

KOSS CORP  
Form 10-Q  
May 15, 2008

# 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 March 31, 2008

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)

<b>A DELAWARE CORPORATION</b>	<b>39-1168275</b>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

**4129 North Port Washington Avenue, Milwaukee, Wisconsin**  
(Address of principal executive offices)

**53212**  
(Zip Code)

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

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

YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.).

YES  NO

At May 05, 2008, there were 3,696,265 shares outstanding of the registrant's common stock, \$0.005 par value per share.

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KOSS CORPORATION AND SUBSIDIARIES

FORM 10-Q

March 31, 2008

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

KOSS CORPORATION AND SUBSIDIARIES

**CONDENSED CONSOLIDATED BALANCE SHEETS**

	(Unaudited)	
	March 31, 2008	June 30, 2007
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 3,050,839	\$ 4,187,682
Accounts Receivable	7,499,030	7,938,913
Inventories	8,675,671	9,923,544
Deferred income taxes	1,940,597	1,528,782
Other current assets	519,550	291,251
Total current assets	21,685,687	23,870,172
Property and equipment, net	2,563,735	2,567,139
Deferred income taxes	423,928	423,928
Other assets	2,211,584	2,312,304
	\$ 26,884,934	\$ 29,173,543
<b>LIABILITIES AND STOCKHOLDERS INVESTMENT</b>		
Current liabilities:		
Accounts payable	\$ 1,301,484	\$ 1,371,152
Accrued liabilities	1,390,454	2,282,155
Dividends payable	480,514	476,459
Total current liabilities	3,172,452	4,129,766
Deferred compensation	989,153	989,153
Derivative liability	125,000	125,000
Stockholders investment	22,598,329	23,929,624
	\$ 26,884,934	\$ 29,173,543

See accompanying notes to the condensed consolidated financial statements.

## KOSS CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Period Ended March 31	Three Months		Nine Months	
	2008	2007	2008	2007
Net Sales	\$ 10,003,648	\$ 9,601,291	\$ 34,740,651	\$ 35,148,974
Cost of goods sold	6,438,524	5,998,723	22,059,172	21,540,297
Gross Profit	3,565,124	3,602,568	12,681,479	13,608,677
Selling general and administrative expense	2,602,122	2,494,886	7,757,424	7,849,596
Income from operations	963,002	1,107,682	4,924,055	5,759,081
Other income (expense)				
Royalty income	87,501	81,249	262,501	243,747
Interest income	11,929	45,842	109,120	112,991
Interest expense	0	0	0	0
Income before income tax provision	1,062,432	1,234,773	5,295,676	6,115,819
Provision for income taxes	414,435	481,639	2,065,453	2,385,247
Net Income	\$ 647,997	\$ 753,134	\$ 3,230,223	\$ 3,730,572
Earnings per common share:				
Basic	\$ 0.18	\$ 0.20	\$ 0.88	\$ 1.01
Diluted	\$ 0.18	\$ 0.20	\$ 0.87	\$ 0.99
Dividends per common share	\$ 0.13	\$ 0.13	\$ 1.39	\$ 0.39

See accompanying notes to the condensed consolidated financial statements.

## KOSS CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Nine Months Ended March 31,	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,230,223	\$ 3,730,572
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	843,289	849,246
Stock compensation expense	408,789	422,010
Net changes in operating assets and liabilities	113,359	(2,538,113)
Net cash provided by operating activities	4,595,660	2,463,715
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of equipment	(762,194)	(297,016)
Net cash used in investing activities	(762,194)	(297,016)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends paid	(5,115,390)	(1,442,265)
Purchase of common stock	(1,268,786)	(1,594,750)
Exercise of stock options	1,413,867	500,566
Net cash used in financing activities	(4,970,309)	(2,536,449)
Net decrease in cash	(1,136,843)	(369,750)
Cash at beginning of period	4,187,682	6,146,580
Cash at end of period	\$ 3,050,839	\$ 5,776,830

See accompanying notes to the condensed consolidated financial statements.

KOSS CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The financial statements presented herein are based on interim amounts. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows at March 31, 2008 and for all periods presented have been made. All significant intercompany transactions have been eliminated. The income from operations for the quarter and nine months ended March 31, 2008 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 accounting principles generally accepted in the United States of America 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, 2007 Annual Report on Form 10-K.

2. EARNINGS PER COMMON SHARE

Basic earnings per common 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 March 31, 2008 and 2007 were 3,690,371 and 3,678,289, respectively. For the nine months ended March 31, 2008 and 2007, the weighted average number of common shares outstanding was 3,680,321 and 3,693,152, respectively. When dilutive, stock options are included as share equivalents using the treasury stock method. Common stock equivalents of 12,107 and 58,348 related to stock option grants were included in the computation of the average number of shares outstanding for diluted earnings per common share for the quarters ended March 31, 2008 and 2007, respectively. Common stock equivalents of 18,065 and 66,783 related to stock option grants were included in the computation of the average number of shares outstanding for diluted earnings per common share for the nine months ended March 31, 2008 and 2007, respectively.

3. INCOME TAXES

We file income tax returns in the United States (Federal), Wisconsin (state) and various other state jurisdictions. We are not currently subject to income tax examinations in any of our significant tax jurisdictions. Tax years open to examination by tax authorities under the statute of limitations include fiscal 2006 through 2007 for Federal and fiscal 2003 through 2007 for most states jurisdictions.

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We adopted the provisions for FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, on July 1, 2007. As a result of the implementation of FIN 48, we did not recognize a significant change in the liability for unrecognized tax benefits. The total liability for unrecognized tax benefits was approximately \$60,000 as of July 1, 2007. The liability does not include an amount for accrued penalties. We recognize interest and penalties related to unrecognized tax benefits in the provision for income taxes. We do not expect a significant increase or decrease to the total amounts of unrecognized tax benefits within the next 12 months.

There was no material change in the amount of unrecognized tax benefits during the first nine months ended March 31, 2008.

4. INVENTORIES

The classification of inventories is as follows:

	March 31, 2008		June 30, 2007
Raw materials and work in process	\$ 2,837,928	\$	3,119,659
Finished goods	7,096,697		8,062,839
	9,934,625		11,182,498
LIFO reserve	(1,258,954)		(1,258,954)
	\$ 8,675,671	\$	9,923,544

5. STOCK PURCHASE AGREEMENT

The Company has an agreement with its Chairman, John C. Koss, to, at the request of the executor of the estate, repurchase Company common stock from his estate in the event of his death. The Company does not have the right to require the estate to sell stock to the Company. As such, this arrangement is accounted for as a written put option with the fair value of the put option recorded as a derivative liability. The fair value of the option at March 31, 2008 was \$125,000. The repurchase price is 95% of the fair market value of the common stock on the date that notice, if the estate elects, to repurchase is provided to the Company. Under the agreement, the total number of shares to be repurchased will be sufficient to provide proceeds which are the lesser of \$2,500,000 or the amount of estate taxes and administrative expenses incurred by the Chairman's estate. The Company may elect to pay the purchase price in cash or may elect to pay cash equal to 25% of the total amount due and to execute a promissory note for the balance, payable over four years, at the prime rate of interest. The Company maintains a \$1,150,000 life insurance policy to fund a substantial portion of this obligation. At March 31, 2008 and June 30, 2007, \$125,000 has been classified as a derivative liability on the Company's financial statements.

6. DIVIDENDS DECLARED

On March 14, 2008, the Company declared a quarterly cash dividend of \$0.13 per share for stockholders of record on March 31, 2008 to be paid April 14, 2008. Such dividend payable has been recorded at March 31, 2008.

7. STOCK-BASED COMPENSATION

In 1990, pursuant to the recommendation of the Board of Directors, the stockholders ratified the creation of the Company's 1990 Flexible Incentive Plan (the "1990 Plan"). The 1990 Plan is administered by a committee of the Board of Directors and provides for the granting of various stock-based awards including stock options to eligible participants, primarily officers and certain key employees. A total of 225,000 shares of common stock were available in the first year of the Plan's existence. Each year thereafter additional shares equal to 25% of the shares

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outstanding as of the first day of the applicable fiscal year were reserved for issuance pursuant to the 1990 Plan. On July 22, 1992, the Board of Directors authorized the reservation of an additional 250,000 shares for the 1990 Plan, which was approved by the stockholders. In 1993, the Board of Directors authorized the reservation of an additional 300,000 shares for the 1990 Plan, which was

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approved by the stockholders. In 1997, the Board of Directors authorized the reservation of an additional 300,000 shares for the 1990 Plan, which was approved by the stockholders. In 2001, the Board of Directors authorized the reservation of an additional 300,000 shares for the 1990 Plan, which was also approved by the stockholders. Options generally vest over four or five years, with a maximum term of five to ten years.

We account for stock options and restricted stock issued under the plan in accordance with Statement of Accounting Standards ( SFAS ) No. 123 (R), Share Based Payments . The fair value of each stock option grant was estimated as of the date of grant using the Black-Scholes pricing model. The resulting compensation cost for fixed awards with graded vesting schedules is amortized on a straight-line basis over the vesting period for the entire award. The fair value of each restricted stock grant was based on the market price of the underlying common stock as of the date of grant. The resulting compensation cost is amortized on a straight-line basis over the vesting period.

A summary of stock option activity under the plan for the nine months ended March 31, 2008 is as follows:

	Number of Shares (in thousands)	Range of Exercise Price Per Share	Average Exercise Price
Balance, June 30, 2007	585,662	\$5.38-\$28.80	\$ 21.08
Granted			
Exercised	(94,008)	\$5.38-\$17.38	\$ 15.04
Forfeited			
Balance, March 31, 2008	491,654	\$5.38-\$28.80	\$ 22.23

The range of options as of March 31, 2008 is as follows:

	Number of Options Outstanding/Exercisable	Weighted Average Exercise Price Outstanding/Exercisable	Weighted Average Remaining Contractual Life (Years)
\$15.75-\$19.47	149,654 / 97,154	\$17.79 / \$17.27	3.7
\$21.42-\$28.80	342,000 / 156,500	\$24.18 / \$24.08	3.4
	491,654 / 253,654	\$22.23 / \$21.47	

As of March 31, 2008, there was \$950,817 of total unrecognized compensation cost related to stock options granted under the plan. This cost is expected to be recognized over a weighted average period of 2.52 years. Total unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures.

Total stock option compensation expense of \$408,789 and \$422,010 was recognized in the nine month periods ended March 31, 2008 and 2007, respectively.

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

Financial Condition, Liquidity and Capital Resources

Cash provided by operating activities during the nine months ended March 31, 2008 amounted to \$4,595,660. This was a result of net income for the period adjusted for changes in operating assets and liabilities, which arose primarily out of the decreases in accrued liabilities offset by increases in other current assets.

Capital expenditures for new equipment (including production tooling) were \$762,194 for the nine months ended March 31, 2008. Capital expenditures for fiscal year 2008 are expected to be approximately \$1.5 million. The Company expects to generate sufficient funds through operations to fund these expenditures.

Stockholders' investment decreased to \$22,598,329 at March 31, 2008, from \$23,929,624 at June 30, 2007. The decrease reflects net income offset by (i) the effect of stock options exercised, (ii) the purchase and retirement of common stock and (iii) dividends.

The Company amended its existing credit facility in November 2007, extending the maturity date of the unsecured line of credit to November 1, 2008. 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 common stock pursuant to the Company's common stock repurchase program. Borrowings under this credit facility bear interest at the bank's prime rate, or LIBOR plus 1.75%. This credit facility includes financial covenants that require the Company to maintain a minimum tangible net worth and specified current, interest coverage and leverage ratios. The Company uses its credit facility from time to time, although there was no utilization of this credit facility at March 31, 2008 or June 30, 2007. The Company did not utilize the credit facility for the nine months ended March 31, 2008.

In April of 1995, the Board of Directors approved a stock repurchase program authorizing the Company to purchase from time to time up to \$2,000,000 of its common stock for its own account. Subsequently, the Board of Directors periodically has approved increases in the stock repurchase program. The most recent increase was for an additional \$2,000,000 in October 2006, for a maximum of \$45,500,000. 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 March 31, 2008, the Company did not purchase any shares of its common stock. For the nine months ended March 31, 2008, the Company purchased 62,812 shares of its common stock at an average net price of \$20.20 per share, for a total net purchase price of \$1,268,786.

From the commencement of the Company's stock repurchase program through March 31, 2008, the Company has purchased a total of 5,469,190 shares for a total gross purchase price of \$52,710,627, (representing an average gross purchase price of \$9.64 per share) and a total net purchase price of \$41,886,884 (representing an average net purchase price of \$7.66 per share). The difference between the total gross purchase price and the total net purchase price is the result of the Company receiving from employees cash acquired from such employees pursuant to the Company's stock option program. In determining the dollar amount available for additional purchases under the stock repurchase program, the Company uses the total net purchase price by the Company for all stock purchases, as authorized by the Board of Directors.



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The Company also has an Employee Stock Ownership Plan and Trust ( ESOP ) pursuant to which shares of the Company s common stock are purchased by the ESOP for allocation to the accounts of ESOP participants. There were no ESOP purchases of the Company s common stock for the nine months ended March 31, 2008.

### Results of Operations

Net sales for the quarter ended March 31, 2008 rose approximately 4% to \$10,003,648 from \$9,601,291 for the same period in 2007. Net sales for the nine months ended March 31, 2008 were \$34,740,651 down approximately 1% compared with \$35,148,974 during the same nine months one year ago. The decrease was primarily attributable to reductions in shipments of stereo headphones to automotive companies to include with the production of their cars. Since the production of specific automobile models that include rear seat entertainment systems that make use of our products appears to have been reduced, the Company has experienced a corresponding reduction in orders. Also, orders for the Company s products from box retailers continued to decline primarily due to model reductions which occurred during the fourth quarter of the Company s prior fiscal year.

Gross profit as a percent of net sales was approximately 36% for the quarter ended March 31, 2008 down approximately 2% from the same period in the prior year. For the nine month period ended March 31, 2008 and 2007, the gross profit percentage was approximately 37% and approximately 39%, respectively.

Selling, general and administrative expenses for the quarter ended March 31, 2008 were \$2,602,122 or approximately 26% of net sales, compared to \$2,494,886 or approximately 26% of net sales for the same period in 2007. For the nine month period ended March 31, 2008, these expenses were \$7,757,424 or approximately 22% of net sales, compared to \$7,849,596 or approximately 22% of net sales, for the same period in 2007.

For the third quarter ended March 31, 2008, income from operations was \$963,002 versus \$1,107,682 for the same period in the prior year, approximately a 13% change. Income from operations for the nine months ended March 31, 2008 was \$4,924,055 as compared to \$5,759,081 for the same period in 2007, approximately a 15% change. Income from operations decreased primarily as a result of increased expenses relating to new product engineering and development for the nine month period ended March 31, 2008.

Net income decreased by approximately 14%, from \$753,134 to \$647,997 for the same three months. Net income for the nine months decreased by approximately 13% from \$3,730,572 to \$3,230,223 for the same nine months ended March 31, 2008. Net income decreased primarily as a result of increased expenses relating to new product engineering and development for the nine month period ended March 31, 2008. The gross margin reduction coupled with the increase in promotional expenses and increases in spending for legal fees related to the protection of the Company s intellectual property resulted in a decline in the profits for the nine month period ended March 31, 2008.

Royalty income for the quarter ended March 31, 2008 was \$87,501, compared to \$81,249 for the quarter ended March 31, 2007. For the nine month period ended March 31, 2008 royalty income was \$262,501 compared to \$243,747 for the nine month period ended March 31, 2007.

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Interest income for the quarter ended March 31, 2008 was \$11,929 as compared to \$45,842 for the same quarter in 2007. For the nine month period ended March 31, 2008 interest income was \$109,120 compared to \$112,991 for the same period in 2007. Interest income fluctuates in relation to cash balances on hand throughout the year and fluctuations in interest rates earned.

The provision for income taxes for the quarter ended March 31, 2008, was \$414,435 compared with \$481,639 for the same period last year. For the nine months ended March 31, 2008, the provision for income taxes was \$2,065,453 compared with \$2,385,247 for the same period last year. The effective tax rate was 39% for each of the quarters.

#### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

#### Recently Issued Financial Accounting Pronouncements

Effective July 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 ( FASB Interpretation No. 48 ). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, by prescribing the minimum recognition threshold and measurement attribute a tax position taken or expected to be taken on a tax return is required to meet before being recognized in the financial statements. As a result of the implementation of FASB Interpretation No. 48, the Company was not required to record any reduction in equity employed in the business at July 1, 2007 to recognize the cumulative effect of the adoption of this standard

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

In management's opinion, the Company does not engage in any material risk sensitive activities and does not have any market risk sensitive instruments, other than the Company's commercial credit facility used for working capital purposes and stock repurchases as disclosed in the Financial Condition, Liquidity and Capital Resources section of Management's Discussion and Analysis of Financial Conditions and Results of Operations, above.

### **Item 4. Controls and Procedures.**

(a) *Evaluation of Disclosure Controls and Procedures.* The Company maintains a system of disclosure controls and procedures that are designed to provide reasonable assurance that information, which is required to be timely disclosed, is accumulated and communicated to management in a timely fashion. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer/Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of the end of the period covered by this report, has concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the

Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) *Changes in Internal Controls.* The Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) is designed to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. However, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings.**

None.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in our Annual Report on Form 10-K for the year ended June 30, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risk and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

The following table presents information with respect to purchases of common stock of the Company made during the three months ended March 31, 2008, by the Company.

**COMPANY REPURCHASES OF EQUITY SECURITIES**

Period (2008)	Total # of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly	Approximate Dollar Value of Shares Available under Repurchase Plan
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**Item 4. Controls and Procedures.**

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Announced Plan (1)

January 1	January 31	0	\$	0.00	0	\$	2,184,133
February 1	February 29	0	\$	0.00	0	\$	2,184,133
March 1	March 31	0	\$	0.00	0	\$	2,184,133

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(1) In April of 1995, the Board of Directors approved a stock repurchase program authorizing the Company to purchase from time to time up to \$2,000,000 of its common stock for its own account. Subsequently, the Board of Directors periodically has approved increases in the stock repurchase program. The most recent increase was for an additional \$2,000,000 in October 2006, for a maximum of \$45,500,000 of which \$43,315,867 had been expended through March 31, 2008.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

See Exhibit Index attached hereto.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

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

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified based on current expectations. Consequently, future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements contained in this Form 10-Q, or in other Company filings, press releases, or otherwise. In addition to the factors discussed in this Form 10-Q, other factors that could contribute to or cause such differences include, but are not limited to, developments in any one or more of the following areas: future fluctuations in economic conditions, the receptivity of consumers to new consumer electronics technologies, the rate and consumer acceptance of new product introductions, competition, pricing, the number and nature of customers and their product orders, production by third party vendors, foreign manufacturing, sourcing and sales (including foreign government regulation, trade and importation

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concerns), borrowing costs, changes in tax rates, pending or threatened litigation and investigations, and other risk factors which may be detailed from time to time in the Company's Securities and Exchange Commission filings.

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

Signatures

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KOSS CORPORATION

Date: May 15, 2008

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

Date: May 15, 2008

/s/ Sue Sachdeva  
Sue Sachdeva  
Vice President Finance,  
Secretary

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
3.1	Certificate of Incorporation of Koss Corporation. Filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.
3.2	By-Laws of Koss Corporation, as in effect on September 25, 1996. Filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.
10.1	Death Benefit Agreement with John C. Koss. Filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.
10.2	Stock Purchase Agreement with John C. Koss. Filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.
10.3	Salary Continuation Resolution for John C. Koss. Filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.
10.4	1983 Incentive Stock Option Plan. Filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 and incorporated herein by reference.
10.5	Assignment of Lease to John C. Koss. Filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended June 30, 1988 and incorporated herein by reference.
10.6	Addendum to Lease. Filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended June 30, 1988 and incorporated herein by reference.
10.7	Amendment to Lease. Filed as Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended June 30, 2000 and incorporated herein by reference.
10.8	Partial Assignment, Termination and Modification of Lease. Filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended June 30, 2001 and incorporated herein by reference.
10.9	Restated Lease. Filed as Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended June 30, 2001 and incorporated herein by reference.
10.10	1990 Flexible Incentive Plan. Filed as Exhibit 25 to the Company's Annual Report on Form 10-K for the year ended June 30, 1990 and incorporated herein by reference.
10.11	Consent of Directors (Supplemental Executive Retirement Plan for Michael J. Koss dated March 7, 1997). Filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 and incorporated herein by reference.

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- 10.12 Loan Agreement, effective as of February 17, 1995. Filed as Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995 and incorporated herein by reference.
- 10.13 Amendment to Loan Agreement dated June 15, 1995, effective as of February 17, 1995. Filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended June 30, 1995 and incorporated herein by reference.
- 10.14 Amendment to Loan Agreement dated April 29, 1999. Filed as Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended June 30, 1999 and incorporated herein by reference.
- 10.15 Amendment to Loan Agreement dated December 15, 1999. Filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended June 30, 2000 and incorporated herein by reference.
- 10.16 Amendment to Loan Agreement dated October 10, 2001. Filed as Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2001 and incorporated herein by reference.
- 10.17 License Agreement dated June 30, 1998 between Koss Corporation and Logitech Electronics Inc. (including Addendum to License Agreement dated June 30, 1998). Filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended June 30, 1998 and incorporated herein by reference.
- 10.18 Amendment and Extension Agreement between Koss Corporation and Logitech Electronics Inc. dated May 1, 2001. Filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference.
- 10.19 License Agreement dated June 30, 2003 between Koss Corporation and Sonigem Products, Inc. Filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended June 30, 2005 and incorporated herein by reference.
- 10.20 Amendment to License Agreement dated August 1, 2005, between Koss Corporation and Sonigem Products, Inc. Filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended June 30, 2005 and incorporated herein by reference.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer/Chief Financial Officer \*
- 32.1 Section 1350 Certification of Chief Executive Officer/Chief Financial Officer \*\*

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\* Filed herewith  
\*\* Furnished herewith