

KOSS CORP  
Form 10-Q  
November 13, 2006

**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, 2006**

**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**  
(State or other jurisdiction of  
incorporation or organization)

**39-1168275**  
(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**

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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YES                          NO   

At November 1, 2006, there were 3,684,939 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  
September 30, 2006

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

**Item 1. Financial Statements.**

KOSS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

|   | September 30, 2006 | June 30, 2006 |
|---|--------------------|---------------|
| <b>ASSETS</b>                                   |                    |               |
| Current Assets:                                 |                    |               |
| Cash  | \$ 3,527,562       | \$ 6,146,580  |
| Accounts receivable                             | 8,264,209          | 6,819,852     |
| Inventories                                     | 9,350,221          | 10,522,605    |
| Other current assets                            | 2,472,364          | 1,784,365     |
| Total current assets                            | 23,614,356         | 25,273,402    |
| Property and equipment, net                     | 2,846,721          | 3,037,548     |
| Deferred income taxes                           | 672,823            | 672,823       |
| Other assets                                    | 2,288,509          | 2,457,840     |
|   | \$ 29,422,409      | \$ 31,441,613 |
| <b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b> |                    |               |
| Current liabilities:                            |                    |               |
| Accounts payable                                | 2,643,241          | \$ 1,870,256  |
| Accrued liabilities                             | 2,189,921          | 2,149,102     |
| Income taxes payable                            | 717,379            | 927,528       |
| Dividends payable                               | 481,479            | 4,202,591     |
| Total current liabilities                       | 6,032,020          | 9,149,477     |
| Deferred compensation                           | 1,022,831          | 992,830       |
| Derivative liability                            | 125,000            | 125,000       |
| Stockholders' investment                        | 22,242,558         | 21,174,306    |
|   | \$ 29,422,409      | \$ 31,441,613 |

See accompanying notes.

## KOSS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

| Three Months Ended September 30,            | 2006          | 2005          |
|---|---------------|---------------|
| Net sales                                   | \$ 13,325,099 | \$ 11,949,841 |
| Cost of goods sold                          | 7,729,555     | 7,274,962     |
| Gross profit                                | 5,595,544     | 4,674,879     |
| Selling, general and administrative expense | 2,932,801     | 2,447,617     |
| Income from operations                      | 2,662,743     | 2,227,262     |
| Other income (expense)                      |               |               |
| Royalty income                              | 81,249        | 101,611       |
| Interest income                             | 32,538        | 34,645        |
| Income before income tax provision          | 2,776,530     | 2,363,518     |
| Provision for income taxes                  | 1,082,850     | 922,300       |
| Net income                                  | \$ 1,693,680  | \$ 1,441,218  |
| Earnings per common share:                  |               |               |
| Basic earnings per common share             | \$ 0.46       | \$ 0.39       |
| Diluted earnings per common share           | \$ 0.45       | \$ 0.38       |
| Dividends per common share                  | \$ 0.13       | \$ 0.13       |

See accompanying notes.

## KOSS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

| Three Months Ended September 30,  | 2006         | 2005         |
|---|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |              |              |
| Net income  | \$ 1,693,680 | \$ 1,441,218 |
| Adjustments to reconcile net income to net cash provided by operating activities: |              |              |
| Depreciation and amortization   | 283,082      | 248,843      |
| Net changes in operating assets and liabilities                                   | (3,756,757)  | (116,383)    |
| Net cash (used) provided by operating activities                                  | (1,779,995)  | 1,573,678    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |              |              |
| Acquisition of equipment  | (72,925)     | (259,919)    |
| Net cash used in investing activities   | (72,925)     | (259,919)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |              |              |
| Dividends declared  | (481,479)    | (486,788)    |
| Purchase of common stock  | (308,143)    | (239,820)    |
| Exercise of stock options   | 23,524       |              |
| Net cash used in financing activities   | (766,098)    | (726,608)    |
| Net increase (decrease) in cash   | (2,619,018)  | 587,151      |
| Cash at beginning of period   | 6,146,580    | 5,218,698    |
| Cash at end of period   | \$ 3,527,562 | \$ 5,805,849 |

See accompanying notes.

KOSS CORPORATION AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2006  
 (Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The financial statements presented herein are based on interim amounts. 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, 2006 and for all periods presented have been made. The income from operations for the quarter ended September 30, 2006 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, 2006, 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 September 30, 2006 and 2005 were 3,709,936 and 3,735,878, respectively. When dilutive, stock options are included as share equivalents using the treasury stock method. Common stock equivalents of 65,857 and 46,210 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 September 30, 2006 and 2005, respectively.

3. INVENTORIES

The classification of inventories is as follows:

|                                   | September 30, 2006 | June 30, 2006 |
|-----------------------------------|--------------------|---------------|
| Raw materials and work in process | \$ 4,405,410       | \$ 4,388,680  |
| Finished goods                    | 6,320,054          | 7,509,168     |
|                                   | 10,725,464         | 11,897,848    |
| LIFO reserve                      | (1,375,243)        | (1,375,243)   |
|                                   | \$ 9,350,221       | \$ 10,522,605 |

4. 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 (only upon the election of the 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 September 30, 2006, 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 September 30, 2006, \$125,000 has been classified as a derivative liability on the Company's financial statements.

5. DIVIDENDS DECLARED

On September 14, 2006, the Company declared a quarterly cash dividend of \$0.13 per share for stockholders of record on September 29, 2006 to be paid October 13, 2006. Such dividend payable has been recorded at September 30, 2006.

6. 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 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 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 three months ended September 30, 2006 is as follows:

|                             | Number of Shares<br>(in thousands) | Range of Exercise<br>Price Per Share | Average Exercise<br>Price |
|-----------------------------|------------------------------------|--------------------------------------|---------------------------|
| Balance, June 30, 2006      | 591,594                            | \$ 5.28-\$28.8                       | 0 \$ 20.60                |
| Granted                     |                                    |                                      |                           |
| Exercised                   | (1,404)                            | \$ 16.76                             | \$ 16.76                  |
| Expired                     |                                    |                                      |                           |
| Forfeited                   |                                    |                                      |                           |
| Balance, September 30, 2006 | 590,190                            | \$ 5.28-\$28.8                       | 0 \$ 20.61                |



|                 | Number of Options<br>Outstanding/Exercisable | Weighted Average Exercise<br>Price Outstanding/Exercisable | Weighted Average<br>Remaining Contractual<br>Life (Years) |
|-----------------|--|--|---|
| \$5.28-\$6.73   | 18,461 / 18,461                              | \$6.11 / \$6.11  | 3.5   |
| \$15.75-\$19.12 | 289,729 / 209,979                            | \$17.49 / \$17.42  | 3.7   |
| \$22.01-\$28.80 | 282,000 / 89,000                             | \$24.76 / \$23.62  | 5.2   |
|                 | 590,190 / 317,440                            | \$20.61 / \$18.50  |   |

As of September 30, 2006, there was \$1,394,566 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 2.25 years. Total unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures.

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

### Financial Condition, Liquidity and Capital Resources

Cash used by operating activities during the three months ended September 30, 2006 amounted to \$1,779,995. This was a result of net income for the period adjusted for changes in operating assets and current liabilities, which arose primarily as a result of a special cash dividend that the Company distributed during the quarter. On July 14, 2006, the Company distributed a special cash dividend of \$1.00 per share to shareholders of record June 30, 2006. After the satisfaction of this commitment, the Company believes that its cash position remains strong.

Capital expenditures for new equipment (including production tooling) were \$72,925 for the quarter. Capital expenditures for fiscal year 2007 are expected to be approximately \$1.9 million. The Company expects to generate sufficient funds through operations to fund these expenditures.

Stockholders' investment increased to \$22,242,558 at September 30, 2006, from \$21,174,306 at June 30, 2006. The increase reflects net income offset by (i) the effect of the purchase and retirement of common stock and (ii) dividends declared.

The Company amended its existing credit facility in November 2005, extending the maturity date of the unsecured line of credit to November 1, 2006, and expects to extend it to November 1, 2007 in the current quarter. 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, with which the Company has complied. The Company uses its credit facility from time to time, although there was no utilization of this credit facility during the quarter ended September 30, 2006.

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 \$1,000,000 in July 2006, for a maximum of \$43,500,000. 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.

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For the three month period ended September 30, 2006, the Company purchased 15,290 shares of its common stock at an average net price of \$20.15 per share, for a total net purchase price of \$308,143.

From the commencement of the Company's stock repurchase program through September 30, 2006, the Company has purchased a total of 5,338,231 shares for a total gross purchase price of \$49,912,329 (representing an average gross purchase price of \$9.35 per share) and a total net purchase price of \$39,565,627 (representing an average net purchase price of \$7.41 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 dollar amount available for additional 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 Plan 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. There were no ESOP purchases for the quarter ended September 30, 2006.

### Results of Operations

Net sales for the first quarter ended September 30, 2006 increased by 12% to \$13,325,099 compared with \$11,949,841 for the same period in 2005, an increase of \$1,375,258. The increase is primarily due to strong European sales, which were consistent across all market classes. Export sales, most notably to Europe, have been exceptionally strong in our first quarter. The concern for the balance of the year remains with domestic U.S. retail, where we may see demand soften in comparison to last year, as well as in comparison to anticipated demand in Europe.

Gross profit as a percent of net sales was 42% for the quarter ended September 30, 2006 and 39% for the quarter ended September 30, 2005. The increase is primarily due to the Company experiencing a more profitable model mix.

Selling, general and administrative expenses for the quarter ended September 30, 2006 were \$2,932,801 or an improved 22% of net sales, compared to \$2,447,617 or 20% of net sales for the same period in 2005, primarily as a result of strong sales during the recent quarter.

For the first quarter ended September 30, 2006, income from operations was \$2,662,743 versus \$2,227,262 for the same period in the prior year. Net income for the three months rose by 18% to \$1,693,680 from \$1,441,218 for the same three month period one year ago. The increases in income from operations and net income are primarily due to strong European sales, which were consistent across all market classes.

Royalty income for the quarter ended September 30, 2006 was \$81,249, compared with \$101,611 for the quarter ended September 30, 2005. The decrease in royalty income for the three month period was primarily a result of the terminated license agreement with Jiangsu Electronics Industries Limited ( Jiangsu ). Effective November 23, 2004, the Company terminated the License Agreement dated November 15, 1991, as subsequently amended, between the Company and Jiangsu (the Jiangsu License Agreement ). As a result of the termination, other than Jiangsu's post-termination right to sell Company-approved licensed products, as set forth in the Jiangsu License Agreement, Jiangsu no longer has the right to use certain Company trademarks in connection with the manufacture, marketing and distribution of Jiangsu's products under the Jiangsu License Agreement.

Effective June 30, 2003, the Company entered into a License Agreement (the License Agreement ) with Sonigem Products, Inc. ( Sonigem ) of Ontario, Canada whereby the Company licensed to Sonigem the right to sell video and communications products under the Koss brand name. This License Agreement

covers Canada, requiring royalty payments by Sonigem through June 30, 2010, subject to certain minimum annual royalty amounts. To further enhance the relationship between the Company and Sonigem, on June 30, 2005, the Company announced the extension of its licensing agreement for electronics products with Sonigem. The Amendment to the License Agreement with Sonigem was effective August 1, 2005 (the Amendment). The Amendment provides Sonigem with the exclusive right and license to use certain Company trademarks in Canada in connection with the manufacture, production, distribution and sale of an increased number of licensed products, with the prior approval of the Company. In consideration for these increased rights, the Amendment also provides for increased minimum royalty payments payable to the Company, which partially offset the previously discussed reductions in royalty income from the terminated Jiangsu License Agreement.

Interest income for the quarter was \$32,538 as compared to \$34,645 for the same quarter in 2005. Interest income fluctuates in relation to cash balances on hand throughout the period and fluctuations in interest rates earned.

The provision for income taxes was \$1,082,850 and \$922,300 for the quarters ended September 30, 2006 and 2005, respectively. The effective tax rate was 39% for each quarter.

#### Recently Issued Financial Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute of tax positions taken or expected to be taken on a tax return. This Interpretation is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact FIN 48 will have on our financial position or results of operations.

#### **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 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, 2006, 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 September 30, 2006, by the Company.

#### **COMPANY REPURCHASES OF EQUITY SECURITIES**

| <b>Period (2006)</b>     | <b>Total # of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price Paid<br/>per Share</b> | <b>Total Number of<br/>Shares Purchased as<br/>Part of Publicly<br/>Announced Plan(1)</b> | <b>Approximate Dollar<br/>Value of Shares<br/>Available under<br/>Repurchase Plan</b> |
|--------------------------|--|---|---|---|
| July 1 July 31           | 7,425                                      | \$ 19.57                                    | 7,425   | \$ 1,258,239  |
| August 1 August 31       | 4,711                                      | \$ 20.77                                    | 4,711   | \$ 1,160,402  |
| September 1 September 30 | 3,154                                      | \$ 20.61                                    | 3,154   | \$ 1,095,393  |

(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 recently approved increase was for additional purchases of \$1,000,000, which occurred in July 2006, for an aggregate maximum of \$43,500,000, of which \$42,404,607 had been expended through September 30, 2006.

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

(a) On October 11, 2006 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 3,706,842 shares of common stock eligible to vote at the Annual Meeting, of which 3,222,395 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:

| Nominees for 1-year terms ending in 2007 | Number of Votes For | Withheld | Broker Non-Votes |
|--|---------------------|----------|------------------|
| John C. Koss                             | 3,213,808           | 8,587    | 0                |
| Thomas L. Doerr                          | 3,214,192           | 8,203    | 0                |
| Michael J. Koss                          | 3,201,354           | 21,041   | 0                |
| Lawrence S. Mattson                      | 3,201,228           | 21,167   | 0                |
| Theodore H. Nixon                        | 3,213,315           | 9,080    | 0                |
| John J. Stollenwerk                      | 3,212,695           | 9,700    | 0                |

|   | Number of Votes For | Against | Abstain | Broker Non-Votes |
|---|---------------------|---------|---------|------------------|
| Appointment of Grant Thornton LLP as independent auditors for the year ending June 30, 2007 | 3,219,098           | 1,373   | 1,924   | 0                |

**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 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 concerns), borrowing costs, changes in tax rates, pending or threatened litigation and investigations, fluctuations in currency exchange rates 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.

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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.

Date: November 13, 2006

KOSS CORPORATION  
/s/ Michael J. Koss  
Michael J. Koss  
Vice Chairman, President,  
Chief Executive Officer,  
Chief Financial Officer  
/s/ Sue Sachdeva  
Sue Sachdeva  
Vice President Finance  
Secretary

Date: November 13, 2006

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### EXHIBIT INDEX

#### Exhibit

| <b>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 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer/Chief Financial Officer \*
- 32 Section 1350 Certification of Chief Executive Officer/Chief Financial Officer \*\*

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\* Filed herewith

\*\* Furnished herewith

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