KOSS CORP
Form 10-K405
August 22, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2001
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

KOSS CORPORATION	Commission file num
(Exact name of registrant as specified in its charter)	
A Delaware Corporation	391168275
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Ident
4129 North Port Washington Avenue, Milwaukee, Wisconsin	53212
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
NONE	NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.01 par value (voting)
(Title of class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

YES X NO

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of August 1, 2001 was approximately $66,074,852 (based on the $34.00 per share closing price of the Company's Common Stock as reported on the NASDAQ Stock Market on August 1, 2001). In determining who are affiliates of the Company for purposes of this computation, it is assumed that directors, officers, and any persons who held on August 1, 2001 more than 5% of the issued and outstanding common stock of the Company are "affiliates" of the Company. The characterization of such directors, officers, and other persons as affiliates is for purposes of this computation only and should not be construed as a determination or admission for any other purpose that any of such persons are, in fact, affiliates of the Company.

On August 1, 2001, 1,943,378 shares of voting common stock were outstanding.

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Documents Incorporated by Reference

Part III incorporates by reference information from Koss Corporation's Proxy Statement for its 2001 Annual Meeting of Stockholders to be filed within 120 days of the end of the fiscal year covered by this Report.

PART I

Item 1. BUSINESS.

As used herein, the term "Company" means Koss Corporation and its consolidated subsidiaries, unless the context otherwise requires.

The Company operates in the audio/video industry segment of the home entertainment industry through its design, manufacture and sale of stereo headphones, and related accessory products.

The Company's principal product is the design, manufacture, and sale of stereophones and related accessories. The percentage of total revenues related to the product line over the past three years was:

	2001	2000	1999
Stereophones	94%	91%	97%

The Company's products are sold through audio specialty stores, catalog showrooms, regional department store chains, military exchanges and national retailers under the "Koss" name and dual label. The Company has more than 1,600 domestic dealers and its products are carried in approximately 18,000 domestic retail outlets. International markets are served by domestic sales representatives and a sales office in Switzerland which utilizes independent distributors in several foreign countries.

Management believes that it has sources of raw materials that are adequate for its needs.

The Company regularly applies for registration of its trademarks in various countries, and over the years the Company has had numerous trademarks registered in various countries and numerous patents issued in various countries. Certain of the Company's trademarks are of material value and importance to the conduct of its business. Although the Company considers protection of its proprietary developments important, the Company's business is not, in the opinion of management, materially dependent upon any single patent.

Although retail sales of consumer electronics are predictably higher during the holiday season, management of the Company is of the opinion that its business and industry segment are not seasonal as evidenced by the fact that 52% of sales occurred in the first six months of the fiscal year and 48% of sales occurred in the latter six months of the fiscal year.

The Company's working capital needs do not differ substantially from those of its competitors in the industry and generally reflect the need to carry significant amounts of inventory to meet delivery requirements of its customers. The Company provides extended payment terms for product sales to certain customers. Based on historical trends, management does not expect these practices to have any material effect on net sales or net income. The Company's current backlog of orders is not material in relation to annual net sales.

The Company markets its products to approximately 2,000 customers worldwide. During 2001, the Company's sales to its largest single customer, Tandy Corporation, were approximately 18% of total net sales. Management believes that any loss of this customer's revenues would be partially offset by a corresponding decrease, on a percentage basis, in expenses thereby reducing the impact on the Company's operating income. Although perhaps initially material, management believes this impact would be offset in future years by expanded sales to both existing and new customers. The five largest customers of the Company accounted for approximately 51% of total net sales in 2001.

Although competition in the stereophone market has increased this past year, the Company has maintained its competitive position as a leading marketer and producer of high fidelity stereophones in the United States. In the stereophone market, the Company competes directly with approximately five major competitors, several of whom are large and diversified and have greater total assets and resources than the Company.

The amount spent on engineering and research activities relating to the development of new products or the improvement of existing products was $89,000 during fiscal 2001 as compared with $227,000 during fiscal 2000 and $243,000 during fiscal 1999. These activities were conducted by both Company personnel and outside consultants. The Company relies upon its unique sound, quality workmanship, brand identification, engineering skills and customer service to maintain its competitive position.

As of June 30, 2001, the Company employed 111 people. The Company also utilizes temporary personnel to meet seasonal production demands.

Foreign Sales.

International markets are serviced through manufacturers' representatives or independent distributors with product produced in the United States. In the opinion of management, the Company's competitive position and risks relating to the conduct of its business in such markets are comparable to the domestic market. For further information, see Note 9 to the consolidated financial statements accompanying this Form 10-K.

Item 2. PROPERTIES.

The Company leases its main plant and offices in Milwaukee, Wisconsin from its Chairman, John C. Koss. On June 25, 1993, the lease was renewed for a period of ten years, and is being accounted for as an operating lease. The lease extension increased the rent from $280,000 per year to a fixed rate of $350,000 per year for three years and $380,000 for the seven years thereafter. The lease is on terms no less favorable to the Company than those that could be obtained from an independent party. The Company is responsible for all property maintenance, insurance, taxes and other normal expenses related to ownership.

All facilities are in good repair and, in the opinion of management, are suitable for the Company's purposes.

Item 3. LEGAL PROCEEDINGS.

Neither Koss nor its subsidiaries are subject to any material legal proceedings in management's opinion.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of stockholders during the fourth quarter of the fiscal year ended June 30, 2001.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

MARKET INFORMATION ON COMMON STOCK

The Company's common stock is traded on The NASDAQ Stock Market under the trading symbol "KOSS". There were approximately 951 holders of the Company's common stock as of August 1, 2001. No dividends have been paid for the years ended June 30, 2001, 2000, and 1999. The quarterly high and low sale prices of the Company's common stock for the last two fiscal years are shown below.

	Fiscal Year 2001		Fiscal Year 2000	
Quarter	High	Low	High	Low

First	$20.375	$15.125	$15.000	$10.625
Second	$31.750	$18.875	$15.750	$ 9.125
Third	$31.000	$20.250	$16.000	$13.750
Fourth	$40.000	$27.563	$18.250	$13.000

The Company paid no cash dividends on its stock for the periods set forth above; however, on July 25, 2001, the Company issued a press release announcing the Company's intent to begin paying quarterly dividends beginning with the quarter ending September 30, 2001. The full text of the Form 8-K and the press release are incorporated herein by reference.

Item 6. SELECTED FINANCIAL DATA.

	2001	2000	1999	1998
Net sales	$38,609,335	$35,401,533	$33,776,039	$41,311
Net income	$5,687,521	$4,953,461	$4,318,189	$5,477
Earnings per common share:				
Basic	$2.70	$1.95	$1.41	$
Diluted	$2.56	$1.90	$1.39	$
Total assets	$21,496,328	$25,044,307	$25,721,696	$32,028
Long-term debt	$0	$0	$0	$2,746

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FINANCIAL CONDITION AND LIQUIDITY

During 2001, cash provided by operations was $8,923,853. Working capital was $14,725,834 at June 30, 2001. The decrease in working capital of $5,948,534 from the balance at June 30, 2000 represents primarily the net effect of a decrease in cash and inventories and an increase in payables.

Capital expenditures for new property and equipment including production tooling were $814,851, $349,620, and $421,251, in 2001, 2000, and 1999, respectively. Depreciation charges totaled $599,526, $654,916, and $614,184, for the same fiscal years. Budgeted capital expenditures for fiscal year 2002 are $1,240,000.

The Company expects to generate sufficient funds through operations to fund these expenditures.

Stockholders' investment decreased to $14,939,429 at June 30, 2001 from $20,493,633 at June 30, 2000. The decrease reflects primarily the effect of the purchase and retirement of common stock offset by current year income and the exercise of stock options during the year. No cash dividends have been paid since the first quarter of fiscal 1984. On July 25, 2001, the Company announced a quarterly cash dividend of $0.25 per share for stockholders of record on September 30, 2001, to be paid October 15, 2001.

The Company amended its existing credit facility in December 1999, extending the maturity date of the unsecured line of credit to November 1, 2001. This credit facility provides for borrowings up to a maximum of $10,000,000. The Company can use this credit facility for working capital purposes or for the purchase of its own stock pursuant to the Company's stock repurchase program. Borrowings under this credit facility bear interest at the bank's prime rate, or LIBOR plus 1.75%. This credit facility includes certain financial covenants that require the Company to maintain a minimum tangible net worth and specified current, interest coverage, and leverage ratios. There was no utilization of this credit facility at June 30, 2001, June 30, 2000, and June 30, 1999.

In April of 1995, the Board of Directors approved a stock repurchase program authorizing the Company to purchase from time to time up to $2,000,000 of its common stock for its own account. In January of 1996, the Board of Directors approved an increase in the stock repurchase program from $2,000,000 to $3,000,000. In July of 1997, the Board of Directors again approved an increase in the stock repurchase program from $3,000,000 to $5,000,000. In January of 1998, the Board of Directors approved an increase of an additional $2,000,000, increasing the total stock repurchase program from $5,000,000 to $7,000,000. In August of 1998, the Board of Directors approved an increase of $3,000,000 in the Company's stock repurchase program, thereby increasing the total amount of stock repurchases from $7,000,000 to $10,000,000. In April of 1999, the Board of Directors again approved an increase in the stock repurchase program from $10,000,000 to $15,000,000. In October of 1999, the Board of Directors increased the stock repurchase program by another $5,000,000, up to a maximum of $20,000,000, and in July of 2000 the Board increased the program by an additional $5,000,000, for a maximum of $25,000,000. In January of 2001 the Board of Directors approved an increase in the stock repurchase program from $25,000,000 to $28,000,000, another increase in April of 2001 of an additional $3,000,000, and an additional increase of $3,000,000 in July of 2001 for a maximum of $34,000,000. 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 fiscal year ended June 30, 2001, the Company purchased 462,241 shares of its common stock at an average gross price of $25.14 per share (and an average net price of $23.36 per share), and retired all such shares.

From the commencement of the Company's stock repurchase program through June 30, 2001, the Company has purchased and retired a total of 2,277,739 shares for a total gross purchase price of $33,160,608 (representing an average gross purchase price of $14.56 per share) and a total net purchase price of $29,437,035 (representing an average net purchase price of $12.92 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.

2001 RESULTS COMPARED WITH 2000

Net sales for 2001 were $38,609,335 compared with $35,401,533 in 2000, an increase of $3,207,802 or 9%. The increase was the result of higher sales volume of current products as well as the introduction of new products.

Gross profit was $15,572,208 or 40% in 2001 compared with $13,558,016 or 38.3% in 2000. The improved gross profit is the result of product mix and favorable raw material prices.

Selling, general and administrative expenses for 2001 were $7,446,119 compared with $6,947,013 in 2000, an increase of $499,106 or 7%. This increase was a result of the Company experiencing higher expenses associated with higher sales for the fiscal year.

Income from operations was $8,126,089 in 2001 compared with $6,611,003 in 2000, an increase of 22.9%. Interest income was $85,423 in 2001 compared with $102,139 in 2000, a decrease of 16.4%. Interest income fluctuates in relation to cash balances on hand throughout the year. Interest expense for 2001 was $15,465 compared with $24,244 in 2000.

Royalty income was $1,010,026 in 2001 compared with $1,283,563 in 2000, a decrease of 21.3%. The decrease in royalty income was a result of a reduction of territories under certain royalty agreements.

The Company has a License Agreement with Jiangsu Electronics Industries Limited ("Jiangsu"), a subsidiary of Orient Power Holdings Limited, by way of an assignment of a previously existing License Agreement with Trabelco N.V. Orient Power is based in Hong Kong and has an extensive portfolio of audio and video products. This License Agreement covers the United States, Canada, and Mexico, and has been renewed through December 31, 2002. Pursuant to this License Agreement, Jiangsu has agreed to meet certain minimum royalty amounts each year. The products covered by this License Agreement include various consumer electronics products.

Effective July 1, 1998, the Company entered into a License Agreement and an Addendum thereto with Logitech Electronics Inc. ("Logitech") of Ontario, Canada whereby the Company licensed to Logitech the right to sell multimedia/computer speakers under the Koss brand name. This License Agreement covers North America and certain countries in South America and Europe, requiring royalty payments by Logitech through June 30, 2008, subject to certain minimum annual royalty amounts.

Income taxes are discussed in Note 5 to the consolidated financial statements.

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2000 RESULTS COMPARED WITH 1999

Net sales for 2000 were $35,401,533 compared with $33,776,039 in 1999, an increase of $1,625,494 or 5%. The increase was the result of higher sales volume of current products as well as the introduction of new products.

Gross profit was $13,558,016 or 38.3% in 2000 compared with $12,855,894 or 38.1% in 1999.

Selling, general and administrative expenses for 2000 were $6,947,013 compared with $7,225,340 in 1999, a decrease of $278,327 or 3.9%. This decrease was a result of the Company realizing lower bad debt expenses as compared to last year.

Income from operations was $6,611,003 in 2000 compared with $5,630,554 in 1999, an increase of 17.4%. Interest income was $102,139 in 2000 compared with $33,373 in 1999, an increase of 206.1%. Interest income fluctuates in relation to cash balances on hand throughout the year. Interest expense for 2000 was $24,244 compared with $67,932 in 1999. This decrease was due to decreased levels of borrowings during the fiscal year.

Royalty income was $1,283,563 in 2000 compared with $1,403,194 in 1999, a decrease of 8.5%. The decrease in royalty income was a result of the expiration of a licensing agreement with Trabelco N.V. on December 31, 1998.

The Company has a License Agreement with Jiangsu Electronics Industries Limited ("Jiangsu"), a subsidiary of Orient Power Holdings Limited, by way of an assignment of a previously existing License Agreement with Trabelco N.V. Orient Power is based in Hong Kong and has an extensive portfolio of audio and video products. This License Agreement covers North America, Central America, and South America. Pursuant to this License Agreement, Jiangsu has agreed to make royalty payments through December 31, 2000, subject to certain minimum royalty amounts due each year. The products covered by this License Agreement include various consumer electronics products. This License Agreement is subject to renewal for additional 3 year periods.

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

Income taxes are discussed in Note 5 to the consolidated financial statements.

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RECENTLY ISSUED FINANCIAL ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." The statements eliminate the pooling-of-interests method of accounting for business combinations and require that goodwill and certain intangible assets not be amortized. Instead, these assets will be reviewed for impairment annually with any related losses recognized in earnings when incurred. The statements will be effective for the Company as of July 1, 2002 for existing goodwill and intangible assets and for business combinations initiated after June 30, 2001. The adoption of these statements is not expected to have a material effect on the Company's financial position or results of operations.

In April 2001, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 00-25, "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products." This issue requires that consideration from a vendor to a retailer (a) in connection with the retailer's purchase of the vendor's products or (b) to promote sales of the vendor's products by the retailer be classified as a reduction of net sales unless the consideration meets certain criteria. EITF No. 00-25 is effective for the Company's fiscal quarters beginning on January 1, 2002 and requires reclassification of prior periods. The Company is currently evaluating the impact of implementing EITF No. 00-25.

MANAGEMENT'S REPORT

The consolidated financial statements and related financial information included in this report are the responsibility of management as to preparation, presentation and reliability. Management believes that the financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate under the circumstances and necessarily include amounts that are based on best estimates and judgments.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Company.

Oversight of management's financial reporting and internal accounting control responsibilities is exercised by the Board of Directors, through an Audit Committee that is comprised solely of non-employee directors. The Audit Committee is also responsible for the selection and appointment of the independent auditors and reviews the scope of their audit and their findings. The independent auditors have direct access to the Audit Committee, with or without the presence of management representatives, to discuss the scope and the results of their audit work.

The independent auditors provide an objective assessment of the degree to which management meets its responsibility for fairness of financial reporting. They evaluate the system of internal accounting controls in connection with their audit and perform such tests and procedures as they deem necessary to reach and express an opinion on the fairness of the financial statements.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Consolidated financial statements of the Company at June 30, 2001 and 2000 and for each of the three years in the period ended June 30, 2001 and the notes thereto, and the report of independent accountants thereon are set forth on pages 13 to 24.

Selected unaudited quarterly financial data is as follows:

		Quarter	
2001	First	Second	Third
Net sales	$ 9,879,638	$10,348,476	$ 8,195,114
Gross profit	3,952,247	4,078,142	3,416,187
Net income	1,383,991	1,374,951	1,235,702
Earnings per common share:			
Basic (1)	$ .62	$ .64	$ .59
Diluted (1)	.59	.61	.56

		Quarter	
2000	First	Second	Third
Net sales	$ 8,505,393	$ 8,700,959	$ 8,449,773
Gross profit	3,479,976	3,296,049	3,540,816
Net income	1,183,617	1,139,209	1,102,648
Earnings per common share:			
Basic (1)	$ .44	$ .43	$ .45
Diluted (1)	.43	.42	.44

(1) Due to the use of weighted average shares outstanding each quarter for computing net income per share, the sum of the quarterly per share amounts does not equal the per share amount for the year.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information relating to the directors of Koss Corporation is incorporated herein by reference from the "ELECTION OF DIRECTORS -- Information As To Nominees" and the "ELECTION OF DIRECTORS -- Executive Officers" contained in the Koss Corporation Proxy Statement for its 2001 Annual Meeting of Stockholders (the "2001 Proxy Statement"), which 2001 Proxy Statement is to be filed within 120 days of the end of the fiscal year covered by this Report pursuant to General Instruction G(3) of Form 10-K.

Item 11. EXECUTIVE COMPENSATION.

Information relating to executive compensation is incorporated herein by reference from the "ELECTION OF DIRECTORS -- Executive Compensation And Related Matters" section of the 2001 Proxy Statement.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information relating to the security ownership of certain beneficial owners and management is incorporated herein by reference from the "ELECTION OF DIRECTORS -- Beneficial Ownership Of Company Securities" section of the 2001 Proxy Statement.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information relating to related transactions is incorporated herein by reference from the "ELECTION OF DIRECTORS -- Executive Compensation And Related Matters" and "ELECTION OF DIRECTORS -- Related Transactions" sections of the 2001 Proxy Statement.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

a. The following documents are filed as part of this report:

1. Financial Statements
The following consolidated financial statements of Koss Corporation are set forth on pages 13 to 24:

2. Financial Statement Schedules
All schedules have been omitted because the information is not applicable or is not material or because the information required is included in the financial statements or the notes thereto.

3. Exhibits Filed

3.1	Certificate of Incorporation of Koss Corporation.
3.2	By-Laws of Koss Corporation.
4.1	Certificate of Incorporation of Koss Corporation.
4.2	By-Laws of Koss Corporation.
10.1	Officer Loan Policy.
10.3	Supplemental Medical Care Reimbursement Plan.
10.4	Death Benefit Agreement with John C. Koss.
10.5	Stock Repurchase Agreement with John C. Koss.
10.6	Salary Continuation Resolution for John C. Koss.
10.7	1983 Incentive Stock Option Plan.
10.8	Assignment of Lease to John C. Koss.
10.9	Addendum to Lease.
10.10	1990 Flexible Incentive Plan.
10.12	Loan Agreement, effective as of February 17, 1995.
10.13	Amendment to Loan Agreement dated June 15, 1995, effective as of February 17, 1995.
10.14	Amendment to Loan Agreement dated April 29, 1999.
10.15	Amendment to Loan Agreement dated December 15, 1999.

10.16	License Agreement dated November 15, 1991 between Koss Corporation and Trabelco N.V. (a subsidiary of Hagemeyer N.V.) for North America, Central America and South America (including Amendment to License Agreement dated November 15, 1991; Renewal Letter dated November 18, 1994; and Second Amendment to License Agreement dated September 29, 1995).
10.17	License Agreement dated September 29, 1995 between Koss Corporation and Trabelco N.V. (a subsidiary of Hagemeyer N.V.) for Europe (including First Amendment to License Agreement dated December 26, 1995).
10.18	Third Amendment and Assignment of License Agreement to Jiangsu Electronics Industries Limited dated March 31, 1997.

10.19	Fourth Amendment to License Agreement dated as of May 29, 1998.
10.20	Fifth Amendment to License Agreement dated March 30, 2001.
10.21	Sixth Amendment to License Agreement dated August 15, 2001.
10.22	License Agreement dated June 30, 1998 between Koss Corporation and Logitech Electronics Inc. (including Addendum to License Agreement dated June 30, 1998).
10.23	Consent of Directors (Supplemental Executive Retirement Plan for Michael J. Koss dated March 7, 1997).
10.24	Amendment to Lease.
10.25	Partial Assignment, Termination and Modification of Lease.
10.26	Restated Lease.
22	List of Subsidiaries of Koss Corporation.

b. No reports on Form 8-K were filed by the Company during the last quarter of the period covered by this report; however, the Company filed a report on Form 8-K on July 27, 2001 announcing the Company's intent to begin paying quarterly dividends beginning with the quarter ending September 30, 2001.

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF KOSS CORPORATION

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 10 present fairly, in all material respects, the financial position of Koss Corporation and its subsidiaries at June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
July 10, 2001, except for Note 12 for
which the date is July 25, 2001

CONSOLIDATED STATEMENTS OF INCOME

Year Ended June 30,	2001	2000
Net sales	$38,609,335	$35,401,533
Cost of goods sold	23,037,127	21,843,517
Gross profit	15,572,208	13,558,016
Selling, general, and administrative expense	7,446,119	6,947,013
Income from operations	8,126,089	6,611,003
Other income (expense)		
Royalty income	1,010,026	1,283,563
Interest income	85,423	102,139
Interest expense	(15,465)	(24,244)
Income before income taxes	9,206,073	7,972,461
Provision for income taxes (note 5)	3,518,552	3,019,000
Net income	$ 5,687,521	$ 4,953,461
Earnings per common share:		
Basic	$2.70	$1.95
Diluted	$2.56	$1.90
Dividends per common share	None	None

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

As of June 30,	2001
ASSETS	
Current Assets:	
Cash	$ 181,678
Accounts receivable, less allowances of $301,252 and $252,194, respectively (note 11)	8,247,045
Inventories	8,496,010
Prepaid expenses	593,961
Income taxes receivable	480,322
Deferred income taxes (note 5)	340,973
Total current assets	18,339,989
Equipment and Leasehold Improvements, at cost:	
Leasehold improvements	1,031,574
Machinery, equipment, furniture, and fixtures	5,012,089
Tools, dies, molds, and patterns	9,062,776
	15,106,439
Less--accumulated depreciation	13,415,811
	1,690,628
Deferred Income Taxes (note 5)	557,135
Other Assets	908,576
	$ 21,496,328
LIABILITIES AND STOCKHOLDERS' INVESTMENT	
Current Liabilities:	
Accounts payable	$ 2,062,476
Accrued liabilities (note 6)	1,551,679
Total current liabilities	3,614,155
Contingently Redeemable Equity Interest (note 4)	1,490,000
Deferred Compensation	1,015,390
Other Liabilities	437,354
Commitments and Contingencies (note 10)	
Stockholders' Investment (note 4):	
Common stock, $.01 par value, authorized 8,500,000 shares; issued and outstanding 1,943,378 and 2,349,369 shares, respectively	19,434
Contingently redeemable common stock	(1,490,000)
Undistributed retained earnings	16,409,995
Total stockholders' investment	14,939,429
	$ 21,496,328

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended June 30,	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$5,687,521	$4,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	600,819	663
Deferred income taxes	229,000	(294
Deferred compensation	115,080	115
Other	(61,001)	71
Net changes in operating assets and liabilities (note 7)	2,352,434	2,545
Net cash provided by operating activities	8,923,853	8,054
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of equipment and leasehold improvements	(814,851)	(349
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments under line of credit agreement	--	
Borrowings under line of credit agreement	--	
Exercise of stock options	535,798	774
Purchase and retirement of treasury stock	(11,627,523)	(6,486
Net cash used in financing activities	(11,091,725)	(5,712
Net (decrease) increase in cash	(2,982,723)	1,992
Cash at beginning of year	3,164,401	1,171
Cash at end of year	$ 181,678	$3,164

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT

	Common Stock		Undistributed
	Shares	Amount	Retained Earnings
Balance, June 30, 1998	3,177,269	$ 31,773	$ 24,120,7
Net income	--	--	4,318,1
Purchase and retirement of treasury stock	(488,650)	(4,887)	(5,937,8
Exercise of stock options	22,500	225	214,1
Balance, June 30, 1999	2,711,119	27,111	22,715,1
Net income	--	--	4,953,4
Purchase and retirement of treasury stock	(435,500)	(4,355)	(6,481,9
Exercise of stock options	73,750	738	773,5
Foreign currency translation adjustment	--	--	
Balance, June 30, 2000	2,349,369	23,494	21,960,1
Net income	--	--	5,687,5
Purchase and retirement of treasury stock	(462,241)	(4,622)	(11,622,9
Exercise of stock options	56,250	562	385,2
Balance, June 30, 2001	1,943,378	$ 19,434	$ 16,409,9

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

CONCENTRATION OF CREDIT RISK--The Company operates in the audio/video industry segment of the home entertainment industry through its design, manufacture, and sale of stereo headphones and related accessory products. The Company's products are sold through audio specialty stores, catalog showrooms, regional department store chains, military exchanges and national retailers under the "Koss" name and dual label. The Company has more than 1,600 domestic dealers and its products are carried in approximately 18,000 domestic retail outlets. International markets are served by domestic sales representatives and a sales office in Switzerland, which utilizes independent distributors in several foreign countries. The Company grants credit to its domestic and Canadian customers. Collection is dependent on the retailing industry economy. International customers outside of Canada are sold on a cash against documents or letter of credit basis. Approximately 14% and 9% of the Company's accounts receivable at June 30, 2001 and 2000, respectively, were foreign receivables.

BASIS OF CONSOLIDATION--The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated.

REVENUE RECOGNITION--Revenue is recognized by the Company when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured. These criteria are satisfied, and accordingly, revenue is recognized upon shipment by the Company.

ROYALTY INCOME--The Company recognizes royalty income when earned under terms of license agreements, which expire in 2002 and 2008. These agreements require minimum annual royalty payments.

INVENTORIES--Substantially all of the Company's inventories were valued at the lower of last-in, first-out (LIFO) cost or market. If the first-in, first-out (FIFO) method of inventory accounting had been used by the Company for inventories valued at LIFO, inventories would have been $981,018 and $1,076,111 higher than reported at June 30, 2001 and 2000, respectively.

The components of inventories at June 30 are as follows:

	2001	2000

Raw materials and work in process	$ 2,516,999	$ 3,903,626
Finished goods	5,979,011	5,510,410
	$ 8,496,010	$ 9,414,036

During 2001 and 2000, the Company liquidated certain LIFO layers, the effect of which did not have a significant impact on operating income.

PROPERTY AND EQUIPMENT--Depreciation is provided on a straight-line basis over the estimated useful life of the asset as follows:

Leasehold Improvements	10-15 years
Machinery, Equipment, Furniture, and Fixtures	3-10 years
Tools, Dies, Molds, and Patterns	4-5 years

RESEARCH AND DEVELOPMENT--Research and development expenditures charged to operations amounted to approximately $89,000 in 2001, $227,000 in 2000, and $243,000 in 1999.

USE OF ESTIMATES--The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

SHIPPING AND HANDLING FEES AND COSTS--During the fourth quarter of fiscal year 2001, the Company adopted the provisions of the Emerging Issues Task Force ("EITF") Issue No. 00-10 "Accounting for Shipping and Handling Fees and Costs." In accordance with the provisions of EITF No. 00-10, certain shipping and handling fees and costs which the Company had previously recorded on a net basis as a component of net sales are reflected in cost of goods sold, as appropriate.

ACCOUNTING PRONOUNCEMENTS--In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." The statements eliminate the pooling-of-interests method of accounting for business combinations and require that goodwill and certain intangible assets not be amortized. Instead, these assets will be reviewed for impairment annually with any related losses recognized in earnings when incurred. The statements will be effective for the Company as of July 1, 2002 for existing goodwill and intangible assets and for business combinations initiated after June 30, 2001. The adoption of these statements is not expected to have a material effect on the Company's financial position or results of operations.

In April 2001, the EITF reached a consensus on EITF Issue No. 00-25, "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products." This issue requires that consideration from a vendor to a retailer (a) in connection with the retailer's purchase of the vendor's products or (b) to promote sales of the vendor's products by the retailer be classified as a reduction of net sales unless the consideration meets certain criteria. EITF No. 00-25 is effective for the Company's fiscal quarters beginning after December 15, 2001 and requires reclassification of prior periods. The Company is currently evaluating the impact of implementing EITF No. 00-25.

RECLASSIFICATIONS--Certain amounts in the prior year financial statements have been reclassified to conform to current year presentation.

2. EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE

Basic earnings per share are computed based on the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the fiscal years ended June 30, 2001, 2000, and 1999, were 2,104,041, 2,542,768, and 3,072,500, respectively. When dilutive, stock options are included in earnings per share as share equivalents using the treasury stock method. Common stock equivalents of 121,200, 59,716, and 39,327 related to stock option grants were included in the computation of the average number of shares outstanding for diluted earnings per share for the fiscal years ended June 30, 2001, 2000, and 1999, respectively.

3. LONG-TERM DEBT

The Company amended its existing credit facility in December 1999, extending the maturity date of the unsecured line of credit to November 1, 2001. 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 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 certain financial covenants that require the Company to maintain a minimum tangible net worth and specified current, interest coverage, and leverage ratios. There was no utilization of this credit facility at June 30, 2001 and 2000.

4. STOCK OPTIONS AND STOCK PURCHASE AGREEMENTS

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.

The following table identifies options granted, exercised, cancelled, or available for exercise pursuant to the above mentioned Plan:

	Number of Shares	Range of Exercise Prices per Share
Shares under option at July 1, 1998	190,000	$5.32-$11.91
Granted	110,000	$10.00-$11.83
Exercised	(22,500)	$5.32-$10.83
Cancelled	(8,750)	$5.32-$10.83
Shares under option at June 30, 1999	268,750	$5.32-$11.91
Granted	60,000	$13.45-$14.80
Exercised	(73,750)	$5.32-$10.83
Cancelled	(7,500)	$10.00
Shares under option at June 30, 2000	247,500	$5.32-$14.80
Granted	80,000	$33.51-$36.86
Exercised	(56,250)	$5.32-$13.45
Shares under option at June 30, 2001	271,250	$10.20-$36.86
Options exercisable at June 30, 2001	83,750	$10.20-$14.80

The weighted average fair value at date of grant for options whose exercise price exceeded the market price of the stock on the grant date during 2001, 2000 and 1999 was $10.61, $6.66 and $4.82, respectively. The weighted average fair value at date of grant for options whose exercise price was less than the market price of the stock on the grant date during 2001, 2000 and 1999 was $15.80, $9.28 and $7.07, respectively. The weighted average remaining contractual life of these options approximates 5 years.

The Company currently accounts for its stock-based compensation plans using the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). In 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123). Under the provisions of FAS 123, companies can elect to account for stock-based compensation plans using a fair-value-based method or continue measuring compensation expense for those plans using the intrinsic value method prescribed in APB 25. FAS 123 requires that companies electing to continue using the intrinsic value method must make pro forma disclosures of net income and earnings per share as if the fair-value-based method of accounting had been applied. The Company has adopted the disclosure-only provisions of FAS 123; accordingly, no compensation cost has been recognized for options granted under the stock-based compensation plan. Had compensation cost been determined based on the fair value at the grant date for awards in 2001, 2000, and 1999 consistent with the provisions of FAS 123, the Company's pro forma net income and earnings per share would have been as presented below:

	2001	2000
Net income - as reported	$5,687,521	$4,953,46
Net income - pro forma	5,238,951	4,602,34
Earnings per common share - as reported		
Basic	$2.70	$1.9
Diluted	2.56	1.9
Earnings per common share - pro forma		
Basic	$2.49	$1.8
Diluted	2.35	1.7

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2001	2000
Expected stock price volatility	50.41%	56.09
Risk free interest rate	4.97%	6.54
Expected life of options	5.13 years	5.25 year

The Company has an agreement with its Chairman to repurchase common 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 a 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.

5. INCOME TAXES

The Company follows Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires use of the liability method of accounting for income taxes. The liability method measures the expected tax impact of future taxable income and deductions implicit in the consolidated balance sheet.

The provision for income taxes in 2001, 2000, and 1999 consists of the following:

Year Ended June 30,	2001	2000
Current:		
Federal	$2,716,552	$2,788,027
State	573,000	525,000
Deferred	229,000	(294,027)
	$3,518,552	$3,019,000

The 2001, 2000, and 1999 tax provision results in an effective rate different than the federal statutory rate due to the following:

Year Ended June 30,	2001	2000
Federal income tax at statutory rate	$3,130,000	$2,711,000
State income taxes, net of federal tax benefit	378,000	346,000
Other	10,552	(38,000)
Total provision for income taxes	$3,518,552	$3,019,000

Temporary differences which give rise to deferred tax assets and liabilities at June 30 include:

	2001
Deferred Tax Assets	

Deferred compensation	$385,000
Accrued expenses and reserves	357,000
Package design and trademarks	193,000
Other	9,000
	944,000
Deferred Tax Liabilities	
Royalties receivable/deferred	(11,000)
Equipment and leasehold improvements	(35,000)
Net deferred tax asset	$898,000

The net deferred tax asset at June 30, 2001 is comprised of a current asset of $340,973 and a long term asset of $557,135. The net deferred tax asset at June 30, 2000 is comprised of a current asset of $638,973 and a long term asset of $488,135.

6. ACCRUED LIABILITIES

Accrued liabilities at June 30 consist of the following:

	2001
Salaries and wages	$ 584,435
Cooperative advertising and promotion allowances	463,314
Payroll taxes and employee benefits	186,738
Other	317,192
	$1,551,679

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7. ADDITIONAL CASH FLOW INFORMATION

The net changes in cash as a result of changes in operating assets and liabilities consist of the following:

	2001	2000

Accounts receivable	$ (18,860)	$ (820,646)	$
Inventories	918,026	3,541,082	6
Prepaid expenses	(31,933)	(48,128)	
Income taxes	(235,567)	21,574	
Other assets	(170,377)	(43,371)	
Accounts payable	1,491,909	(221,218)	(1
Accrued liabilities	399,236	116,051	
Net change	$2,352,434	$2,545,344	$ 4

	2001	2000	
Net cash paid during the year for:			
Interest	$15,465	$24,244	
Income taxes	$3,675,119	$3,291,453	$

8. EMPLOYEE BENEFIT PLANS

Substantially all domestic employees are participants in the Company's Employee Stock Ownership Plan and Trust under which an annual contribution in either cash or common stock may be made at the discretion of the Board of Directors. The expense recorded for such contributions approximated $94,000 in 2001, $0 in 2000, and $200,000 in 1999.

The Company maintains a retirement savings plan under Section 401(k) of the Internal Revenue Code. This plan covers all employees of the Company who have completed six months of service. Matching contributions can be made at the discretion of the Board of Directors. For calendar years 2001, 2000, and 1999, the matching contribution was 100% of employee contributions to the plan, not to exceed 10% of the employee's annual compensation. Vesting of Company contributions occurs immediately. Contributions for the years ended June 30, 2001, 2000, and 1999 were $180,000, $180,000, and $182,155, respectively.

9. INDUSTRY SEGMENT INFORMATION, FOREIGN OPERATIONS AND SIGNIFICANT CUSTOMERS

The Company has one line of business--the design, manufacture, and sale of stereophones and related accessories.

The Company's export sales amounted to $3,575,021 during 2001, $3,129,872 during 2000, and $2,845,529 during 1999.

Sales to one customer, Tandy Corporation, were approximately 18% of total sales for the year ended June 30, 2001, and 16% and 17% for the years ended June 30, 2000, and 1999, respectively.

10. COMMITMENTS AND CONTINGENCIES

The Company leases its main plant and offices in Milwaukee, Wisconsin from its Chairman. On June 25, 1993, the lease was renewed for a period of ten years, and is being accounted for as an operating lease. The lease extension increases the rent from $280,000 per year to a fixed rate of $350,000 per year for three years and $380,000 for the seven years thereafter. The lease is on terms no less favorable to the Company than those that could be obtained from an independent party. The Company is responsible for all property maintenance, insurance, taxes, and other normal expenses related to ownership. Rent expense, which includes this lease, approximated $424,000 in 2001, $454,000 in 2000, and $428,000 in 1999.

11. SUPPLEMENTARY INFORMATION

Changes in the allowance for doubtful accounts for the years ended June 30, 2001, 2000, and 1999 are summarized as follows:

Year Ending	Balance at Beginning of Period	Charges Against/ (Credits To) Income	Deductions*	Ba
2001	$252,194	$ 52,238	$ 3,180	
2000	$447,644	($ 37,178)	$158,272	
1999	$556,290	$254,000	$362,646	

*Represents charges against the allowance, net of recoveries.

The amounts included for advertising in selling, general, and administrative expenses in the accompanying statements of income were $207,776 in 2001, $235,257 in 2000, and $331,890 in 1999. Such costs are expensed as incurred.

12. SUBSEQUENT EVENT

On July 25, 2001, the Company declared a quarterly cash dividend of $0.25 per share for stockholders of record on September 30, 2001 to be paid October 15, 2001.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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-K 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-K, the words "anticipates," "believes," or "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-K, or in other Company filings, press releases, or otherwise. In addition to the factors discussed in this Form 10-K, 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, 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 Section 13 or 15(d) of the Securities 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

By: /s/ Michael J. Koss — Dated: 8/15/01

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

By: /s/ Sujata Sachdeva — Dated: 8/15/01

Sujata Sachdeva,
Vice President - Finance
Principal Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ John C. Koss
John C. Koss, Director
Dated: 8/15/01

/s/ Michael J. Koss
Michael J. Koss, Director
Dated: 8/15/01

/s/ Martin F. Stein
Martin F. Stein, Director
Dated: 8/16/01

/s/ Victor L. Hunter
Victor L. Hunter, Director
Dated: 8/15/01

/s/ John J. Stollenwerk
John J. Stollenwerk, Director
Dated: 8/15/01

Lawrence S. Mattson, Director
Dated:

/s/ Thomas L. Doerr
Thomas L. Doerr, Director
Dated: 8/16/01

The signatures of the above directors constitute a majority of the Board of Directors of Koss Corporation.

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OFFICERS AND
SENIOR MANAGEMENT

John C. Koss
Chairman of the Board

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

John C. Koss, Jr.
Vice President-Sales

Sujata Sachdeva
Vice President-Finance

Jill McCurdy
Vice President-Product Development

Lenore Lillie
Vice President-Operations

Cheryl Mike
Vice President-Human Resources/Customer Relations

Declan Hanley
Vice President-International Sales

DIRECTORS

John C. Koss
Chairman of the Board
Koss Corporation

Thomas L. Doerr
President
Doerr Corporation

Victor L. Hunter
President
Hunter Business Group, LLC

Michael J. Koss
Vice Chairman, President,
C.E.O., C.O.O., C.F.O.
Koss Corporation

Lawrence S. Mattson
Retired President
Oster Company

Martin F. Stein
Chairman
Eyecare One Inc.

John J. Stollenwerk
President
Allen-Edmonds Shoe Corporation

ANNUAL MEETING

October 18, 2001
Performance Center
Koss Corporation
4129 N. Port Washington Avenue
Milwaukee, WI 53212

TRANSFER AGENT

Questions regarding change of address,
stock transfer, lost certificate, or
information on a particular account
should be directed in writing to:

Firstar Trust Company

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
Milwaukee, Wisconsin

LEGAL COUNSEL

Richard W. Silverthorn
General Counsel
Whyte Hirschboeck Dudek S.C.

Box 2077
Milwaukee, WI 53201
Attn: Philip Meyer

EXHIBIT INDEX

The Company will furnish a copy of any exhibit described below upon request and upon reimbursement to the Company of its reasonable expenses of furnishing such exhibit, which shall be limited to a photocopying charge of $0.25 per page and, if mailed to the requesting party, the cost of first-class postage.

Designation of Exhibit	Exhibit Title	Incorporation by Reference
3.1	Certificate of Incorporation of Koss Corporation, as in effect on September 25, 1996	(1)
3.2	By-Laws of Koss Corporation, as in effect on September 25, 1996...	(2)
4.1	Certificate of Incorporation of Koss Corporation, as in effect on September 25, 1996	(1)
4.2	By-Laws of Koss Corporation, as in effect on September 25, 1996	(2)
10.1	Officer Loan Policy	(3)
10.3	Supplemental Medical Care Reimbursement Plan	(4)
10.4	Death Benefit Agreement with John C. Koss	(5)
10.5	Stock Purchase Agreement with John C. Koss	(6)
10.6	Salary Continuation Resolution for John C . Koss	(7)
10.7	1983 Incentive Stock Option Plan	(8)
10.8	Assignment of Lease to John C. Koss	(9)
10.9	Addendum to Lease	(10)
10.10	1990 Flexible Incentive Plan	(11)
10.12	Loan Agreement, effective as of February 17, 1995	(12)
10.13	Amendment to Loan Agreement dated June 15, 1995, effective as of February 17, 1995	(13)

10.14	Amendment to Loan Agreement dated April 29, 1999	(14)
10.15	Amendment to Loan Agreement dated December 15, 1999	(15)

10.16	License Agreement dated November 15, 1991 between Koss Corporation and Trabelco N.V. (a subsidiary of Hagemeyer N.V.) for North America, Central America and South America (including Amendment to License Agreement dated November 15, 1991; Renewal Letter dated November 18, 1994; and Second Amendment to License Agreement dated September 29, 1995)	(16)
10.17	License Agreement dated September 29, 1995 between Koss Corporation and Trabelco N.V. (a subsidiary of Hagemeyer N.V.) for Europe (including First Amendment to License Agreement dated December 26, 1995)	(17)
10.18	Third Amendment and Assignment of License Agreement to Jiangsu Electronics Industries Limited dated as of March 31, 1997	(18)
10.19	Fourth Amendment to License Agreement dated as of May 29, 1998	(19)
10.20	Fifth Amendment to License Agreement dated March 30, 2001	(20)
10.21	Sixth Amendment to License Agreement dated August 15, 2001	(21)
10.22	License Agreement dated June 30, 1998 between Koss Corporation and Logitech Electronics Inc. (including Addendum to License Agreement dated June 30, 1998)	(22)
10.23	Consent of Directors (Supplemental Executive Retirement Plan for Michael J. Koss dated March 7, 1997)	(23)
10.24	Amendment to Lease	(24)
10.25	Partial Assignment, Termination and Modification of Lease	(25)
10.26	Restated Lease	(26)
22	List of Subsidiaries of Koss Corporation	(27)

(1) Incorporated by reference from Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)

(2) Incorporated by reference from Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)

(3) Incorporated by reference from Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)

(4) Incorporated by reference from Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)

(5) Incorporated by reference from Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)

(6) Incorporated by reference from Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)

(7) Incorporated by reference from Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)

(8) Incorporated by reference from Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)

(9) Incorporated by reference from Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended June 30, 1988 (Commission File No. 0-3295)

(10) Incorporated by reference from Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended June 30, 1988 (Commission File No. 0-3295)

(11) Incorporated by reference from Exhibit 25 to the Company's Annual Report on Form 10-K for the year ended June 30, 1990 (Commission File No. 0-3295)

(12) Incorporated by reference from Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995 (Commission File No. 0-3295)

(13) Incorporated by reference from Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended June 30, 1995 (Commission File No. 0-3295)

(14) Incorporated by reference from Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended June 30, 1999 (Commission File No. 0-3295

(15) Incorporated by reference from Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended June 30, 2000 (Commission File No. 0-3295)

(16) Incorporated by reference from Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)

(17) Incorporated by reference from Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)

(18) Incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 (Commission File No. 0-3295)

(19) Incorporated by reference from Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended June 30, 1998 (Commission File No. 0-3295)

(20) Incorporated by reference from the sole Exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 (Commission File No. 0-3295)

(21) Filed herewith

(22) Incorporated by reference from Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended June 30, 1998 (Commission File No. 0-3295)

(23) Incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 (Commission File No. 0-3295)

(24) Incorporated by reference from Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended June 30, 2000 (Commission File No. 0-3295)

(25) Filed herewith

(26) Filed herewith

(27) Incorporated by reference from Exhibit 22 to the Company's Annual Report on Form 10-K for the year ended June 30, 1988 (Commission File No. 0-3295)