SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 1998

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 incorporation or organization)	(I.R.S. Employer Identification No.)

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, 1998, there were 3,177,269 shares outstanding of the Registrant's common stock, $0.01 par value per share.

KOSS CORPORATION AND SUBSIDIARIES
FORM 10-Q
September 30, 1998

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KOSS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 1998 (Unaudited)	June 30, 1998 (*)
ASSETS		
Current Assets:		
Cash	$ 19,048	$ 14,778
Accounts receivable	9,950,184	8,387,839
Inventories	16,177,331	19,486,058
Other current assets	1,232,891	1,104,838
Total current assets	27,379,454	28,993,513
Property and Equipment, net	2,035,788	2,062,531
Intangible and Other Assets	965,655	772,725
	$30,380,897	$32,028,769
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current Liabilities:		
Accounts payable	$ 1,003,312	$ 1,956,877
Accrued liabilities	1,066,429	1,314,701
Income taxes payable	290,261	677,527
Total current liabilities	2,360,002	3,949,105
Long-Term Debt	1,367,000	2,746,000
Deferred Compensation and Other Liabilities	1,281,274	1,252,504
Contingently Redeemable Equity Interest	1,490,000	1,490,000
Stockholders' Investment	23,882,621	22,591,160
	$30,380,897	$32,028,769

* The balance sheet at June 30, 1998, 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	1998	1997
Net sales	$ 9,031,043	$11,755,125
Cost of goods sold	5,058,104	7,330,668
Gross profit	3,972,939	4,424,457
Selling, general and administrative expense	2,056,767	2,201,168
Income from operations	1,916,172	2,223,289
Other income (expense)		
Royalty income	253,314	170,296
Interest income	3,938	3,938
Interest expense	(50,950)	(20,356)
Income before income tax provision	2,122,474	2,377,167
Provision for income taxes	831,013	975,744
Net income	$ 1,291,461	$ 1,401,423
Earnings per common share:		
Basic	$0.41	$0.42
Diluted	$0.40	$0.41
Dividends per common share	None	None

See accompanying notes.

KOSS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Three Months Ended September 30	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,291,461	$ 1,401,423
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	173,638	216,312
Deferred compensation	28,770	28,770
Net changes in operating assets and liabilities	29,227	301,133
Net cash provided by operating activities	1,523,096	1,947,638
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of equipment and leasehold improvements	(139,826)	(22,619)
Net cash used in investing activities	(139,826)	(22,619)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments under line of credit agreements	(7,610,000)	(4,716,000)
Borrowings under line of credit agreements	6,231,000	4,940,000
Purchase and retirement of common stock	--	(4,763,844)
Exercise of stock options	--	2,681,050
Net cash used in financing activities	(1,379,000)	(1,858,794)
Net increase in cash	4,270	66,225
Cash at beginning of year	14,778	32,551
Cash at end of quarter	$ 19,048	$ 98,776

See accompanying notes.

KOSS CORPORATION AND SUBSIDIARIES
September 30, 1998
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, 1998 and for all periods presented have been made. The income from operations for the quarter ended September 30, 1998 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, 1998, Annual Report on Form 10-K.

2. EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 128, "Earnings per Share," (SFAS 128). This Statement establishes new standards for computing and presenting earnings per share. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997 and requires restatement of all prior-period earnings per share data. The Company's adoption of the provisions of SFAS 128 resulted in the dual presentation of basic and diluted per share amounts on the Company's income statement.

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, 1998 and 1997 were 3,177,269 and 3,342,486, respectively. When dilutive, stock options are included as share equivalents using the Treasury stock method. Common stock equivalents of 38,769 and 110,510 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, 1998 and 1997, respectively.

3. INVENTORIES

The classification of inventories is as follows:

	September 30, 1998	June 30, 1998
Raw materials and work in process	$ 5,654,369	$ 6,700,168
Finished goods	10,984,129	13,247,057
	16,638,498	19,947,225
LIFO Reserve	(461,167)	(461,167)
	$16,177,331	$19,486,058

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, 1998 and June 30, 1998, $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, 1998 and June 30, 1998, respectively, the related liabilities in the amounts of $795,150 and $766,380 have been included in deferred compensation on the accompanying balance sheets.

KOSS CORPORATION AND SUBSIDIARIES
FORM 10-Q
September 30, 1998
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, 1998 amounted to $1,523,096. Working capital was $25,019,452 at September 30, 1998, a decrease of $24,956 from the balance at June 30, 1998. 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 $139,826 for the quarter. For the fiscal year ending June 30, 1999, the Company expects its capital expenditures to be approximately $1,100,000. The Company expects to generate sufficient operating funds to fulfill these expenditures.

Stockholders' investment increased to $23,882,621 at September 30, 1998, from $22,591,160 at June 30, 1998. The increase reflects primarily the net effect of income.

The Company has an unsecured working capital line of credit with a bank which expires November 1, 1999. This credit facility provides for borrowings up to a maximum of $8,000,000. Borrowings under this credit facility bear interest at the bank's prime rate, or LIBOR plus 2.25%. 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. Utilization of this credit facility as of September 30, 1998 and June 30, 1998 totaled $1,367,000 and $2,746,000, respectively, consisting solely of borrowings. The decrease as of September 30, 1998 is the result of decreased inventory purchases due to lower sales volumes.

The Company has also reinstated a $2,000,000 credit facility which can be used by the Company to purchase shares of its own stock pursuant to the Company's stock repurchase program. This credit facility also expires November 1, 1999.

In August 1998, the Board of Directors authorized an additional $3,000,000 to be used for purchasing the Company's common stock for its own account, increasing the total net amount of the Company's stock repurchase program from $7,000,000 to $10,000,000. The Company intends to effectuate all stock purchases either on the open market or through one or more 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, 1998, the Company did not purchase any shares of its common stock pursuant to the Company's stock repurchase program. For the quarter ended September 30, 1998, the Company purchased 15,000 shares of its common stock for allocation to the Company's Employee Stock Ownership Plan and Trust ("ESOP") at an average price of $12.23 per share.

From the commencement of the Company's stock repurchase program through September 30, 1998, the Company has purchased and retired a total of 891,348 shares at a total gross purchase price of $9,108,577 (representing an average gross purchase price of $10.22 per share) and a total net purchase price of $6,485,677 (representing an average net purchase price of $7.28 per share). The difference between the total gross purchase price and the total net purchase price is the result of the Company repurchasing certain shares acquired by employees pursuant to the Company stock option program.

Results of Operations

Net sales for the quarter ended September 30, 1998 were $9,031,043 compared with $11,755,125 for the same period in 1997, a decrease of $2,724,082. This is the result of the Company's decision to withdraw from the speaker business.

Gross profit as a percent of net sales was 44% for the quarter ended September 30, 1998 compared with 38% in the prior year. This improvement is primarily due to a change in product mix and withdrawal from the speaker business.

Selling, general and administrative expenses for the quarter ended September 30, 1998 were $2,056,767 or 23% of net sales, as against $2,201,168 or 19% of net sales for the same period in 1997.

For the quarter ended September 30, 1998, income from operations was $1,916,172 versus $2,223,289 for the same period in 1997, a decrease of $307,117.

Interest expense amounted to $50,950 for the quarter as compared to $20,356 for the same period in the prior year. This increase is a result of increased borrowing activity for the quarter as compared to the same period last year.

The Company had a License Agreement with Trabelco N.V., a Netherlands, Antilles company and a subsidiary of Hagemeyer, N.V., a diverse international trading company based in the Netherlands. This License Agreement covered North America, Central America, and South America. Effective as of March 31, 1997, the Company assigned this License Agreement to Jiangsu Electronics Industries Limited ("Jiangsu"), a subsidiary of Orient Power Holdings Limited. Orient Power is based in Hong Kong and has an extensive portfolio of audio and video products. Pursuant to this assignment, Jiangsu has agreed to make royalty payments through December 31, 2000, subject to certain minimum royalty amounts due for the years 1998, 1999, and 2000. In May of 1998, the Company and Jiangsu entered into an amendment to this License Agreement expanding the products covered by this License Agreement to include mobile electronics and increasing the minimum royalties due for the years 1998, 1999, and 2000. This License Agreement is subject to renewal for additional 3 year periods.

Royalty income earned in connection with this License Agreement for the quarter ended September 30, 1998 was $253,314 as compared to $170,296 for the same period in 1997. The Company recognizes royalty income when earned. The increase in royalty income for the quarter was the result of higher sales volume in products covered under this License Agreement.

The License Agreement between the Company and Trabelco N.V. covering certain European countries remains in place. Although no sales have been reported under this License Agreement to date, certain minimum royalties are due for calendar year 1998. This License Agreement expires on December 31, 1998; however, Trabelco N.V. has the option to renew this License Agreement 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 is currently working to resolve the potential impact of the year 2000 on the processing of date sensitive information by the Company's computerized information systems. The year 2000 problem is the result of computer programs being written using 2 digits to define the applicable year (as opposed to 4 digits). Any of the Company's programs that have time sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or systems failure. Based on a review of the Company's software by the Chief Information Officer and outside consultants, the anticipated costs of addressing potential problems are not expected to have an adverse impact on the Company's financial position, results of operations or cash flows in future periods. The Company expects its computer systems will be year 2000 compliant by January 31, 1999.

A year 2000 compliance letter and survey form has been sent to all our customers doing over $10,000 annually in sales. Responses will be analyzed to see if there are any adverse conditions that the Company may have overlooked in its year 2000 plan. The same procedure is being followed with our suppliers and vendors. The Company's current inventory levels and forecasting technique will insure product is available to support customer requirements. In the event there are any adverse conditions, the Company will devote necessary resources to resolve all significant year 2000 issues in a timely manner.

PART II OTHER INFORMATION

Item 4 Submission of Matters to Vote of Security-Holders

(a) On October 22, 1998 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 3,177,269 shares of common stock eligible to vote at the Annual Meeting, of which 2,845,927 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 1999:			
John C. Koss	2,828,644	17,555	0
Thomas L. Doerr	2,827,834	18,365	0
Victor L. Hunter	2,827,246	18,953	0
Michael J. Koss	2,828,423	17,776	0
Lawrence S. Mattson	2,827,096	19,103	0
Martin F. Stein	2,828,867	17,332	0
John J. Stollenwerk	2,828,779	17,420	0

		Number of Votes		Broker
	For	Against	Abstain	Non-Votes
Appointment of PricewaterhouseCoopers L.L.P. as independent auditors for the year ended June 30, 1999	2,842,456	1,927	1,816	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: 11/13/98	/s/ Michael J. Koss ----------------------------------- Michael J. Koss, President, Chief Executive Officer, Chief Financial Officer
Dated: 11/13/98	/s/ Sue Sachdeva ----------------------------------- Sue Sachdeva Vice President--Finance

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3-MOS
JUN-30-1999
JUL-01-1998
SEP-30-1998
19,048
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16,177,331
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