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 December 31, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-3295

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KOSS CORPORATION

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(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 December 31, 1997, there were 3,322,269 shares outstanding of the Registrant's common stock, $0.01 par value per share.

KOSS CORPORATION AND SUBSIDIARIES
FORM 10-Q
December 31, 1997

INDEX

KOSS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

| | December 31, 1997 (Unaudited) | June 30, 1997 (*) |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash | $ 2,892 | $ 32,551 |
| Accounts receivable | 9,485,079 | 6,992,513 |
| Inventories | 15,074,572 | 14,547,653 |
| Prepaid expenses | 853,004 | 603.997 |
| Income taxes receivable | -- | 65,493 |
| Deferred income taxes | 756,946 | 756,946 |
| Total current assets | 26,172,493 | 22,999,153 |
| Property and Equipment, net | 2,113,745 | 2,477,529 |
| Deferred Income Taxes | 258,135 | 258,135 |
| Intangible and Other Assets | 578,147 | 598,106 |
| | $ 29,122,520 | $ 26,332,923 |
| LIABILITIES AND STOCKHOLDERS' INVESTMENT | | |
| Current Liabilities: | | |
| Accounts payable | $ 1,971,460 | $ 741,646 |
| Accrued liabilities | 1,356,701 | 994,877 |
| Deferred revenue | -- | 473,482 |
| Income taxes payable | 213,911 | -- |
| Total current liabilities | 3,542,072 | 2,210,005 |
| Long-Term Debt | 2,550,000 | 1,221,000 |
| Deferred Compensation and Other Liabilities | 1,194,964 | 1,137,424 |
| Contingently Redeemable Equity Interest | 1,490,000 | 1,490,000 |
| Stockholders' Investment | 20,345,484 | 20,274,494 |
| | $ 29,122,520 | $ 26,332,923 |

* The balance sheet at June 30, 1997, has been prepared from the audited finanical statements at that date.

See accompanying notes.

KOSS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three Months | | Six Months | |
|---|---|---|---|---|
| Period Ended December 31 | 1997 | 1996 | 1997 | 1996 |
| Net sales | $10,378,151 | $13,320,166 | $22,133,276 | $23,182,969 |
| Cost of goods sold | 7,068,010 | 8,776,051 | 14,398,678 | 15,351,176 |
| Gross profit | 3,310,141 | 4,544,115 | 7,734,598 | 7,831,793 |
| Selling, general and administrative expense | 2,079,962 | 2,394,291 | 4,281,130 | 4,490,960 |
| Income from operations | 1,230,179 | 2,149,824 | 3,453,468 | 3,340,833 |
| Other income (expense) | | | | |
| Royalty income | 460,381 | 427,890 | 630,677 | 696,375 |
| Interest income | 6,077 | 55,082 | 10,015 | 59,116 |
| Interest expense | (59,895) | (135,149) | (80,251) | (177,428) |
| Income before income tax provision | 1,636,742 | 2,497,647 | 4,013,909 | 3,918,896 |
| Provision for income taxes | 552,306 | 1,015,169 | 1,528,050 | 1,597,428 |
| Net income | $ 1,084,436 | $ 1,482,478 | $ 2,485,859 | $ 2,321,468 |
| Earnings per common share: | | | | |
| Basic | $0.33 | $0.45 | $0.74 | $0.70 |
| Diluted | $0.32 | $0.45 | $0.72 | $0.70 |
| Dividends per common share | None | None | None | None |

See accompanying notes.

KOSS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| Six Months Ended December 31 | 1997 | 1996 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 2,485,859 | $ 2,321,468 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 429,958 | 439,078 |
| Deferred compensation | 57,540 | 57,540 |
| Net changes in operating assets and liabilities | (1,870,933) | (4,818,836) |
| Net cash provided by (used in) operating activities | 1,102,424 | (2,000,750) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of equipment and leasehold improvements | (46,214) | (495,902) |
| Net cash used in investing activities | (46,214) | (495,902) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayments under line of credit agreements | (11,421,000) | (9,659,000) |
| Borrowings under line of credit agreements | 12,750,000 | 12,475,000 |
| Purchase and retirement of common stock | (5,309,656) | (352,692) |
| Exercise of stock options | 2,894,787 | 18,750 |
| Net cash (used in) provided by financing activities | (1,085,869) | 2,482,058 |
| Net decrease in cash | (29,659) | (14,594) |
| Cash at beginning of year | 32,551 | 27,001 |
| Cash at end of period | $ 2,892 | $ 12,407 |

See accompanying notes.

KOSS CORPORATION AND SUBSIDIARIES
December 31, 1997
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 December 31 1997 and for all periods presented have been made.

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, 1997, Annual Report on Form 10-K. The income from operations for the quarter and six months ended December 31, 1997 is not necessarily indicative of the operating results for the full year.

2. EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE

In February 1997, the 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. When dilutive, stock options are included as share equivalents using the Treasury stock method. Common stock equivalents of 63,482 and 38,939 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 December 31, 1997 and 1996, respectively. Common stock equivalents of 99,714 and 42,326 related to stock option grants were included in the computation of the average number of shares outstanding for diluted earnings per share for the six months ended December 31, 1997 and 1996, respectively.

3. INVENTORIES

The classification of inventories is as follows:

| | December 31, 1997 | June 30, 1997 |
|---|---|---|
| Raw materials and work in process | $6,928,566 | $7,485,887 |
| Finished goods | 8,603,490 | 7,519,250 |
| | 15,532,056 | 15,005,137 |
| LIFO Reserve | (457,484) | (457,484) |
| | $15,074,572 | $14,547,653 |

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 December 31, 1997 and June 30, 1997, $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 December 31, 1997 and June 30, 1997, respectively, the related liabilities in the amounts of $708,840 and $651,300 have been included in deferred compensation on the accompanying balance sheets.

KOSS CORPORATION AND SUBSIDIARIES
FORM 10-Q - December 31, 1997
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition and Liquidity

Cash generated by operating activities during the six months ended December 31, 1997 amounted to $1,102,424. Working capital was $22,630,421 at December 31, 1997. The increase of $1,841,273 from the balance at June 30, 1997 consists primarily of an increase in receivables and payables. The increase in receivables and payables is a result of higher sales as compared to the last quarter in 1997. 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 $46,214 for the six months. For the fiscal year ending June 30, 1998, the Company expects its capital expenditures to be approximately $1,252,000. The Company expects to generate sufficient operating funds to fulfill these expenditures.

Stockholders' investment decreased to $20,132,266 at December 31, 1997, from $20,274,494 at June 30, 1997. The decrease reflects primarily the net effect of income, shares purchased and retired and stock options exercised.

The Company has an unsecured working capital line of credit with a bank which runs through 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 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 December 31, 1997 totaled $2,550,000, consisting solely of borrowings. Utilization of this credit facility as of June 30, 1997 was $1,274,386, consisting of $1,221,000 in borrowings and $53,386 in foreign letters of credit. The increase as of December 31, 1997 is the result of increased inventory purchases due to anticipated higher sales volume.

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 extends through November 1, 1999.

In January of 1998, the Board of Directors authorized an additional $2,000,000 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 $5,000,000 to $7,000,000. 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 December 31, 1997, the Company purchased 39,622 shares of its common stock at an average price of $13.78 per share, and retired all such shares. For the six months ended December 31, 1997, the Company purchased 392,772 shares of its common stock at an average price of $13.52 per share, and retired all such shares. The Company also purchased 5,000 shares of its common stock for allocation to the Company's Employee Stock Ownership Plan and Trust ("ESOP") for the quarter and six months ended December 31, 1997, at an average price of $13.06 per share.

From the commencement of the Company's stock repurchase program through December 31, 1997, the Company has purchased and retired a total of 736,348 shares for a total gross purchase price of $7,434,671, representing an average gross purchase price of $10.10 per share.

Results of Operations

Net sales for the second quarter ended December 31, 1997 fell 22% to $10,378,151 from $13,320,166 for the same period in 1996. Net sales for the six months ended December 31, 1997 were $22,133,276, down 5% compared with $23,182,969 during the same six months one year ago. This decrease was primarily a result of weak orders through the second quarter.

Gross profit as a percent of net sales was 32% for the quarter ended December 31, 1997 compared with 34% for the same period in the prior year. For the six month period ended December 31, 1997, the gross profit percentage was 35% compared with 34% for the same period in 1996. Shifts in product mix resulted in the increase in gross profit for the six month period as compared to last year.

Selling, general and administrative expenses for the quarter ended December 31, 1997 were $2,079,962 or 20% of net sales, as against $2,394,291 or 18% of net sales, for the same period in 1996. For the six month period ended December 31, 1997, such expenses were $4,281,130 or 19% of net sales, as against $4,490,960 or 19% of net sales, for the same period in 1996.

For the second quarter ended December 31, 1997, income from operations was $1,230,179 versus $2,149,824 for the same period in the prior year. Income from operations for the six months ended December 31, 1997 was $3,453,468 as compared to $3,340,833 for the same period in 1996. The increase is primarily related to the increase in gross margin resulting from shifts in product mix and lower selling, general and administrative expenses.

Net interest expense amounted to $59,895 for the quarter as compared to $135,149 for the same period in the prior year. For the six month period, the interest expense amounted to $80,251 compared with $177,428 for the same period in the prior year. The decrease is a result of the Company borrowing at much lower levels as compared to the same periods 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 with Trabelco N.V. 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. The Company and Jiangsu are currently negotiating the possibility of expanding the products covered by this License Agreement to include mobile electronics and to increase 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 December 31, 1997 was $460,381 as compared to $427,890 for the same period in 1996. For the six month period ended December 31, 1997, royalty income was $630,677 compared to $696,375 for the same period in the prior year.

The License Agreement with Trabelco N.V. covering many European countries remains in place. Although no sales have been reported under this License Agreement to date, certain minimum royalties are due for calendar years 1997 and 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.

## PART II OTHER INFORMATION

### Item 4 Submission of Matters to Vote of Security-Holders

The information reported under Part II, Item 4 (Submission of Matters to Vote of Security Holders) in the Form 10-Q filed for the period ended September 30, 1997 is incorporated herein by reference.

### 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: 2/13/98

/s/ Michael J. Koss

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

Dated: 2/13/98

/s/ Sue Sachdeva

Sue Sachdeva
Vice President--Finance

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6-MOS
JUN-30-1998
JUL-01-1997
DEC-31-1997
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