 20,000,000 shares; issued and outstanding 7,404,831	37,024	37,024
Paid in capital	7,035,723	6,882,729
Retained earnings	8,363,273	8,236,345
Total stockholders' equity	<u>15,436,020</u>	<u>15,156,098</u>
Total liabilities and stockholders' equity	<u>\$ 23,283,433</u>	<u>\$ 22,580,406</u>

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

KOSS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended	
	September 30	
	2020	2019
Net sales	\$ 5,208,295	\$ 5,410,762
Cost of goods sold	3,572,067	4,063,308
Gross profit	1,636,228	1,347,454
Selling, general and administrative expenses	1,505,772	1,664,600
Income (loss) from operations	130,456	(317,146)
Interest (expense) income	(2,051)	6,397
Income (loss) before income tax provision	128,405	(310,749)
Income tax provision	1,477	—
Net income (loss)	\$ 126,928	\$ (310,749)
Income (loss) per common share:		
Basic	\$ 0.02	\$ (0.04)
Diluted	\$ 0.02	\$ (0.04)
Weighted-average number of shares:		
Basic	7,404,831	7,404,831
Diluted	7,408,685	7,404,831

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

KOSS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended September 30	
	2020	2019
Operating activities:		
Net income (loss)	\$ 126,928	\$ (310,749)
Adjustments to reconcile net income (loss) to net cash (used in) operating activities:		
Provision for doubtful accounts	10,698	2,584
Depreciation of equipment and leasehold improvements	74,278	94,357
Stock-based compensation expense	152,994	148,188
Deferred income taxes	—	3,319
Change in cash surrender value of life insurance	(157,285)	(144,872)
Change in deferred compensation accrual	21,000	37,016
Deferred compensation paid	(37,500)	(37,500)
Net changes in operating assets and liabilities:		
Accounts receivable	(922,662)	520,401
Inventories	241,541	(7,331)
Prepaid expenses and other current assets	(200,115)	(97,147)
Income taxes receivable	1,479	(2,261)
Accounts payable	111,250	(864,195)
Accrued liabilities	269,335	61,102
Deferred revenue	127,159	(25,193)
Net cash (used in) operating activities	<u>(180,900)</u>	<u>(622,281)</u>
Investing activities:		
Purchase of equipment and leasehold improvements	(264,996)	(163,881)
Life insurance premiums paid	<u>(103,568)</u>	<u>(112,633)</u>
Net cash (used in) investing activities	<u>(368,564)</u>	<u>(276,514)</u>
Net (decrease) in cash and cash equivalents	(549,464)	(898,795)
Cash and cash equivalents at beginning of period	3,999,409	2,228,282
Cash and cash equivalents at end of period	<u>\$ 3,449,945</u>	<u>\$ 1,329,487</u>

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

KOSS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

	Three Months Ended September 30, 2020				
	Common Stock		Paid in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, June 30, 2020	7,404,831	\$ 37,024	\$ 6,882,729	\$ 8,236,345	\$ 15,156,098
Net income	—	—	—	126,928	126,928
Stock-based compensation expense	—	—	152,994	—	152,994
Balance, September 30, 2020	<u>7,404,831</u>	<u>\$ 37,024</u>	<u>\$ 7,035,723</u>	<u>\$ 8,363,273</u>	<u>\$ 15,436,020</u>

	Three Months Ended September 30, 2019				
	Common Stock		Paid in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, June 30, 2019	7,404,831	\$ 37,024	6,333,135	\$ 8,701,942	\$ 15,072,101
Net (loss)	—	—	—	(310,749)	(310,749)
Stock-based compensation expense	—	—	148,188	—	148,188
Balance, September 30, 2019	<u>7,404,831</u>	<u>\$ 37,024</u>	<u>6,481,323</u>	<u>\$ 8,391,193</u>	<u>\$ 14,909,540</u>

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

KOSS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF PRESENTATION

The condensed consolidated balance sheet as of September 30, 2020, the condensed consolidated statements of operations for the three months ended September 30, 2020 and 2019, the condensed consolidated statements of cash flows for the three months ended September 30, 2020 and 2019, and the condensed consolidated statements of stockholders' equity for the three months ended September 30, 2020 and 2019, have been prepared by the Company in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and have not been audited. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. The operating results for any interim period are not necessarily indicative of the operating results that may be experienced for the full fiscal year.

Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with U.S. 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 Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2020.

The preparation of financial statements in conformity with U.S. GAAP requires the company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses. Significant estimates and assumptions are used for, but are not limited to, allowances for doubtful accounts, reserves for excess and obsolete inventories, long-lived and intangible assets, income tax valuation allowance, non-cash stock-based compensation and deferred compensation. Actual results could differ from the Company's estimates.

B) INCOME TAXES

A state tax provision of \$1,477 was recorded during the three months ended September 30, 2020, for states where there is no net operating loss carryforward. There was no state tax provision for the three months ended September 30, 2019. Utilization of net operating tax carryforwards and a full valuation allowance against deferred tax assets reduced the federal income tax expense to zero for the three months ended September 30, 2020 and 2019. In states with net operating loss carryforward, utilization of net operating tax carryforwards and a full valuation allowance against deferred tax assets reduced the state income tax expense to zero for the three months ended September 30, 2020 and 2019.

2. INVENTORIES

The components of inventories were as follows:

	September 30, 2020	June 30, 2020
Raw materials	\$ 1,886,060	\$ 1,953,031
Finished goods	5,029,164	5,149,200
Inventories, gross	6,915,224	7,102,231
Reserve for obsolete inventory	(1,617,971)	(1,563,437)
Inventories, net	\$ 5,297,253	\$ 5,538,794

3. CREDIT FACILITY AND SBA LOAN

On May 14, 2019, the Company entered into a secured credit facility ("Credit Agreement") with Town Bank ("Lender") for a two-year term expiring on May 14, 2021. The Credit Agreement provides for a \$5,000,000 revolving secured credit facility with an interest rate of 1.50% over LIBOR. The Credit Agreement also provides for letters of credit for the benefit of the Company of up to a sublimit of \$1,000,000. There are no unused line fees in the credit facility. The Company and the Lender also entered into a General Business Security Agreement dated May 14, 2019 under which the Company granted the Lender a security interest in substantially all of the Company's assets in connection with the Company's obligations under the Credit Agreement. The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type. The negative covenants include restrictions on other indebtedness, liens, fundamental changes, certain investments, disposition of assets, mergers and liquidations, among other restrictions. The Company is currently in compliance with all covenants related to the Credit Agreement. As of September 30, 2020, and June 30, 2020, there were no outstanding borrowings on the facility.

On April 13, 2020, the Company received an unsecured loan (the "SBA Loan") under the Small Business Administration ("SBA") Paycheck Protection Program (the "PPP") of the CARES Act through Town Bank. The SBA Loan funds that were disbursed on April 14, 2020, have a two-year term expiring on April 14, 2022. The SBA Loan has a principal amount of \$506,700 with an interest rate of 1.0%. The Company applied for forgiveness as permitted under the PPP on August 7, 2020, for the full amount of the SBA Loan using the 24-week "Covered Period" under the PPP, which is why the debt is classified as short-term on the consolidated balance sheet. On November 3, 2020, the Company was notified that the full principal amount of \$506,700 has been forgiven (see Note 8).

4. REVENUE RECOGNITION

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

	Three Months Ended September 30,	
	2020	2019
United States	\$ 3,951,545	\$ 4,501,312
Export	1,256,750	909,450
Net Sales	\$ 5,208,295	\$ 5,410,762

Deferred revenue relates primarily to consumer and customer warranties. These constitute future performance obligations and the Company defers revenue related to these future performance obligations. The Company recognized revenue, which was included in the deferred revenue liability at the beginning of the periods, of \$111,030 and \$158,053 in the three months ended September 30, 2020 and 2019, respectively, for performance obligations related to consumer and customer warranties. The deferred revenue liability was \$808,488 as of June 30, 2019. The Company estimates that the deferred revenue performance obligations are satisfied within one to three years and therefore uses that same time frame for recognition of the deferred revenue.

5. 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. Diluted income per common share is calculated assuming the exercise of stock options except where the result would be anti-dilutive. The following table reconciles the numerator and denominator used to calculate basic and diluted income per share:

	Three Months Ended September 30,	
	2020	2019
Numerator		
Net income (loss)	\$ 126,928	\$ (310,749)
Denominator		
Weighted average shares, basic	7,404,831	7,404,831
Dilutive effect of stock compensation awards (1)	3,854	—
Diluted shares	7,408,685	7,404,831
Net income (loss) attributable to common shareholders per share:		
Basic	\$ 0.02	\$ (0.04)
Diluted	\$ 0.02	\$ (0.04)

(1) Excludes approximately 2,750,176 and 2,775,321 weighted average stock options for the three months ended September 30, 2020 and 2019, respectively, as the impact of such awards was anti-dilutive.

6. LEASES

The Company leases its facility in Milwaukee, Wisconsin from Koss Holdings, LLC, which is wholly-owned by the former Chairman. On January 5, 2017, the lease was renewed for a period of five years, ending June 30, 2023, and is being accounted for as an operating lease. The lease extension maintained the rent at a fixed rate of \$380,000 per year and included an option to renew at the same rate for an additional five years ending June 30, 2028. The Company is responsible for all property maintenance, insurance, taxes and other normal expenses related to ownership.

7. LEGAL MATTERS

As of September 30, 2020, the Company is involved in the following matters described below:

- In July 2020, the Company filed complaints in United States District Court against each of Apple Inc., Bose Corporation, PEAG, LLC d/b/a JLab Audio, Plantronics, Inc. and Polycom, Inc., and Skullcandy, Inc. The complaints allege infringement on the Company's patents relating to its wireless audio technology. In the event that a monetary award or judgment is received by the Company in connection with these complaints, all or portions of such amounts may be due to third parties. The Company does not expect to incur additional fees and costs related to these lawsuits that will have a material impact to its financial statements. Depending on the response to and the underlying results of the enforcement program, the Company may continue to litigate its claims, enter into licensing arrangements or reach some other outcome potentially advantageous to its competitive position.
- Early in fiscal year 2020 the Company was notified by One E-Way, Inc. that some of the Company's wireless products may infringe on certain One E-Way patents. No lawsuits involving these allegations have yet been filed and served on the Company.

The ultimate resolution of these matters is not determinable unless otherwise noted. We also are subject to a variety of other claims and suits that arise from time to time in the ordinary course of our business. Although management currently believes that resolving these claims against us, individually or in aggregate, will not have a material adverse impact on our Condensed Consolidated Financial Statements, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

8. SUBSEQUENT EVENTS

On November 3, 2020, the Company was notified that the SBA has forgiven the SBA Loan in the amount of \$506,700, which represents the full outstanding principal of the loan.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified based on current expectations. Consequently, future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements contained in this Form 10-Q, or in other Company filings, press releases, or otherwise. In addition to the factors discussed in this Form 10-Q, other factors that could contribute to or cause such differences include, but are not limited to, developments in any one or more of the following areas: future fluctuations in economic conditions, the receptivity of consumers to new consumer electronics technologies, the rate and consumer acceptance of new product introductions, competition, pricing, the number and nature of customers and their product orders, production by third party vendors, foreign manufacturing, sourcing, and sales (including foreign government regulation, trade and importation concerns), the effects of the COVID-19 pandemic on the economy and the Company’s operations, borrowing costs, changes in tax rates, pending or threatened litigation and investigations, and other risk factors described in the Risk Factors and in Management’s Discussion and Analysis of Financial Condition and Results of Operations sections of the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2020 and subsequently filed Quarterly Reports on Form 10-Q

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

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

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

Results of Operations Summary

- Net sales for the quarter ended September 30, 2020, decreased \$202,467 to \$5,208,295, compared to the same quarter last year.
- Gross profit as a percent of net sales increased to 31.4% for the three months ended September 30, 2020 compared to 24.9% for the same quarter last year. Gross profit fluctuations were primarily driven by a change in the mix of business by product, customer and sales channel. A significant factor in the three month increase was a large back-to-school sale to a domestic retailer at low margin in the quarter ended September 30, 2019.
- Selling, general and administrative expenses for the three months ended September 30, 2020, decreased approximately 10% due to lower legal fees and employee benefits.
- Tax expense for the three months ended September 30, 2020 was minimal due to an offsetting change in the valuation allowance for deferred tax assets.

Financial Results

The following table presents selected financial data for the first quarter of fiscal year 2021:

Financial Performance Summary	Three Months Ended September 30	
	2020	2019
Net sales	\$ 5,208,295	\$ 5,410,762
Net sales (decrease) %	(3.7)%	(6.5)%
Gross profit	\$ 1,636,228	\$ 1,347,454
Gross profit as % of net sales	31.4%	24.9%
Selling, general and administrative expenses	\$ 1,505,772	\$ 1,664,600
Selling, general and administrative expenses as % of net sales	28.9%	30.8%
Interest (expense) income	\$ (2,051)	\$ 6,397
Income (loss) before income tax provision	\$ 128,405	\$ (310,749)
Income (loss) before income tax as % of net sales	2.5%	(5.7)%
Income tax provision	\$ 1,477	\$ —
Income tax provision as % of income (loss) before income tax	1.2%	—%

Quarter Ended September 30, 2020 Results Compared with September 30, 2019

For the three months ended September 30, 2020, net sales declined 3.7%, primarily due to a decrease in sales to a US based mass retailer. Sales in the export markets and other domestic markets increased.

Net sales in the domestic market were approximately \$3,952,000 in the three months ended September 30, 2020, compared to approximately \$4,501,000 last year. Sales to mass retail customers decreased approximately \$809,000 in the three months ended September 30, 2020. Mass retail net sales included a large back-to-school promotion in the three months ended September 30, 2019. Sales through online channels increased significantly in the three months ended September 30, 2020. The online sales activity was driven by the COVID-19 directives, which have caused many people to work and study remotely and have resulted in sales of communication headsets to facilitate that work and study. Certain domestic distributors had higher sales in the three months ended September 30, 2020, due to COVID-19 related customer demand.

Export net sales increased 38% to approximately \$1,257,000 for the three months ended September 30, 2020, compared to approximately \$909,000 for the same period last year. Sales to distributors in Europe were the primary drivers for the increase. A significant portion of the increase was related to introduction of new products as well as increased sales of headphones used for working and studying remotely.

Gross profit increased to 31.4% for the three months ended September 30, 2020, compared to 24.9% for the three months ended September 30, 2019. The higher gross profit in the current year was largely due to the promotional back-to-school sale to a domestic mass retail customer at very low margin in the three months ended September 30, 2019. In addition, sales in the current quarter reflected a much more favorable mix of sales by market and product.

Selling, general and administrative expenses for the three months ended September 30, 2020, decreased approximately \$159,000 or 9.5% compared to the prior year period. The primary factors were a decrease in legal and professional fees of approximately \$87,000 and a decrease in employee benefit costs of approximately \$47,000. The legal and professional fees decrease was caused by lower legal and professional fees related to the Company's intellectual property portfolio. The employee benefit costs were lower due to a decrease in the Company's matching contribution for its 401(k) plan.

Income tax expense for the three months ended September 30, 2020, was comprised of the U.S. federal statutory rate of 21% and the effect of state income taxes offset by an adjustment to the valuation allowance for deferred tax assets. The effective tax rate was less than 1% in the three months ended September 30, 2020 and 2019. It is anticipated that the effective rate in the current year and future years will be reduced by utilization of a portion or all of the approximately \$897,000 of federal net operating loss carryforwards.

As previously reported, the Company has launched a program focused on enforcing its intellectual property and, in particular, certain of its patent portfolio. The Company has continued to enforce its intellectual property by filing complaints against certain parties alleging infringement on the Company's patents relating to its wireless headphone technology. If the program is successful, the Company may receive royalties, offers to purchase its intellectual property, or other remedies advantageous to its competitive position; however, there is no guarantee of a positive outcome from these efforts, which could ultimately be time consuming and unsuccessful. Additionally, in the event that a monetary award or judgment is received by the Company in connection with these complaints, all or portions of such amounts may be due to third parties.

The Company believes that its financial position remains strong. The Company had \$3.4 million of cash and available credit facilities of \$5.0 million on September 30, 2020.

COVID-19 Impact

The Company has been closely monitoring the COVID-19 situation to protect the health and safety of its employees and customers. Business plans are being executed to maintain supply of the Company's products to our customers throughout the world.

The Company's financial results for the quarter ended September 30, 2020 were positively impacted by the demand for specific communication headphones as more people were working from home and studying online due to COVID-19 related directives. The increased domestic sales for these specific products in the quarter ended September 30, 2020 resulted in shortages of certain products, which will take a couple months to replenish. However, certain retail businesses throughout the Company's markets have seen continued disruption. This has resulted in a decline in business across our markets with the exception of online retail. The Company expects these negative sales impacts to continue until markets re-open and consumer spending returns to normal.

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

The Company's supply chain is primarily in southern China. This portion of the Company's supply chain was disrupted early in the quarter ended March 31, 2020. These disruptions are now having little on-going impact. The remaining impacts relate to the movement of new product introductions and costs. The Company is monitoring the situation closely and the supply chain team has been executing business plans, which include, but are not limited to: (1) being alert to potential short supply situations; (2) accelerating delivery times from key suppliers; and, (3) utilizing alternative sources and/or air freight.

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

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

Liquidity and Capital Resources

Cash Flows

The following table summarizes cash flows from operating, investing and financing activities for the three months ended September 30, 2020 and 2019:

Total cash (used in):	2020	2019
Operating activities	\$ (180,900)	\$ (622,281)
Investing activities	(368,564)	(276,514)
Financing activities	—	—
Net (decrease) in cash and cash equivalents	<u>\$ (549,464)</u>	<u>\$ (898,795)</u>

Operating Activities

The increase in accounts receivable and prepaid assets were the driving factors for the increase in cash used in operating activities during the three months ended September 30, 2020. The impact of these factors was partially offset by an increase in accounts payable and accrued liabilities as well as a decrease in inventories.

Investing Activities

Cash used in investing activities was higher for the three months ended September 30, 2020, as the Company had increased expenditures for leasehold improvements and for tooling related to new product introductions. During the fiscal year ending June 30, 2021, the Company anticipates it will incur total expenditures for tooling, leasehold improvements and capital expenditures of approximately \$600,000. The Company expects to generate sufficient cash flow through operations or through the use of its available cash and its credit facility to fund these expenditures.

Financing Activities

As of September 30, 2020, the Company had no outstanding borrowings on its bank line of credit facility.

There were no purchases of common stock in the quarters ended September 30, 2020 or 2019 under the stock repurchase program. No stock options were exercised in the quarters ended September 30, 2020 or 2019.

Liquidity

The Company's capital expenditures are primarily for leasehold improvements and tooling. In addition, it has interest payments on its borrowings when it uses its line of credit facility. The Company believes that cash generated from operations, together with cash reserves and available borrowings, provide it with adequate liquidity to meet operating requirements, debt service requirements and planned capital expenditures for the next twelve months and thereafter for the foreseeable future. The Company regularly evaluates new product offerings, inventory levels and capital expenditures to ensure that it is effectively allocating resources in line with current market conditions.

Credit Facility and SBA Loan

On May 14, 2019, the Company entered into a secured credit facility ("Credit Agreement") with Town Bank ("Lender") for a two-year term expiring on May 14, 2021. The Credit Agreement provides for a \$5,000,000 revolving secured credit facility with an interest rate of 1.50% over LIBOR. The Credit Agreement also provides for letters of credit for the benefit of the Company of up to a sublimit of \$1,000,000. There are no unused line fees in the credit facility. The Company and the Lender also entered into a General Business Security Agreement dated May 14, 2019 under which the Company granted the Lender a security interest in substantially all of the Company's assets in connection with the Company's obligations under the Credit Agreement. The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type. The negative covenants include restrictions on other indebtedness, liens, fundamental changes, certain investments, disposition of assets, mergers and liquidations, among other restrictions. The Company is currently in compliance with all covenants related to the Credit Agreement. As of September 30, 2020, and June 30, 2020, there were no outstanding borrowings on the facility.

On April 13, 2020, the Company received an unsecured loan (the "SBA Loan") under the Small Business Administration ("SBA") Paycheck Protection Program (the "PPP") of the CARES Act through Town Bank. The SBA Loan funds that were disbursed on April 14, 2020, have a two-year term expiring on April 14, 2022. The SBA Loan has a principal amount of \$506,700 with an interest rate of 1.0%. The Company applied for forgiveness as permitted under the PPP on August 7, 2020, of the full amount of the SBA Loan using the 24-week "Covered Period" under the PPP. The Company expects that the full principal amount of the loan will be forgiven. On November 3, 2020, the Company was notified that the full principal amount of \$506,700 has been forgiven.

Contractual Obligation

The Company leases its facility in Milwaukee, Wisconsin from Koss Holdings, LLC, which is wholly-owned by the former Chairman. On January 5, 2017, the lease was renewed for a period of five years, ending June 30, 2023, and is being accounted for as an operating lease. The lease extension maintained the rent at a fixed rate of \$380,000 per year and included an option to renew at the same rate for an additional five years ending June 30, 2028. The Company is responsible for all property maintenance, insurance, taxes and other normal expenses related to ownership.

Off-Balance Sheet Transactions

At September 30, 2020, the Company did not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

The Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of September 30, 2020. The Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures as of September 30, 2020 were effective.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in the Company’s internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) that occurred during the Company’s most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

**PART II
OTHER INFORMATION**

Item 1. Legal Proceedings

From time-to-time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. During the period covered by this report, there were no material changes to the description of legal proceedings set forth in Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2020.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020, as filed with the Securities and Exchange Commission on August 27, 2020. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by any forward-looking statements contained in this report.

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

The following table presents information with respect to purchases of common stock of the Company made during the three months ended September 30, 2020, by the Company.

COMPANY REPURCHASES OF EQUITY SECURITIES

	Total # of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (1)	Approximate Dollar Value of Shares Available under Repurchase Plan
July 1 - September 30, 2020	—	\$ —	—	\$ 2,139,753

- (1) In April of 1995, the Board of Directors approved a stock repurchase program authorizing the Company to purchase from time to time up to \$2,000,000 of its common stock for its own account. Subsequently, the Board of Directors periodically has approved increases in the stock repurchase program. The most recent increase was for an additional \$2,000,000 in October 2006, for a maximum of \$45,500,000 of which \$43,360,247 had been expended through September 30, 2020.

Item 6. Exhibits

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. 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.
3.3	Amendment to the By-Laws of Koss Corporation. Filed as Exhibit 3.3 to the Company's Current Report on Form 8-K on March 7, 2006 and incorporated herein by reference.
3.4	Amendment to the By-Laws of Koss Corporation. Filed as Exhibit 3.4 to the Company's Annual Report on Form 10-K on August 27, 2020 and incorporated herein by reference.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer *
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer *
32.1	Section 1350 Certification of Chief Executive Officer **
32.2	Section 1350 Certification of Chief Financial Officer **
101	The following financial information from Koss Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2020 and June 30, 2019, (ii) Condensed Consolidated Statements of Operations (Unaudited) for the three months ended September 30, 2020 and 2019 (iii) Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended September 30, 2020 and 2019, (iv) Condensed Consolidated Statements of Stockholders' Equity (Unaudited) for the three months ended September 30, 2020 and 2019 and (v) the Notes to Condensed Consolidated Financial Statements (Unaudited). *

* Filed herewith

** Furnished herewith

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

November 5,
2020

Michael J. Koss
Chairman
Chief Executive Officer

/s/ David D. Smith

November 5,
2020

David D. Smith
Chief Financial Officer
Principal Accounting Officer

**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: November 5, 2020

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

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

I, David D. Smith, certify that:

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

Dated: November 5, 2020

/s/ David D. Smith
David D. Smith
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 September 30, 2020 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael J. Koss

Michael J. Koss

Chairman and Chief Executive Officer

Dated: November 5, 2020

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 September 30, 2020 (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

Chief Financial Officer

Dated: November 5, 2020

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.
