

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, 1999
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)

A DELAWARE CORPORATION

39-1168275

(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

4129 North Port Washington Avenue, Milwaukee, Wisconsin 53212

(Address of principal executive office) (Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

At September 30, 1999, there were 2,670,369 shares outstanding of the Registrant's common stock, \$0.01 par value per share.

KOSS CORPORATION AND SUBSIDIARIES
FORM 10-Q
September 30, 1999

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KOSS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 1999 (Unaudited)	June 30, 1999 (*)
ASSETS		
Current Assets:		
Cash	\$2,081,607	\$1,171,504
Accounts receivable	8,031,863	7,407,539
Inventories	12,163,224	12,955,118
Income taxes receivable	295,402	266,329
Other current assets	937,913	867,846
Total current assets	23,510,009	22,668,336
Property and Equipment, net	1,774,518	1,869,598
Intangible and Other Assets	1,179,114	1,183,762
	\$26,463,641	\$25,721,696
=====		
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current Liabilities:		
Accounts payable	\$ 786,825	\$ 791,785
Accrued liabilities	1,158,991	891,392
Total current liabilities	1,945,816	1,683,177
Deferred Compensation and Other Liabilities	1,396,354	1,367,584
Contingently Redeemable Equity Interest	1,490,000	1,490,000
Stockholders' Investment	21,631,471	21,180,935
	\$26,463,641	\$25,721,696
=====		

* The balance sheet at June 30, 1999 has been prepared from the audited financial statements at that date.

See accompanying notes.

KOSS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

Three Months Ended September 30	1999	1998
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Net sales	\$ 8,393,253	\$ 9,031,043
Cost of goods sold	4,913,277	5,058,104
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Gross profit	3,479,976	3,972,939
Selling, general and administrative expense	1,830,587	2,056,767
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Income from operations	1,649,389	1,916,172
Other income (expense)		
Royalty income	274,632	253,314
Interest income	16,799	3,938
Interest expense	--	(50,950)
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Income before income tax provision	1,940,820	2,122,474
Provision for income taxes	757,203	831,013
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Net income	\$ 1,183,617	\$ 1,291,461
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Earnings per common share:		
Basic	\$0.44	\$0.41
Diluted	\$0.43	\$0.40
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Dividends per common share	None	None
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See accompanying notes.

KOSS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Three Months Ended September 30	1999	1998

CASH FLOWS FROM OPERATING		
ACTIVITIES:		
Net income	\$ 1,183,617	\$ 1,291,461
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	207,511	173,638
Deferred compensation	28,770	28,770
Net changes in operating assets and liabilities	340,450	29,227

Net cash provided by operating activities	1,760,348	1,523,096

CASH FLOWS FROM INVESTING		
ACTIVITIES:		
Acquisition of equipment and leasehold improvements	(117,163)	(139,826)

Net cash used in investing activities	(117,163)	(139,826)

CASH FLOWS FROM		
FINANCING ACTIVITIES:		
Repayments under line of credit agreements	--	(7,610,000)
Borrowings under line of credit agreements	--	6,231,000
Purchase and retirement of common stock	(806,563)	--
Exercise of stock options	73,481	--

Net cash used in financing activities	(733,082)	(1,379,000)

Net increase in cash	910,103	4,270
Cash at beginning of year	1,171,504	14,778
=====		
Cash at end of period	\$ 2,081,607	\$ 19,048
=====		

See accompanying notes.

KOSS CORPORATION AND SUBSIDIARIES
September 30, 1999
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The financial statements presented herein are based on interim amounts and are subject to audit. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows at September 30, 1999 and for all periods presented have been made. The income from operations for the quarter ended September 30, 1999 is not necessarily indicative of the operating results for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Registrant's June 30, 1999, Annual Report on Form 10-K.

2. EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE

Basic earnings per share are computed based on the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the quarters ending September 30, 1999 and 1998 were 2,686,791 and 3,177,269, respectively. When dilutive, stock options are included as share equivalents using the treasury stock method. Common stock equivalents of 58,526 and 38,769 related to stock option grants were included in the computation of the average number of shares outstanding for diluted earnings per share for the quarters ended September 30, 1999 and 1998, respectively.

3. INVENTORIES

The classification of inventories is as follows:

	September 30, 1999	June 30, 1999
Raw materials and work in process	\$4,421,925	\$4,642,396
Finished goods	8,802,568	9,334,805
	13,224,493	13,977,201
LIFO Reserve	(1,061,269)	(1,022,083)
	\$12,163,224	\$12,955,118

4. STOCK PURCHASE AGREEMENT

The Company has an agreement with its Chairman to repurchase stock from his estate in the event of his death. The repurchase price is 95% of the fair market value of the common stock on the date that notice to repurchase is provided to the Company. The total number of shares to be repurchased shall be sufficient to provide proceeds which are the lesser of \$2,500,000 or the amount of estate taxes and administrative expenses incurred by his estate. The Company is obligated to pay in cash 25% of the total amount due and to execute a promissory note at the prime rate of interest for the balance. The Company maintains a \$1,150,000 life insurance policy to fund a substantial portion of this obligation. At September 30, 1999 and June 30, 1999, \$1,490,000 has been classified as a Contingently Redeemable Equity Interest reflecting the estimated obligation in the event of execution of the agreement.

5. DEFERRED COMPENSATION

In 1991, the Board of Directors agreed to continue John C. Koss' current base salary in the event he becomes disabled prior to age 70. After age 70, Mr. Koss shall receive his current base salary for the remainder of his life, whether or not he becomes disabled. The Company is currently recognizing an annual expense of \$115,080 in connection with this agreement, which represents the present value of the anticipated future payments. At September 30, 1999 and June 30, 1999, respectively, the related liabilities in the amounts of \$910,230 and \$881,460 have been included in deferred compensation on the accompanying balance sheets.

KOSS CORPORATION AND SUBSIDIARIES
FORM 10-Q - September 30, 1999
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition and Liquidity

Cash generated by operating activities during the three months ended September 30, 1999 amounted to \$1,760,348. Working capital was \$21,564,193 at September 30, 1999, an increase of \$579,034 from the balance at June 30, 1999. The cash necessary to fund the Company's operating activities fluctuates from time to time; however, as a general rule, the Company expects to generate adequate amounts of cash to meet future operating needs. The Company maintains sufficient borrowing capacity to fund any shortfall.

Capital expenditures for new property and equipment (including production tooling) were \$117,163 for the quarter. Budgeted capital expenditures for fiscal year 2000 are \$832,100. The Company expects to generate sufficient operating funds to fulfill these expenditures.

Stockholders' investment increased to \$21,631,471 at September 30, 1999, from \$21,180,935 at June 30, 1999. The increase reflects the effect of net income, the purchase and retirement of common stock, and the exercise of stock options for the quarter.

The Company amended its existing credit facility in April 1999, extending the maturity date of the unsecured line of credit to November 1, 2000. This credit facility provides for borrowings up to a maximum of \$10,000,000. The Company can use this credit facility for working capital purposes or for the purchase of its own stock pursuant to the Company's stock repurchase program. This credit facility was increased from \$8,000,000 to \$10,000,000 as a result of combining the Company's \$8,000,000 working capital credit facility with the Company's \$2,000,000 stock repurchase credit facility. Borrowings under this credit facility bear interest at the bank's prime rate, or LIBOR plus 1.75%. This credit facility includes certain financial covenants that require the Company to maintain a minimum tangible net worth and specified current, interest coverage, and leverage ratios. There was no utilization of this credit facility at September 30, 1999.

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. In January of 1996, the Board of Directors approved an increase in the stock repurchase program from \$2,000,000 to \$3,000,000. In July of 1997, the Board of Directors again approved an increase in the stock repurchase program from \$3,000,000 to \$5,000,000. In January of 1998, the Board of Directors approved an increase of an additional \$2,000,000, increasing the total stock repurchase program from \$5,000,000 to \$7,000,000. In August of 1998, the Board of Directors approved an increase of \$3,000,000 in the Company's stock repurchase program, increasing the total amount of stock repurchases from \$7,000,000 to \$10,000,000. In April of 1999, the Board of Directors again approved an increase in the stock repurchase program from \$10,000,000 to \$15,000,000. In October of 1999, the Board of Directors further increased the

stock repurchase program by \$5,000,000 to a maximum of \$20,000,000. The Company intends to effectuate all stock purchases either on the open market or through privately negotiated transactions, and intends to finance all stock purchases through its own cash flow or by borrowing for such purchases. For the quarter ended September 30, 1999, the Company purchased 68,250 shares of its common stock at an average gross price of \$13.62 per share (and an average net price of \$12.35 per share), and retired all such shares.

From the commencement of the Company's stock repurchase program through September 30, 1999, the Company has purchased and retired a total of 1,448,248 shares for a total gross purchase price of \$15,974,888 (representing an average gross purchase price of \$11.03 per share) and a total net purchase price of \$13,181,116 (representing an average net purchase price of \$9.10 per share). The difference between the total gross purchase price and the total net purchase price is the result of the Company purchasing from certain employees shares of the Company's stock acquired by such employees pursuant to the Company's stock option program. In determining the total dollar amount available for purchases under the stock repurchase program, the Company uses the total net purchase price paid by the Company for all stock purchases, as authorized by the Board of Directors.

The Company also has an Employee Stock Ownership and Trust ("ESOP") pursuant to which shares of the Company's stock are purchased by the ESOP for allocation to the accounts of ESOP participants. For the quarter ended September 30, 1999, the ESOP did not purchase any shares of the Company's stock.

Results of Operations

Net sales for the quarter ended September 30, 1999 were \$8,393,253 compared with \$9,031,043 for the same period in 1998, a decrease of \$637,790.

Gross profit as a percent of net sales was 41% for the quarter ended September 30, 1999 compared with 44% in the prior year. This decrease is primarily due to a change in product mix.

Selling, general and administrative expenses for the quarter ended September 30, 1999 were \$1,830,587 or 22% of net sales, as against \$2,056,767 or 23% of net sales for the same period in 1998.

For the quarter ended September 30, 1999, income from operations was \$1,649,389 versus \$1,916,172 for the same period in 1998, a decrease of \$266,783.

Interest expense amounted to \$0 for the quarter as compared to \$50,950 for the same period in the prior year. This decrease is a result of no borrowing activity for the quarter as compared to the same period last year.

The Company has a License Agreement with Jiangsu Electronics Industries Limited ("Jiangsu"), a subsidiary of Orient Power Holdings Limited, by way of an assignment of a previously existing License Agreement with Trabelco N.V. Orient Power is based in Hong Kong and has an extensive portfolio of audio and video products. This License Agreement covers North America,

Central America, and South America. Pursuant to this License Agreement, Jiangsu has agreed to make royalty payments through December 31, 2000, subject to certain minimum royalty amounts due each year. The products covered by this License Agreement include various consumer electronics products. This License Agreement is subject to renewal for additional 3 year periods.

Effective July 1, 1998, the Company entered into a License Agreement and an Addendum thereto with Logitech Electronics Inc. ("Logitech") of Ontario, Canada whereby the Company licensed to Logitech the right to sell multimedia/computer speakers under the Koss brand name. This License Agreement covers North America and certain countries in South America and Europe. This License Agreement extends for 5 years and includes a 5 year renewal option at the Company's discretion. This License Agreement requires royalty payments by Logitech through June 30, 2003, subject to certain minimum royalty amounts due each year.

Year 2000

The Company has implemented a comprehensive Year 2000 initiative to identify and address issues associated with the Year 2000. A team of internal staff is managing the initiative, along with the assistance of outside consultants.

The Company has completed the assessment phase of both its information technology and non-information technology systems associated with the Year 2000. The assessment indicated that several of the Company's systems would be vulnerable to Year 2000 issues. The Company is in the process of remedying the systems identified as vulnerable during the assessment phase. The Company does not, however, anticipate any material adverse effects with respect to its ability to deliver product to customers.

The Company has been working with its significant suppliers and financial institutions to ascertain their Year 2000 readiness and whether or not those parties have appropriate plans to remedy Year 2000 issues with their systems that may impact the Company's operations. The Company has communicated in writing, a Year 2000 compliance letter and survey, to all of its customers with annual sales greater than \$10,000 as well as to the Company's significant suppliers and vendors.

The Company's Year 2000 initiative is expected to be completed prior to December 31, 1999. The Company has not identified a need to develop an extensive contingency plan for non-remedied Year 2000 issues. In the event of any adverse conditions caused by unforeseen Year 2000 issues, the Company will devote the necessary resources to resolve any significant Year 2000 issues in a timely manner. Based on responses received to date, the Company is not anticipating any significant problems with its customers, suppliers, or vendors as a result of the Year 2000.

The Company's assessments to date indicate the cost of the Year 2000 initiative is estimated to be \$80,000.

The statements set forth above with respect to Year 2000 issues are forward-looking statements and are based on the Company's best estimates. Factors that may cause the actual results to differ include the availability and retention of skilled professionals and the ability to identify and respond to all Year 2000 issues.

PART II OTHER INFORMATION

Item 4 Submission of Matters to Vote of Security-Holders

- (a) On October 21, 1999 an Annual Meeting of Stockholders was held.
- (b) Proxies for the election of directors were solicited pursuant to Regulation 14. There was no solicitation in opposition to management's nominees, and all such nominees were elected.
- (c) There were 2,682,669 shares of common stock eligible to vote at the Annual Meeting, of which 2,450,924 shares were present at the Annual Meeting in person or by proxy, which constituted a quorum. The following is a summary of the results of the voting:

	Number of Votes		Broker
	For	Withheld	Non-Votes
Nominees for 1-year terms ending in 2000:			
John C. Koss	2,420,167	30,757	0
Thomas L. Doerr	2,420,491	30,433	0
Victor L. Hunter	2,420,304	30,620	0
Michael J. Koss	2,420,357	30,567	0
Lawrence S. Mattson	2,420,289	30,635	0
Martin F. Stein	2,421,657	29,267	0
John J. Stollenwerk	2,421,486	29,438	0

	Number of Votes			Broker
	For	Against	Abstain	Non-Votes
Appointment of PricewaterhouseCoopers LLP as independent auditors for the year ended June 30, 2000	2,424,394	2,233	24,297	0

Item 6 Exhibits and Reports on Form 8-K

- (a) Exhibits Filed
27 Financial Data Schedule
- (b) Reports on Form 8-K
There were no reports on Form 8-K filed by the Company during the period covered by this report.

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 authorized.

KOSS CORPORATION

Dated: /s/ Michael J. Koss

Michael J. Koss
Vice Chairman, President,
Chief Executive Officer,
Chief Financial Officer

Dated: /s/ Sue Sachdeva

Sue Sachdeva
Vice President--Finance

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 authorized.

KOSS CORPORATION

Dated: -----

Michael J. Koss
Vice Chairman, President,
Chief Executive Officer,
Chief Financial Officer

Dated: -----

Sue Sachdeva
Vice President--Finance

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