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KOSS CORP
Form ARS
August 22, 2001

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Dear Stockholder:

We are very pleased to announce results for the fiscal year ending June 30, 2001.

Sales for the fourth quarter ending June 30, 2001 were up 5% to \$10,186,107 compared with \$9,745,408 for the same period one year ago. Income from operations for the quarter increased 23% and reached \$2,521,133 compared with \$2,051,156 for the fourth quarter of 2000. Net income increased 11% to \$1,692,877 compared with \$1,527,987 for the same three month period last year. Fourth quarter diluted earnings per share increased by 31% to \$0.81 compared with \$0.62 for the fourth quarter of fiscal year 2000.

Year-to-date sales for the 12 months ending June 30, 2001 increased by 9% to \$38,609,335 compared with \$35,401,533 for the fiscal year 2000. Income from operations for the 12 months increased by 23% to \$8,126,089 from \$6,611,003. Year-to-date income for the 12 months increased by 15% reaching a company high of \$5,687,521 compared with \$4,953,461 for the 12 months ending June 30, 2000. Diluted earnings per share were \$2.56, an increase of 35% over the previous fiscal year record of \$1.90.

The final quarter for the fiscal year was exceptional. Throughout the year we had been anticipating a lower fourth quarter compared with 2000 and instead we are pleased to report a solid increase in sales and earnings. This is simply our best year of stereophone sales in the history of the Company and has produced a record in terms of our profitability. The Company had been most successful through the year in its growth of the base stereophone business at retail, despite setbacks in the OEM and automotive segments of the business.

Our Sales team was consistently challenged to perform this year by meeting and exceeding progress we made last year in areas outside our consumer retail business. The Company's ability to make up for slumps in the OEM sectors through increases in our sales to the retail channel helped post solid gains for the year and led us to new records in terms of our profitability and earnings.

In addition, income from operations had shown more solid and consistent growth than net income based upon inconsistencies in royalty income through the year. Renewal of the license agreement with Orient Power has now been extended for an additional 12 months.

Koss remains committed to its core Stereophone business and improvements in new product development and placement in both current and new accounts will continue to positively impact fiscal year 2002. The Company will continue to use cash to buy its undervalued shares from the market.

We are also pleased to announce that following the First Quarter of this fiscal year, the Company will pay a \$0.25 dividend to shareholders of record on September 30, 2001. This is the first time Koss has paid a dividend to shareholders since 1984. While the Company anticipates the ability to pay a quarterly dividend in the future, investors should be cautious not to expect this to automatically continue or to see any annual increase in the quarterly rates in the foreseeable future.

We would like to take this opportunity to thank our customers, suppliers, stockholders as well as the entire Koss team for their dedication to the current

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and future success of Koss Corporation.

Sincerely,

John C. Koss
Chairman

Michael J. Koss
President and CEO

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STOCKHOLDERS' INFORMATION

Koss Corporation's 2001 Annual Report is presented in a simple, readable and functional style. This Annual Report contains condensed financial statements only. The detailed financial statements including footnotes are included in the Form 10-K which has been provided to all stockholders along with the 2001 Annual Report. The Company believes this manner of presentation provides a concise summary for those who want to be kept informed while at the same time allowing those who feel it necessary the opportunity to investigate further.

Koss Corporation common stock is traded on the Over the Counter market and quotations are available through the National Market System. The trading symbol is KOSS.

For additional Annual Reports, Form 10-K's or Proxy materials write to:

Investment Relations
Koss Corporation 4129 N. Port Washington Ave.
Milwaukee, WI 53212

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Koss Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of Koss Corporation and its subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of income, of stockholders' investment and of cash flows for each of the three years in the period ended June 30, 2001 (not presented herein); and in our report dated July 10, 2001, except for Note 12 (not presented herein) for which the date is July 25, 2001, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
July 10, 2001, except for Note 12 (not presented herein)
for which the date is July 25, 2001

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CONSOLIDATED STATEMENTS OF INCOME

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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	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

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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	8,247,045
Inventories	8,496,010
Prepaid expenses	593,961
Income taxes receivable	480,322
Deferred income taxes	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

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	15,106,439
Less--accumulated depreciation	13,415,811
	1,690,628
Deferred Income Taxes	557,135
Other Assets	908,576
	\$ 21,496,328
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LIABILITIES AND STOCKHOLDERS' INVESTMENT	
Current Liabilities:	
Accounts payable	\$ 2,062,476
Accrued liabilities	1,551,679

Total current liabilities	3,614,155

Contingently Redeemable Equity Interest	1,490,000
Deferred Compensation	1,015,390
Other Liabilities	437,354
Commitments and Contingencies	

Stockholders' Investment:	
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
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MANAGEMENT INFORMATION

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

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

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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

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

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
Milwaukee, Wisconsin

LEGAL COUNSEL

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

ANNUAL MEETING

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

TRANSFER AGENT

Questions regarding change of a
stock transfer, lost certificat
information on a particular acc
should be directed in writing t

Firststar Trust Company
Box 2077
Milwaukee, WI 53201
Attn: Mr. Philip Meyer