

Risk Factors Comparison 2024-08-30 to 2023-08-25 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text** Section

We are subject to various risks that may materially harm **adversely affect** our business, prospects, financial condition, and results of operations. ~~This discussion highlights some of~~, **including, but not limited to, the those set forth below** risks that may affect future operating results. These are the risks and uncertainties we believe are most important for you to consider. ~~We cannot~~, **however, there may be certain other risks** that we will successfully address **are currently deemed immaterial or not currently known to us that could materially impact these-- the business. If any of the following** risks, **or**. ~~If we are unable to address these those risks~~ **unidentified develop into actual events**, our business may not grow, our stock price may suffer, and we may be unable to stay in business. ~~Additional risks and uncertainties not presently known to us, which we currently deem immaterial, or which are similar to those faced by other companies in our industry or business in general, may also impair our business, prospects, results of operations and financial condition.~~ The risks discussed below include forward- looking statements, and our actual results may differ substantially from those discussed in these forward- looking statements. Risks Related to Our Operations and Financial Results The Company is dependent on the proper functioning of our contract manufacturers **in China**, our supply chain, and our distribution networks. Any disruptions could adversely affect our business, financial condition or results of operations. The Company relies on our third- party supply chain and distribution networks and the availability of necessary components to produce a **significant considerable** number of our products. A reduction or interruption in supply, including interruptions due to **possible future pandemic a reoccurrence of the COVID- 19 pandemic related restrictions**, geopolitical unrest, labor shortages or strikes, or a failure to procure adequate components, may lead to delays in manufacturing or increases in costs. ~~The Many of the~~ **Company uses' s products are sourced from** contract manufacturing facilities in the People' s Republic of China and Taiwan ~~to produce a significant amount of our products~~. There has been increasing geopolitical tension between China and Taiwan that may affect future shipments from Taiwan- based suppliers. Any other adverse changes in the social, political, regulatory or economic conditions in the countries could materially increase the cost of the products we buy **from our foreign suppliers** or delay shipments **of products**. There has also been increasing geopolitical tension between China and the United States. Sustained uncertainty about, or worsening of, economic relations and further escalation of trade tensions between the United States and China, or any other country in which the Company conducts business, could result in retaliatory trade restrictions that restrict our ability to source products from China or continue business in such other country. Any alterations to our business strategy or operations made in order to adapt to or comply with any such changes would be time- consuming and expensive, and the Company may not be able to pass along most increases in tariffs and freight charges to the Company' s customers, which would also directly affect profits. Our dependence on foreign suppliers for our products **also** necessitates ordering products further in advance than we would if manufactured domestically, thus increasing investments in inventory. Delays in receiving and shipping products due to interruptions in its supply chain would pose a risk of lower sales to the Company and the potential for price volatility, negatively impacting profits. Recovery of a single facility through replacement of a supplier in the event of a disaster or suspension of supply could take an estimated six to twelve months. ~~We In the past, we have experienced~~ **and may again in the future experience supplier price increases**, supply chain and shipping interruptions and constraints, volatility in demand for our products caused by sudden and significant changes in production levels by our suppliers, and disruptions in our manufacturing and supply arrangements caused by the loss or disruption of essential manufacturing and supply elements such as raw materials or other product components, transportation, work force, or force majeure events. ~~Our inability In April 2023, United Parcel Service (“ UPS ”) and the International Brotherhood of Teamsters Union (the “ Teamsters ”) started labor contract talks to negotiate better pay, no forced overtime and the elimination of a two- tier pay system. On July 25, 2023, UPS and the Teamsters reached a tentative five- year contract deal that would avert a nationwide strike. Also, since December 2022, when the U. S. government abated a threatened railroad strike and implemented a labor agreement that prohibited the workers from striking, some union leaders and railroad executives have voluntarily reopened the conversation around paid sick leave in hopes of negotiating an any of improvement. The Company continues to monitor both situations as ether strike in the these U. S. could potentially exacerbate disruptions in the supply chain and may lead to a material adverse impact on our business product shipments from suppliers and to customers, financial condition and resulting results of in increased operating operations costs and delays in product shipments. The Company also believes that the recent loss of Yellow freight lines to insolvency could impact carrier availability and increase freight costs. The Company had no material direct exposure to Yellow in 2023-. The current hostilities in Eastern Europe and the resulting economic sanctions imposed by the government have impacted the global economy. While we have no operations in Russia or Ukraine, we are unable to sell to certain of our customers that have been negatively impacted by in Russia as a result of this event. The continuation of the military conflict in Eastern Europe, as well as the tension in the Middle East, could lead to increased supply chain disruptions, inflationary pressures and volatility in global markets that could negatively impact our operations. The economies of Europe have also been impacted by these conflicts as a direct result of disruptions in transportation and the supply of energy, high food prices and tight credit. These factors can have a direct impact on the consumer' s ability to access and purchase the Company' s products. The Company continuously monitors its supply chain in order to modify business plans as may be necessary. This could include increasing the investment in inventory, being alert to potential short supply situations, assisting suppliers with acquisition of critical components critical components and utilizing alternative sources and / or air freight. However, these measures may entail additional costs to the Company and cannot guarantee that the Company will not be adversely affected by supply chain disruptions. Any disruption~~

to any link in the Company's supply or distribution chain can have a negative impact on results. Failure to attract and retain customers to sell the Company's products could adversely affect sales volume and future profitability. The Company markets a line of products used by consumers to listen to music. The Company distributes these products through large domestic distributors and some retail channels in the U. S. and independent distributors throughout the rest of the world. The Company is dependent upon its ability to attract and retain a base of customers to sell the Company's line of products. The Company has broad distribution across many channels including specialty stores, mass merchants, electronics stores and computer retailers. The Company may not be able to maintain customers or model selections and therefore may experience a reduction in its sales revenue until a model is restored to the mix or a lost customer is replaced by a new customer. The loss of business of one or more principal customers or a change in the sales volume from a particular customer could have a material adverse effect on the Company's sales volume and profitability. A shift in customer specifications to lower priced items can reduce profit margins, negatively impacting profitability. The Company sells lines of products with suggested retail prices ranging from less than \$ 10 up to \$ 1, 000. The gross margin for each of these models varies in terms of percentages. The Company finds the low- priced portion of the market most competitive and therefore most subject to pressure on gross margin percentages, which tends to lower profit contributions. Therefore, a shift in customer specifications and preferences toward lower priced items could lead to lower gross margins and lower profit contributions per unit of sale. Due to the range of products that the Company sells, the product sales mix can produce a variation in profit margins. Some distributors sell a limited range of products that yield lower profit margins than others. Most notably, the budget- priced stereo headphone segment of the market (below \$ 10 retail), which is distributed through mass market retailers, computer stores, and office supply stores and to school systems, tends to yield the lowest gross margins. An increase in business with these types of accounts, if coupled with a simultaneous reduction in sales to customers with higher gross margins, would reduce profit margins and profitability. If we are unable to continue to develop innovative and popular products, our brand image may be harmed and demand for our products may decrease. Consumer electronics are subject to constantly and rapidly changing consumer preferences based on industry trends and performance features, including technological advancement. Our success depends largely on our ability to lead, anticipate, gauge and respond to these changing consumer preferences and trends in a timely manner, while preserving and strengthening the perception and authenticity of our brand. We must continue to develop high performance products that provide better design and performance attributes than the products of our competitors at similar price points. Market acceptance of new designs and products is subject to uncertainty, and we cannot assure you that our efforts will be successful. ~~The inability of new product designs or new product lines to gain market~~ **Market** acceptance, or our current products losing traction in the market, could adversely affect our brand image, our business and financial condition. Achieving market acceptance for new products may also require substantial marketing efforts and expenditures to increase consumer demand, which could constrain our management, financial and operational resources. If new **designs and** products we introduce do not **experience gain** broad market acceptance or demand for our existing products wanes, our ~~net sales~~, **brand image, business and financial condition** could ~~decline~~ **be adversely affected**. We may not be able to compete effectively, which could cause our net sales and market share to decline. The consumer electronics industry is highly competitive, and characterized by frequent introduction of new competitors, as well as increased competition from established companies expanding their product portfolio, aggressive price cutting and resulting downward pressure on gross margins and rapid consolidation of the market resulting in larger competitors. We face competition from consumer electronics brands that have historically dominated the stereo headphone market, in addition to sport brands ~~and~~, lifestyle companies **and consumer electronics giants** that also **source or** produce headphone products. These competitors may have significant competitive advantages, including greater financial, **engineering,** distribution, ~~and~~ marketing ~~and other~~ resources, longer operating histories, better brand recognition among certain groups of consumers, and greater economies of scale. In addition, these competitors **often** have long- term relationships with many larger retailers that are potentially more important to those retailers. As a result, these competitors may be better equipped to influence consumer preferences or otherwise increase their market share by: quickly adapting to changes in consumer preferences; readily taking advantage of acquisition and other opportunities; discounting excess inventory; devoting greater resources to the marketing and sale of their products, including significant advertising, media placement and product endorsement; adopting aggressive pricing policies; and engaging in lengthy and costly intellectual property and other legal disputes. Additionally, the industry in which we compete generally has low barriers to entry that allow the introduction of new products or new competitors at a fast pace. If we are unable to protect our brand image and authenticity, while carefully balancing our growth, we may be unable to effectively compete with these new market entrants or new products. The inability to compete effectively against new and existing competitors could have an adverse effect on our net sales and results of operations, preventing us from achieving future growth. If we are unable to obtain intellectual property rights and / or enforce those rights against third parties who are violating those rights, our business could suffer. We rely on various intellectual property rights, including patents, trademarks, trade secrets and trade dress to protect our brand name, reputation, product appearance and technology. If we fail to obtain, maintain, or in some cases enforce our intellectual property rights, our competitors may be able to copy our designs, or use our brand name, trademarks, or technology. As a result, if we are unable to successfully protect our intellectual property rights, or resolve any conflicts effectively, our results of operations may be harmed. Regardless of the merits of the claims, litigation may be expensive, time- consuming, and disruptive to our operations and distracting to management. If resolved against us, such legal proceedings could result in excessive verdicts, injunctive relief or other equitable relief that may affect how we operate our business. Similarly, if we settle such legal proceedings, it may negatively affect how we operate our business. In connection with its ongoing intellectual property enforcement program, which includes lawsuits alleging infringement of patents relating to its wireless audio technology, the Company has granted licenses covering certain Company patents. Other similar complaints filed remain outstanding. As all litigation is uncertain, there can be no assurance that any of this remaining or future litigation will be decided in our favor. We may be adversely affected by the financial condition of our retailers and distributors. **We**

depend on, and expect to continue to depend on, sales to several significant distributors and retailers. Some of **them may** ~~our retailers and distributors are experiencing~~ **experience** financial difficulties because of current **or future** adverse economic conditions. A retailer or distributor experiencing such difficulties generally will not purchase and sell as many of our products as it would under normal circumstances and may cancel orders. In addition, a retailer or distributor experiencing financial difficulties generally increases our exposure to uncollectible receivables. We extend credit to our retailers and distributors based on our assessment of their financial condition, generally without requiring collateral, and sometimes are not able to obtain information regarding their current financial status. Failure of these retailers or distributors to remain current on their obligations to us could result in losses that exceed the reserves we set aside in anticipation of this risk. We are also exposed to the risk of our customers declaring bankruptcy, exposing us to claims of preferential payment claims. **Any loss, cancellation** ~~Financial difficulties on the part of our~~ **or reduction of purchases by these distributors or** ~~retailers may~~ **retailers may** ~~or distributors could~~ have a material adverse effect on our **business results of operations and financial condition**. Direct-to-Consumer sales through the Amazon marketplace account for a significant amount of our net sales and the loss of, or reduced purchases from, this sales channel could have a material adverse effect on our operating results. Our largest concentration of sales in fiscal year **2023-2024** came from our DTC sales via the Amazon portal and accounted for more than **17 % and 20 % and 16 %** of our net sales in fiscal years **2024 and 2023 and 2022**, respectively. We do not have long-term contracts to conduct sales through the Amazon portal or for sales to any of our customers, and all of our customers generally purchase from us on a purchase order basis. As a result, Amazon or any other customer generally may, with no notice or penalty, cease ordering and selling our products, or materially reduce their orders. If certain customers, individually or in aggregate, choose to no longer sell our products, slow their rate of purchase of our products or decrease the number of unique products they purchase, our results of operations would be adversely affected. Our products may experience quality problems from time to time that can result in decreased sales and operating margin and harm to our reputation. We offer products that can be affected by design and manufacturing defects. Defects can also exist in components used for our products. Component defects could make the Company's products unsafe and create a risk of property damage and personal injury. There can be no assurance the Company will be able to detect all issues and defects in the products it offers. Failure to do so can result in widespread technical and performance issues affecting the Company's products. In addition, the Company can be exposed to product liability claims, recalls, product replacements or modifications, write-offs of inventory, property, plant, and equipment, and / or intangible assets, and significant warranty and other expenses, including litigation costs and regulatory fines. Quality problems can also adversely affect the experience for users of the Company's products, and result in harm to the Company's reputation, loss of competitive advantage, poor market acceptance, reduced demand for products, delay in new product introductions and lost sales. An information systems interruption, **cyberattack** or breach in security could adversely affect **our business us**. ~~Privacy, security, and compliance concerns have continued to increase as technology has evolved~~. We rely on accounting, financial, and operational management information systems to conduct our operations. Any disruption in these systems could adversely affect our ability to conduct our business. Furthermore, as part of our normal business activities, we collect and store common confidential information about customers, employees, vendors, and suppliers. This information is entitled to protection under a number of regulatory regimes. Any failure to maintain the security of the data, including the penetration of our network security and the misappropriation of confidential and personal information, could result in business disruption, damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and also result in deterioration in customers confidence in us and other competitive disadvantages, and thus could have a material adverse impact on our financial condition and results of operations. **Cyberattacks are a growing geopolitical risk, becoming larger, more frequent, more sophisticated and more relentless as technology has evolved, resulting in privacy, security, and compliance concerns. They are a significant threat to individual organizations and national security**. High-profile security breaches at other companies and in government agencies have increased in recent years, and security industry experts and government officials have warned about the risks of hackers and **cyberattacks** ~~cyber-attacks~~ targeting businesses. ~~Cyberattacks are becoming more sophisticated and frequent, and in some cases have caused significant harm. Computer hackers and others routinely attempt to breach the security of technology products, services, and systems, and to fraudulently induce employees, customers, or others to disclose information or unwittingly provide access to systems or data~~. While we devote resources to security measures to protect our systems and data, these measures cannot provide absolute security. **The investor must also recognize the risk that these types of attacks might have on the entire supply and distribution chain for the Company's product line. In a world that runs on the internet, the Company can only be as strong as its weakest link, whether as a financial service provider, third party distributor, reseller, transportation service provider, contract manufacturer, customer or consumer**. Changes in tax laws and unanticipated tax liabilities could adversely affect our effective income tax rate and profitability. We are subject to income taxes in the United States. Our effective income tax rate could be adversely affected in the future by several factors, including changes in the valuation of deferred tax assets and liabilities and changes in tax laws. We regularly assess all of these matters to determine the adequacy of our tax provision. If our tax strategies are ineffective or we are not in compliance with domestic and international tax laws, our financial position, operating results, and cash flows could be adversely affected. Our business, financial condition and results of operations may be adversely impacted by the effects of inflation. Inflation has the potential to adversely affect our business, financial condition and results of operations by increasing our overall cost structure, particularly if we are unable to achieve commensurate increases in the prices we charge our customers. The Company continues to experience inflationary cost **increases pressures** in our commodities, packaging materials, wages and higher energy and transportation costs, thus potentially impacting our ability to meet customer demand. **We attempt to mitigate** ~~These these~~ **increases through** ~~have been partially mitigated by~~ **pricing strategies** ~~actions implemented in the third quarter of the current fiscal year~~, as well as working with a dedicated freight forwarding partner to minimize freight rate increases. Inflation may impact customer demand for our products resulting from a

slowdown in consumer spending as disposable income decreases due to rising interest rates, the price of essential items, **availability of credit** and dwindling savings. Other risk factors further exacerbated by inflation include supply chain disruptions, **increased oil and energy costs**, risks of international operations and the recruitment and retention of talent. Risks Related to our International Operations Economic regulation, trade restrictions, and increasing manufacturing costs in China could adversely impact our business and results of operations. The Company uses contract manufacturing facilities in the People's Republic of China. ~~An increase in the cost of labor or taxes on wages in China may lead to an increase in the cost of goods manufactured in China.~~ Significant increases in wages or wage taxes paid by contract manufacturing facilities may increase the cost of goods manufactured in China which could have a material adverse effect on the Company's profit margins and profitability. Additionally, government trade policies, including the imposition of tariffs, export restrictions, sanctions or other retaliatory measures, as described above under "The Company is dependent on the proper functioning of our contract manufacturers in China, our supply chain, and our distribution networks. Any disruptions could adversely affect our business, financial condition or results of operations.," could limit our ability to source materials and products from China at acceptable prices or at all. We do not currently have arrangements with contract manufacturers in other countries that may be acceptable substitutes. We cannot predict what actions may ultimately be taken with respect to tariffs, export controls, countermeasures, or other trade measures between the U. S. and China or other countries and what products may be subject to such actions. To the extent such actions inhibit our transactions with contract manufacturing facilities and suppliers in China, our business may be materially adversely affected. ~~The ongoing war~~ **Geopolitical conflicts including those** between Russia and Ukraine, **those occurring in the Middle East and other similar conflicts** could adversely affect our business, financial condition, and results of operations. ~~In~~ **Financial and credit markets around the world experienced volatility following the invasion of Ukraine by Russia in February 2022, Russian military forces invaded Ukraine, resulting in an ongoing military conflict between the two countries. The length, impact and outcome of the ongoing conflict is highly unpredictable and the conflict has caused, and has expected to continue to cause, global political, economic and social instability, volatility in commodity prices and energy prices, increased cyberattacks and disruptions to the global economy, international trade and global supply chain. In** ~~response~~ **response** to the invasion, the United States, United Kingdom, and European Union, along with others, imposed significant sanctions and export controls against Russia, Russian banks and certain Russian individuals and may implement additional sanctions or take further punitive actions in the future. In accordance with Executive Order 14071 signed on April 6, 2022, the Company suspended sales to Russia **at that time**. Also, as a result of the humanitarian crisis in Ukraine created by the war and the population seeking refuge in other countries, sales to Ukraine ~~were have been~~ impacted. There have been no sales to Russia ~~or Ukraine~~ during the fiscal ~~year~~ **years** ended June 30, **2024 and 2023** and such, **however**, sales ~~consisted to Ukraine resumed during the current fiscal year with more expected in the future. Prior to the imposition of the sanctions against Russia, sales to Russia approximately approximated 23.4% of net the Company's total sales. On October 7 for the year ended June 30, 2022-2023. Although, Hamas launched attacks on civilian and military targets in Southern and Central Israel, to which the Israel Defense Forces responded. In addition, Hezbollah has launched attacks on Northern Israel, to which Israel also responded. The conflict has negatively impacted transportation in the region and the supply of energy. The length, impact and outcome severity of the conflict is unknown at this time unpredictable, the war has already contributed to market and other disruptions, including volatility in commodity prices, supply and prices of energy, disrupted supply chains, political and social instability as well as an and increase any continuation of the clash may escalate in cyberattacks the future into a greater regional conflict.~~ We are **unable to predict** uncertain, however, of the impact ~~it the above conflicts~~ will have on our **business, financial condition and** results of operations for the future in the region. We ~~are continue to~~ actively ~~monitoring~~ **monitor** the ~~conflict~~ **conflicts** and will report on **any adverse effects** its impact on our ~~business, financial condition, and results of operations~~ as necessary as developments occur. We may be subject to risks related to doing business in, and having counterparties based in, foreign countries. We engage in operations, and enter into agreements with counterparties, located outside the U. S., which exposes us to political, governmental, and economic instability and foreign currency exchange rate fluctuations. Any disruption caused by these factors could harm our business, results of operations, financial condition, liquidity, and prospects. Risks associated with potential operations, commitments, and investments outside of the U. S. include but are not limited to risks of: [?] global and local economic, social and political conditions and uncertainty; [?] currency exchange restrictions and currency fluctuations; [?] export and import duties; [?] war, such as the invasion of Ukraine by Russia, **military conflicts in the Middle East** or terrorist attack; [?] local outbreak of disease **or pandemic**, such as ~~COVID-19~~; [?] renegotiation or nullification of existing contracts or international trade arrangements; [?] labor market conditions and workers' rights affecting our manufacturing operations or those of our customers; [?] macro- economic conditions impacting key markets and sources of supply; [?] changing laws and policies affecting trade, taxation, financial regulation, immigration, and investment; [?] compliance with laws and regulations that differ among jurisdictions, including those covering taxes, intellectual property ownership and infringement, imports and exports, anti- corruption, and anti- bribery, antitrust and competition, data privacy, and environment, health, and safety; and [?] general hazards associated with the assertion of sovereignty over areas in which operations are conducted, transactions occur, or counterparties are located. Fluctuations in currency exchange rates could affect the Company's financial results and operations, including with respect to pricing of products and overall demand for the Company's products. The Company receives a material portion of its sales and profits from business in Europe. To the extent that the value of the U. S. dollar increases relative to currencies in those jurisdictions, it increases the cost of the Company's products in those jurisdictions, which could create negative pressure on the foreign demand for the Company's products. The Company is paid by its international customers in U. S. dollars. ~~Fe~~ **Volatility in the extent that exchange rates between the foreign currencies and the U. S. dollar could result in** increased prices, a **arising from currency fluctuations** decrease **in** the overall demand for the Company's products or **motivate lead** customers to purchase lower- priced, lower profit products **and**, **as such, could have an adverse effect on** the Company's **sales business**,

profits, financial condition and results of operations cash flows could be adversely affected. Risks Related to our Stock Our stock price has been, and may in the future, be subject to significant fluctuations and volatility. The market price of our stock is subject to price volatility. Additionally, over the years, the Company, the technology industry, and the stock market as a whole have experienced extreme stock price and volume fluctuations that have affected stock prices in ways that may have been unrelated to companies' operating performance. Factors such as the depth and liquidity of the market for our common stock, investor perceptions of us and our business, actions by institutional shareholders, strategic actions by us, litigation, changes in accounting standards, policies, guidance, interpretations and principles, additions or departures of key personnel, a decline in demand for our products and our results of operations, financial performance and future prospects may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from realizing the liquidity of their shares. During the fiscal year ended June 30, 2023-2024, the sales price of our common stock fluctuated between a reported high sales price of \$ 11-6, 20-95 on July 25-May 14, 2022-2024 and a reported low sales price of \$ 3-2, 56-27 on June 23-April 17, June 26, and June 27, 2023-2024. The trading volume in shares of our common stock can also vary widely. For example, during the most recent fiscal year, daily trading volume ranged from a low of 3-2, 200-000 shares on April 6-30, 2023-2024 to a high of 7-19, 202-694, 400-200 on July 25-May 14, 2022-2024. Our market capitalization, as implied by various trading prices, can reflect valuations that diverge significantly from those seen prior to volatility and, to the extent these valuations reflect trading dynamics unrelated to our financial performance or prospects, purchasers of our common stock could incur substantial losses if there are declines in market prices driven by a return to earlier valuations. As a result of this volatility, investors may experience losses on their investment in our common stock. A "short squeeze" due to a sudden increase in demand for shares of our common stock that largely exceeds supply could lead to extreme price volatility in shares of our common stock. In the past, securities of certain companies have experienced significant and extreme volatility in stock price due to a sudden increase in demand for stock resulting in aggregate short positions in the stock exceeding the number of shares available for purchase, forcing investors with short exposure to pay a premium to repurchase shares for delivery to share lenders. This is known as a "short squeeze." These short squeezes can lead to the price per share of those companies to trade at a significantly inflated rate that is disconnected from the underlying value of the company. Trading by short sellers may increase the likelihood that our common stock will be the target of a short squeeze. A short squeeze could lead to volatile price movements in shares of our common stock that are unrelated or disproportionate to our operating performance or prospects and, once investors purchase the shares of our common stock necessary to cover their short positions, the price of our common stock may rapidly decline. Stockholders that purchase shares of our common stock during a short squeeze may lose a significant portion of their investment. The Koss family, including certain members of our management, owns a significant percentage of our stock and, as a result, the trading price for our shares may be depressed and they can take actions that may be adverse to the interests of our stockholders. Michael Koss, our President and Chief Executive Officer, beneficially owned 4, 153-018, 410 shares of our common stock as of August 1, 2023-2024, representing 43-42, 7-5% of shares outstanding on such date, including shares held by a voting trust over which Mr. Koss holds sole voting and dispositive power. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors may perceive disadvantages in owning stock in companies with a large stockholder, since such a stockholder can significantly influence all matters requiring approval by our stockholders, including the election and removal of directors and any proposed merger, consolidation or sale of all or substantially all of our assets. In addition, due to his significant ownership stake and his service as our Principal Executive Officer and Chairman of the Board of Directors, Michael Koss directs the management of our business and affairs. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control, or impeding a merger or consolidation, takeover or other business combination that could be favorable to our other stockholders. Future sales of a substantial amount of our common stock in the public markets by our insiders, or the perception that these sales may occur, may cause the market price of our common stock to decline. Our employees, directors and officers, and their affiliates collectively hold substantial amounts of shares of our common stock and have vested options for the purchase of our common stock. Sales of a substantial number of such shares by these stockholders, or the perception that such sales will occur, may cause the market price of our common stock to decline. Other than restrictions on trading that arise under securities laws (or pursuant to our securities trading policy that is intended to facilitate compliance with securities laws), including the prohibition on trading in securities by or on behalf of a person who is aware of nonpublic material information, we have no restrictions on the right of our employees, directors and officers, and their affiliates, to sell their unrestricted shares of common stock.