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KOSS CORP  
Form DEF 14A  
September 20, 2002

SCHEDULE 14A  
(RULE 14A-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION  
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE  
SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO. )

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

Preliminary proxy statement.  Confidential, for use of the  
Commission only (as permitted by  
Rule 14a-6(e)(2)).

Definitive proxy statement.

Definitive additional materials.

Soliciting material pursuant to 14a-11(c) or Rule 14a-12

Koss Corporation

-----  
(Name of Registrant as Specified in Its Charter)

-----  
(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and  
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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed  
pursuant to Exchange Act Rule 0-11 (set forth the amount on which the  
filing fee is calculated and state how it was determined):

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[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:  
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(2) Form, Schedule or Registration Statement No.:  
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(3) Filing Party:  
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(4) Date Filed:  
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KOSS CORPORATION  
4129 NORTH PORT WASHINGTON AVENUE  
MILWAUKEE, WISCONSIN 53212

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON

OCTOBER 17, 2002

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the Meeting) of Koss Corporation will be held at the Milwaukee River Hilton Hotel at 4700 North Port Washington Avenue, Milwaukee, Wisconsin, on Thursday, October 17, 2002, at 9:00 a.m. local time to consider and act on the following proposals:

1. The election of six (6) directors;
2. The ratification of the appointment of PricewaterhouseCoopers LLP, independent accountants, as auditors of the Company for the fiscal year ending June 30, 2003; and
3. Such other business as may properly be brought before the Meeting.

The transfer books of the Company will not be closed for the Meeting.

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Only stockholders of record at the close of business on August 15, 2002 will be entitled to notice of and to vote at the Meeting. Information regarding the matters to be considered and voted upon at the Meeting is set forth in the Proxy Statement accompanying this Notice.

You are cordially invited to attend the Meeting in person, if possible. In order to assist us in preparing for the Meeting, all stockholders are urged to promptly sign and date the enclosed proxy and return it in the enclosed envelope which requires no postage. If you attend the Meeting, you may vote your shares in person even if you previously submitted a proxy.

By Order of the Board of Directors

Sujata Sachdeva, Secretary

Milwaukee, Wisconsin  
September 19, 2002

KOSS CORPORATION

PROXY STATEMENT

2002 ANNUAL MEETING OF STOCKHOLDERS

OCTOBER 17, 2002

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INTRODUCTION

THIS PROXY STATEMENT IS FURNISHED IN CONNECTION WITH THE SOLICITATION OF PROXIES BY THE BOARD OF DIRECTORS OF KOSS CORPORATION (the "Company") for use at the Company's 2002 Annual Meeting of Stockholders (the "Meeting") and any adjournment thereof, for the purposes set forth in the foregoing Notice of Annual Meeting of Stockholders.

DATE, TIME AND LOCATION. The Meeting will be held at the Milwaukee River Hilton Hotel, 4700 North Port Washington Avenue, Milwaukee, Wisconsin, 53212, on Thursday, October 17, 2002, at 9:00 a.m. local time.

PURPOSES OF THE MEETING. At the Meeting, stockholders will consider and vote upon the following: (i) the election of six (6) directors for one-year terms; (ii) a proposal to ratify the appointment of PricewaterhouseCoopers LLP ("PricewaterhouseCoopers"), independent accountants, as independent auditors for the fiscal year ending June 30, 2003; and (iii) such other business as may properly be brought before the Meeting.

PROXY SOLICITATION. The cost of soliciting proxies will be borne by the Company. Proxies will be solicited primarily by mail and may be made by directors, officers and employees personally or by telephone. The Company will reimburse brokerage firms, custodians and nominees for their out-of-pocket expenses incurred in forwarding proxy materials to beneficial owners. Proxy

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Statements and proxies will be mailed to stockholders on approximately September 23, 2002.

QUORUM AND VOTING INFORMATION. Only stockholders of record of the Company's \$.005 par value common stock ("Common Stock") at the close of business on August 15, 2002 (the "Record Date"), are entitled to vote at the Meeting. As of the Record Date, there were issued 3,911,756 shares of Common Stock, of which 241,202 shares were held as treasury shares. Accordingly, as of the Record Date, there were 3,670,554 shares of Common Stock outstanding and entitled to vote. A quorum of stockholders is necessary to take action at the Meeting. A majority of the outstanding shares of Common Stock, represented in person or by proxy, will constitute a quorum of stockholders at the Meeting. Votes cast by proxy or in person at the Meeting will be tabulated by the inspector of elections appointed for the Meeting. The inspector of elections will determine whether or not a quorum is present at the Meeting. The inspector of elections will treat abstentions as shares of Common Stock that are present and entitled to vote for purposes of determining the presence of a quorum. If a broker indicates on the proxy that it does not have discretionary authority to vote certain shares of Common Stock on a particular matter (a "broker non-vote"), those shares will not be considered as present and entitled to vote with respect to that matter (although those shares are considered entitled to vote for quorum purposes and may be entitled to vote on other matters).

The six nominees receiving the greatest number of votes cast in person or by proxy at the Meeting will be elected directors of the Company. The vote required to ratify the appointment of PricewaterhouseCoopers as independent accountants for the year ending June 30, 2003, and to approve any other matter to be presented to the Meeting, is the affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy at the Meeting. Abstentions and broker non-votes will have no effect on the election of directors and will have the same effect as votes "against" ratification of PricewaterhouseCoopers as the Company's auditors for the year ending June 30, 2003.

PROXIES AND REVOCATION OF PROXIES. A proxy in the accompanying form, which is properly executed, duly returned to the Company and not revoked, will be voted in accordance with instructions contained therein. In the event that any matter which is not described in this Proxy Statement properly comes before the Meeting, the accompanying form of proxy authorizes the persons appointed as proxies thereby ("Proxyholders") to vote on such matter in their sole discretion. At the present time, management knows of no other matters which are to come before the Meeting. See "ITEM 4. TRANSACTION OF OTHER BUSINESS." If no instructions are given with respect to any particular matter to be acted upon, a proxy will be voted "FOR" the election of all nominees for director named herein, and "FOR" the ratification of PricewaterhouseCoopers as the Company's auditors for the year ending June 30, 2003. If matters other than those mentioned herein properly come before the Meeting, a proxy will be voted in accordance with the best judgment of a majority of the Proxyholders named therein.

Each such proxy granted may be revoked at any time before it is voted by filing with the Secretary of the Company a written notice of revocation, by delivering to the Company a duly executed proxy bearing a later date, or by attending the Meeting and voting in person.

ANNUAL REPORT. The Company's Annual Report to Stockholders, which includes

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the Company's Form 10-K and its audited financial statements for the year ended June 30, 2002, although not a part of this Proxy Statement, is delivered herewith.

### ITEM 1. ELECTION OF DIRECTORS

The By-Laws of the Company provide that the number of Directors on the Board shall be no fewer than six and no greater than twelve. Given the varied experience of the current nominees and their contribution to the governing of the Company, the current size of the Board has been determined to be advantageous for both the Company and its stockholders. Shares cannot be voted for a greater number of persons than six vacant positions. Each director so elected shall serve until the next Annual Meeting of Stockholders and until his successor is duly elected, or until his prior death, resignation or removal.

#### INFORMATION AS TO NOMINEES

The following identifies the nominees for the six director positions and provides information as to their business experience for the past five years. Each nominee is presently a director of the Company:

JOHN C. KOSS, 72, has served continuously as Chairman of the Board of the Company or its predecessors since 1958. Previously, he served as Chief Executive Officer from 1958 until 1991. He is the father of Michael J. Koss (who is the Company's Vice Chairman, President, Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer, and a nominee for director of the Company), and the father of John Koss, Jr. (the Company's Vice President - Sales).

THOMAS L. DOERR, 58, has been a director of the Company since 1987. In 1972, Mr. Doerr co-founded Leeson Electric Corporation and served as its President and Chief Executive Officer until 1982. The company manufactures industrial electric motors. In 1983, Mr. Doerr incorporated Doerr Corporation as a holding company for the purpose of acquiring established companies involved in distributing products to industrial and commercial markets. Currently, Mr. Doerr serves as President of Doerr Corporation.

MICHAEL J. KOSS, 48, has held various positions at the Company since 1976, and has been a director of the Company since 1985. He was elected President, Chief Operating Officer and Chief Financial Officer of the Company in 1987, Chief Executive Officer in 1991, and Vice-Chairman in 1998. He is the son of John C. Koss and the brother of John Koss, Jr. Mr. Koss is also director of Strattec Security Corporation.

LAWRENCE S. MATTSON, 70, has been a director of the Company since 1978. Mr. Mattson is the retired President of Oster Company, a division of Sunbeam Corporation, which manufactures and sells portable household appliances.

MARTIN F. STEIN, 65, Mr. Stein has been a director of the Company since 1987. He is the former Chairman of Eyecare One, Inc., which includes Stein Optical and Eye Q optical centers. Prior to that, Mr. Stein was the Chairman and Chief Executive Officer of Stein Health Services. He is also a director of Northwestern Mutual Series Fund, Inc., Mason

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Street Series.

JOHN J. STOLLENWERK, 62, has been a director of the Company since 1986. Mr. Stollenwerk is the President and Chief Executive Officer of the Allen-Edmonds Shoe Corporation, an international manufacturer and retailer of high quality footwear. He is also a director of Allen-Edmonds Shoe Corporation, Badger Meter, Inc., U.S. Bancorp, and Northwestern Mutual Life Insurance Company.

THE BOARD OF DIRECTORS RECOMMENDS THAT  
STOCKHOLDERS VOTE "FOR" THE ELECTION OF ALL  
NOMINEES NAMED ABOVE TO THE BOARD OF DIRECTORS.

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### BOARD COMMITTEES

The Board of Directors of the Company has the following standing committees:

**AUDIT COMMITTEE.** The Audit Committee, which is composed of Mr. Mattson, Mr. Doerr, and Mr. Stein, reviews and evaluates the effectiveness of the Company's financial and accounting functions, including reviewing the scope and results of the audit work performed by the independent accountants and by the Company's internal accounting staff. The Audit Committee met twice during the fiscal year ended June 30, 2002. The independent accountants were present at both of these meetings to discuss their audit scope and the results of their audit.

**COMPENSATION COMMITTEE.** The Compensation Committee, which is composed of John C. Koss, Mr. Mattson, and Mr. Stollenwerk, has responsibility for reviewing and recommending adjustments for all employees whose annual salaries exceed \$75,000 or who report directly to the Company's Chief Executive Officer. The Compensation Committee met once during the fiscal year ended June 30, 2002. See "Compensation Committee Report on Executive Compensation." The Company's 1990 Flexible Incentive Plan (the "Plan") is administered by the Compensation Committee. Subject to the express provisions of the Plan, the Committee has complete authority to (i) determine when and to whom benefits are granted; (ii) determine the terms and provisions of benefits granted; (iii) interpret the Plan; (iv) prescribe, amend and rescind rules and regulations relating to the Plan; (v) accelerate, purchase, adjust or remove restrictions from benefits; and (vi) take any other action which it considers necessary or appropriate for the administration of the Plan.

**NOMINATING COMMITTEE.** The Board of Directors has no nominating committee and the Company has no established procedure for the nomination of persons to serve on the Board of Directors.

**ATTENDANCE AT BOARD AND COMMITTEE MEETINGS.** During the fiscal year ended June 30, 2002, the Board held four meetings. Every incumbent director attended 75% or more of the total of (i) all meetings of the Board, plus (ii) all meetings of the committees on which they served during their respective terms of office.

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### EXECUTIVE OFFICERS

Information is provided below with respect to the executive officers of the Company who are not directors. Each executive officer is elected annually by the Board of Directors and serves for one year or until his or her successor is appointed.

NAME	AGE	POSITIONS HELD	CURRENT POSITION HELD SINCE
John Koss, Jr.	45	Vice President - Sales	198
Sujata Sachdeva	38	Vice President - Finance and Secretary	199
Lenore E. Lillie	43	Vice President - Operations	199

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### BENEFICIAL OWNERSHIP OF COMPANY SECURITIES

SECURITY OWNERSHIP BY NOMINEES AND MANAGEMENT. The following table sets forth, as of August 1, 2002, the number of shares of Common Stock "beneficially owned" (as defined under applicable SEC regulations), and the percentage of such shares to the total number of shares outstanding, for all nominees, for each executive officer named in the Summary Compensation Table (see "Executive Compensation and Related Matters - Summary Compensation Table"), for all directors and executive officers as a group, and for each person and each group of persons who, to the knowledge of the Company as of June 30, 2002, were the beneficial owners of more than 5% of the outstanding shares of Common Stock.

NAME AND BUSINESS ADDRESS (1)	NUMBER OF SHARES BENEFICIALLY OWNED (2)
John C. Koss (4)	1,378,083
Michael J. Koss (5)	995,631
John Koss, Jr. (6)	281,271
Thomas L. Doerr	0
Victor L. Hunter	2
Lawrence S. Mattson	0
Martin F. Stein	9,000
John J. Stollenwerk	9,130
Sujata Sachdeva (7)	8,845
Lenore E. Lillie (8)	20,387
All directors and executive Officers as a group (10 persons) (9)	2,641,985

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Koss Family Voting Trust, John C. Koss, Trustee (10).....	580,672
Koss Employee Stock Ownership Trust ("KESOT") (11).....	411,176
Dimensional Fund Advisors (12).....	210,800
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- (1) Unless otherwise noted, the business address of all persons named in the above table is c/o Koss Corporation, 4129 North Port Washington Avenue, Milwaukee, WI 53212.
- (2) Unless otherwise noted, amounts indicated reflect shares as to which the beneficial owner possesses sole voting and dispositive powers. Also included are shares subject to stock options if such options are exercisable within 60 days of August 1, 2002.
- (3) All percentages shown in the above table are based on 3,670,554 shares outstanding and entitled to vote (which number excludes 241,202 treasury shares) on August 1, 2002, plus (for Michael J. Koss, John C. Koss, Jr., Ms. Sachdeva and Ms. Lillie, and for all directors and executive officers as a group) the number of options exercisable within 60 days of August 1, 2002. The Percentage calculation assumes, for each individual owning options and for directors and executive officers as a group, the exercise of that number of stock options that are exercisable within 60 days of August 1, 2002. Asterisk (\*) denotes beneficial ownership of less than 1%.
- (4) Includes the following shares which are deemed to be "beneficially owned" by John C. Koss: (i) 561,712 shares owned directly or by his spouse; (ii) 111,034 shares as a result of his position as an officer of the Koss Foundation; (iii) 580,672 shares as a result of his position as trustee of the Koss Family Voting Trust; (iv) 124,300 shares as a result of his position as co-trustee of the John C. and Nancy Koss Revocable Trust; and (v) 365 shares by reason of the allocation of those shares to his account under the Koss Employee Stock Ownership Trust ("KESOT") and his ability to vote such shares pursuant to the terms of the KESOT - see "Executive Compensation and Related Matters - Other Compensation Arrangements - Employee Stock Ownership Plan and Trust."
- (5) Includes the following shares which are deemed to be "beneficially owned" by Michael J. Koss: (i) 474,455 shares owned directly or by reason of family relationships; (ii) 56,084 shares by reason of the allocation of those shares to his account under the KESOT and his ability to vote such shares; (iii) 110,000 shares with respect to which he holds options which are exercisable within 60 days of August 1, 2002; and (iv) 411,176 shares which are held by the KESOT (see Note (9), below). The

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56,084 shares allocated to Michael J. Koss' KESOT account, over which he holds voting power, are included within the aforementioned 411,176 shares but are counted only once in his individual total.

- (6) Includes the following shares which are deemed to be



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"beneficially owned" by John Koss, Jr.: (i) 158,014 shares owned directly or by reason of family relationships; (ii) 82,500 shares with respect to which he holds options which are exercisable within 60 days of August 1, 2002; and (iii) 40,757 shares by reason of the allocation of those shares to his account under the KESOT and his ability to vote such shares.

- (7) Includes the following shares which are deemed to be "beneficially owned" by Sujata Sachdeva: (i) 0 shares owned directly; (ii) 2,500 shares with respect to which she holds options which are exercisable within 60 days of August 1, 2002; and (iii) 6,345 shares by reason of the allocation of those shares to her account under the KESOT and her ability to vote such shares.
- (8) Includes the following shares which are deemed to be "beneficially owned" by Lenore E. Lillie: (i) 5,000 shares owned directly; (ii) 2,500 shares with respect to which she holds options which are exercisable within 60 days of August 1, 2002; and (iii) 12,887 shares by reason of the allocation of those shares to her account under the KESOT and her ability to vote such shares.
- (9) This group includes 10 people, all of who are listed on the accompanying table. To avoid double-counting: (i) the 411,176 total shares held by the KESOT and deemed to be beneficially owned by Michael J. Koss as a result of his position as a KESOT Trustee (see Note (5), above) include shares allocated to the KESOT accounts of John C. Koss, Michael J. Koss, John Koss, Jr., Ms. Sachdeva and Ms. Lillie in the above table but are included only once in the total; and (ii) the 580,672 shares deemed to be beneficially owned by John C. Koss as a result of his position as trustee of the Koss Family Voting Trust (see Note (4), above) are included in his individual total share ownership and are included only once in the total.
- (10) The Koss Family Voting Trust was established by John C. Koss. The sole Trustee is John C. Koss. The term of the Koss Family Voting Trust is indefinite. Under the Trust Agreement, John C. Koss, as Trustee, holds full voting and dispositive power over the shares held by the Koss Family Voting Trust. All of the 580,672 shares held by the Koss Family Voting Trust are included in the number of shares shown as beneficially owned by John C. Koss (see Note (4), above).
- (11) The KESOT holds 411,176 shares. Authority to vote these shares is vested in KESOT participants to the extent shares have been allocated to individual KESOT accounts. All 411,176 of these KESOT shares are also included in the number of shares shown as beneficially owned by Michael J. Koss (see Note (5), above). Michael J. Koss and Cheryl Mike (the Company's Director of Human Resources) serve as Trustees of the KESOT and, as such, they share dispositive power with respect to (and are therefore each deemed under applicable SEC rules to beneficially own) all 411,176 KESOT shares.
- (12) 1299 Ocean Ave., 11th Floor, Santa Monica, CA 90401. The share ownership reported by Dimensional Fund Advisors is based on the most recently available public information obtained by the Company.

EXECUTIVE COMPENSATION AND RELATED MATTERS

SUMMARY COMPENSATION TABLE. The following table presents certain summary information concerning compensation paid or accrued by the Company for services rendered in all capacities during the fiscal years ended June 30, 2002, 2001, and 2000 for (i) the Chief Executive Officer ("CEO") of the Company, and (ii) each of the other four executive officers of the Company (determined as of the end of the last fiscal year) whose total annual salary and bonus exceeded \$100,000 (collectively, including the CEO, the "Named Executive Officers").

NAME AND PRINCIPAL POSITION	FISCAL YEAR ENDED JUNE 30	ANNUAL COMPENSATION			LONG-TERM COMPENSATION
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (2) (\$)	RESTRICTED STOCK AWARDS (\$)
John C. Koss Chairman of the Board	2002	\$150,000	\$232,049	\$ 0	\$ 0
	2001	150,000	267,185	0	0
	2000	150,000	164,855	0	0
Michael J. Koss Chief Executive Officer	2002	\$195,000	\$324,869	\$289,500	0
	2001	185,000	374,060	81,438	0
	2000	175,000	230,797	230,263	0
John Koss, Jr Vice President - Sales	2002	\$145,000	\$ 43,264	\$141,600	0
	2001	136,500	150,000	183,000	0
	2000	130,000	34,020	51,900	0
Sujata Sachdeva Vice President - Finance	2002	\$ 90,503	\$ 21,291	\$ 81,738	0
	2001	86,250	23,221	118,963	0
	2000	75,000	17,200	37,601	0
Lenore E. Lillie Vice President - Operations	2002	\$ 90,563	\$ 21,291	\$118,200	0
	2001	86,250	23,221	434,088	0
	2000	75,000	17,200	53,388	0

(1) The above table omits information concerning Long Term Incentive Plans ("LTIPs") (plans, other than restricted stock, stock option, or SAR plans, which provide for the payment of incentive compensation for performance expected to occur over more than one fiscal year) because the Company has no LTIPs.

(2) This column consists of the value realized upon the exercise of stock options for the fiscal years indicated. For more information, see "Aggregate Stock Option Exercises During the Fiscal Year." In all cases, the value of perquisites and other benefits in any fiscal year did not

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- exceed the lesser of \$50,000 or 10% of the total salary and bonus reported and, under applicable SEC compensation disclosure rules, are not required to be included in this column.
- (3) This column consists of Incentive Stock Options granted to executive officers for the fiscal years indicated. For additional information, see "Stock Options Granted During Fiscal Year" and "Other Compensation Arrangements - Stock Option Plans."
- (4) "All Other Compensation" consists of the following: (i) Company matching contributions under the Company's 401(k) Plan for the accounts of John C. Koss (\$7,866 in 2002, \$7,500 in 2001, and \$7,500 in 2000), Michael J. Koss (\$11,000 in 2002, \$10,500 in 2001, and \$10,500 in 2000), John Koss, Jr. (\$11,103 in 2002, \$9,880 in 2001, and \$11,870 in 2000), Ms. Sachdeva (\$10,259 in 2002, \$11,224 in 2001, and \$7,849 in 2000), and Ms. Lillie (\$10,606 in 2002, \$10,752 in 2001, and \$7,866 in 2000); (ii) Company contributions to the KESOT for the accounts of John C. Koss (\$5,868 in 2002, \$5,917 in 2001, and \$289 in 2000), Michael J. Koss (\$5,868 in 2002, \$5,917 in 2001, and \$289 in 2000), John Koss, Jr. (\$5,868 in 2002, \$5,917 in 2001, and \$289 in 2000), Ms. Sachdeva (\$4,062 in 2002, \$3,914 in 2001, and \$167 in 2000), and Ms. Lillie (\$3,937 in 2002, \$3,749 in 2001, and \$168 in 2000); (iii) premiums paid by the Company for life insurance for John C. Koss (\$5,805 in 2002, \$3,645 in 2001, and \$12,900 in 2000), Michael J. Koss (\$2,354 in 2002, \$1,425 in 2001, and \$4,092 in 2000), John Koss, Jr. (\$1,402 in 2002, \$87 in 2001, and \$1,267 in 2000), Ms. Sachdeva (\$245 in 2002, \$34 in 2001, and \$203 in 2000), and Ms. Lillie (\$375 in 2002, \$150 in 2001, and \$828 in 2000); and (iv) for the fiscal years 2001 and 2000, an annual accrued expense of \$115,080 in connection with the Company's agreement to continue to pay John C. Koss his current base salary for the remainder of his life, and no such accrual for the fiscal year 2002.

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STOCK OPTIONS GRANTED DURING FISCAL YEAR. The following table provides certain information concerning stock options granted to Named Executive Officers during the fiscal year ended June 30, 2002.

INDIVIDUAL GRANTS						
NAME	SECURITIES UNDERLYING OPTIONS/ SARS GRANTED (#)	PERCENT OF TOTAL OPTIONS/ SARS GRANTED TO EMPLOYEES IN FISCAL YEAR (1)	EXERCISE OR BASE PRICE (\$ PER SHARE)	EXPIRATION DATE	POTENTIAL ASSUMED ANNUAL APPRECIATION 0%	
John C. Koss	n/a	n/a	n/a	n/a	n/a	
Michael J. Koss	60,000	40.0%	\$18.48	April 24, 2007	\$(100,800)	

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John Koss, Jr	40,000	26.7%	18.48	April 24, 2007	(67,200)
Sujata Sachdeva	10,000	6.7%	16.80	April 24, 2012	0
Lenore E. Lillie	10,000	6.7%	16.80	April 24, 2012	0

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- (1) The percentages set forth in this table are based on 150,000 total stock option shares granted for the fiscal year ended June 30, 2002.
- (2) Based on the closing price on April 24, 2002, the date such options were granted. The exercise price for Michael J. Koss and John Koss, Jr. is equal to 110% of the closing price on the date of grant.

AGGREGATE STOCK OPTION EXERCISES DURING THE FISCAL YEAR. The following table provides certain information about stock options exercised by the Named Executive Officers during the fiscal year ended June 30, 2002 and held by the Named Executive Officers on June 30, 2002.

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (DOLLARS)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FISCAL YEAR END		VALUE OF OPTIONS EXERCISABLE
			EXERCISABLE	UNEXERCISABLE	
John C. Koss	n/a	n/a	n/a	n/a	n/a
Michael J. Koss	30,000	\$ 289,500	110,000	150,000	\$ 999,000
John Koss, Jr.	15,000	141,600	82,500	97,500	762,000
Sujata Sachdeva	7,500	81,738	2,500	25,000	
Lenore E. Lillie	10,000	118,200	2,500	25,000	

- 
- (1) Based on the \$16.75 per share market value of the Common Stock on June 30, 2002, determined with reference to the closing price of the Common Stock on that date as reported on The Nasdaq Stock Market. Options are "in-the-money" if the fair market value of the Common Stock on June 30, 2002 exceeded the exercise price.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION. John C. Koss, who is the Chairman of the Board and executive officer of the Company, serves on the Compensation Committee.

DIRECTOR COMPENSATION. Directors who are not also employees of the Company receive an annual retainer of \$5,000, plus \$1,250 per director for each meeting and \$500 per director for each committee meeting.

OTHER COMPENSATION ARRANGEMENTS. The Company has certain other compensation plans and arrangements which are available to the CEO and certain of the Named Executive Officers including the following:

- SUPPLEMENTAL MEDICAL CARE REIMBURSEMENT PLAN. Each officer of the Company is covered by a medical care reimbursement plan for all medical expenses incurred which are not covered under group health insurance up to an annual maximum of 10% of salary. Amounts reimbursed under this Plan are included under the column headed "All Other Compensation" in the summary compensation table.
- EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST. In December 1975, the Company adopted the KESOT, which is a form of employee benefit plan designed to

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invest primarily in employer securities. The KESOT is qualified under Section 401(a) of the Internal Revenue Code. All full-time employees with at least six months' uninterrupted service with the Company are eligible to participate in the KESOT. Contributions to the KESOT are allocated to the accounts of participants in proportion to the ratio that a participant's compensation bears to total compensation of all participants.

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Accounts are adjusted each year to reflect the investment experience of the trust and forfeitures from accounts of non-vested terminated participants. All unallocated shares will be voted by the KESOT Trustees as directed by the KESOT Committee. Michael J. Koss and Cheryl Mike currently serve as KESOT Trustees and as the members of the KESOT Committee. Voting rights for all allocated shares are passed through to the participant for whose account such shares are allocated, and must be voted by the Trustees in accordance with the participants' direction. As of August 1, 2002 the KESOT held 411,176 shares of Common Stock (approximately 10.51% of the total number of shares outstanding).

- OFFICER LOAN POLICY. On January 31, 1980, the Board adopted an Officer Loan Policy. The significant provisions of the policy are: (i) the maximum amount to be loaned is limited to one-half of the officer's annual base salary; (ii) the first \$10,000 bears no interest; (iii) in the event the loan balance exceeds \$10,000, interest is charged on the entire amount at the minimum rate provided by Section 483 of the Internal Revenue Code; and (iv) the loan will be repaid in installments or in full upon termination of employment. During the fiscal year ended June 30, 2002, no officer had an officer loan that exceeded \$60,000. Given the recent passage of the Sarbanes-Oxley Act of 2002, the Company will no longer have an officer loan policy.
- RETIREMENT AGREEMENT. The Board of Directors adopted a resolution to continue to pay to John C. Koss his current base salary in the event he became disabled prior to age 70. After age 70, Mr. Koss is eligible to receive his current base salary of \$150,000 for the remainder of his life, whether he becomes disabled or not. Mr. Koss is over 70 years old and will be entitled to receive this benefit upon his retirement from the Company.
- STOCK OPTION PLANS. In 1990, the Board of Directors created, and the stockholders approved, a Flexible Incentive Plan (the "Plan"). This Plan is administered by the Compensation Committee and vests the Compensation Committee with discretionary powers to choose from a variety of incentive compensation alternatives to make annual stock-based awards to officers, key employees and other members of the Company's management team. John C. Koss is not eligible for any grants since he is a member of the Compensation Committee.
- SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN. The Board of Directors has by resolution entered into a Supplemental Executive Retirement Plan with Michael J. Koss which calls for Mr. Koss to receive annual cash compensation following his retirement from the Company ("Retirement Payments") in an amount equal to 2% of the base salary of Mr. Koss, multiplied by his number of years of service to the Company (for example, if Mr. Koss had worked 25 years, then he would be entitled to

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receive 50% of base salary). The base salary shall be calculated using the average base salary of Mr. Koss during the three years preceding his retirement. The Retirement Payments are to be paid to Mr. Koss monthly until his death, and after his death shall continue to be paid monthly to his surviving spouse until her death.

- PROFIT SHARING PLAN. Every quarter of each fiscal year, the Company sets aside a percentage of any operating profits and distributes it to all employees (except John C. Koss, Michael J. Koss, and John Koss, Jr.) based on their hourly rate of pay. All full-time Koss employees (except John C. Koss, Michael J. Koss, and John Koss, Jr.) are eligible for profit sharing if they have been employed for the complete fiscal quarter. Deductions are made from profit sharing for each absence (paid sick days and unpaid days) based on the number of hours of time lost.

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### AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors (the "Committee") is composed of three non-employee directors. The members of the Committee are: Mr. Mattson, Mr. Doerr and Mr. Stein. Each member of the Committee is "independent" as defined in The Nasdaq Stock Market listing standards. The Committee held two meetings during its fiscal year 2002.

The responsibilities of the Committee are set forth in its Charter, which is reviewed and amended periodically, as appropriate. Generally, the Committee reviews and monitors the Company's financial reporting process on behalf of the Board of Directors. In fulfilling its responsibility, the Committee recommends to the full Board of Directors the selection of the Company's independent accountants. The Committee discusses with the independent accountants the overall scope and specific plans for their respective audits. The Committee also discusses the Company's consolidated financial statements, the effectiveness and adequacy of the Company's internal controls and pending litigation. The Committee meets twice a year with the Company's independent accountants to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

Specifically, the Committee has: (i) reviewed and discussed the Company's audited financial statements for the fiscal year ended June 30, 2002 with the Company's management; (ii) discussed with the Company's independent auditors the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards), as may be modified or supplemented; and (iii) received the written disclosures and the letter from the Company's independent accountants required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees), as may be modified or supplemented, and has discussed with the Company's independent accountants the independent accountants' independence. Based on the review and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002 for filing with the SEC.

AUDIT COMMITTEE  
LAWRENCE S. MATTSON  
THOMAS L. DOERR  
MARTIN F. STEIN

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THE REPORT OF THE AUDIT COMMITTEE SHALL NOT BE DEEMED INCORPORATED BY REFERENCE BY ANY GENERAL STATEMENT INCORPORATING BY REFERENCE THIS PROXY STATEMENT INTO ANY FILING UNDER THE SECURITIES ACT OF 1933 OR UNDER THE SECURITIES EXCHANGE ACT OF 1934 (TOGETHER, THE "ACTS"), EXCEPT TO THE EXTENT THAT THE COMPANY SPECIFICALLY INCORPORATES THIS INFORMATION BY REFERENCE, AND SHALL NOT OTHERWISE BE DEEMED FILED UNDER SUCH ACTS.

### COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Under SEC rules, the Company is required to provide certain information concerning compensation provided to the Company's Chief Executive Officer and the Named Executive Officers. The disclosure requirements for these individuals include the use of tables and a report of the Committee responsible for compensation decisions for these individuals, explaining the rationale and considerations that led to those compensation decisions. Therefore, the Compensation Committee of the Board of Directors has prepared the following report for inclusion in this Proxy Statement:

The Compensation Committee of the Board of Directors ("Compensation Committee") is composed of Mr. Stollenwerk, Mr. Mattson, Mr. Hunter and the Chairman of the Board, John C. Koss. The Compensation Committee is responsible for the review of all employee salaries in excess of \$75,000 or who report directly to the Company's Chief Executive Officer. The Compensation Committee also reviews all bonus, commission and stock option programs. The Compensation Committee meets as a group each spring and reviews its report with the full Board prior to the end of the fiscal year. This system enables management to plan the following year more appropriately.

The Company employs a compensation program linked to company-wide performance and individual achievement. All executive officers are reviewed twice each year. Raises in base salaries are made in July when necessary or when promotions are announced. In addition, the Company has a Flexible Incentive Plan, an Employee Stock Ownership Plan and Trust, a 401(k) Plan, and a Profit Sharing Plan. The Company also has a

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cafeteria benefits plan to provide flexibility to employees to choose their own health care and associated benefits package from an array of offerings. The Company shares the cost of medical insurance with its employees.

The Company's executive officers are paid base salaries commensurate with their responsibilities, after comparison with base salaries of executive officers of other light assembly or manufacturing companies taken from data in an annual national survey.

Executive officers are also eligible for annual bonuses based upon individual performance and overall Company performance and profitability. Factors relevant to determining such bonuses include attainment of corporate revenue and earnings goals and the development of new accounts. The Company's Chairman is eligible to receive a bonus calculated as a percentage of the Company's earnings before interest and taxes. The Company's Vice President-Sales is entitled to receive a bonus based upon increases in sales over the prior year, and a bonus for obtaining new accounts from a predetermined list of potential new accounts and for

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adding new product lines to current accounts. The Company's Vice President - Europe is entitled to receive a bonus based upon the Company's sales in export markets.

The Compensation Committee annually reviews and determines the compensation of Michael J. Koss, President and Chief Executive Officer. Michael J. Koss' salary is based on his experience, responsibilities, historical salary levels for himself and other executive officers of the Company, and the salaries of Chief Executive Officers of other light assembly or manufacturing companies. Michael J. Koss is also eligible to receive a bonus calculated as a percentage of the Company's earnings before interest and taxes. He also participates in the Company's Flexible Incentive Plan.

COMPENSATION COMMITTEE  
JOHN C. KOSS  
LAWRENCE S. MATTSO  
JOHN J. STOLLENWERK

THE REPORT OF THE COMPENSATION COMMITTEE SHALL NOT BE DEEMED INCORPORATED BY REFERENCE BY ANY GENERAL STATEMENT INCORPORATING BY REFERENCE THIS PROXY STATEMENT INTO ANY FILING UNDER THE SECURITIES ACT OF 1933 OR UNDER THE SECURITIES EXCHANGE ACT OF 1934 (TOGETHER, THE "ACTS"), EXCEPT TO THE EXTENT THAT THE COMPANY SPECIFICALLY INCORPORATES THIS INFORMATION BY REFERENCE, AND SHALL NOT OTHERWISE BE DEEMED FILED UNDER SUCH ACTS.

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### STOCK PRICE PERFORMANCE INFORMATION

The graph and table below set forth information comparing the yearly cumulative total return on the Company's Common Stock over the past five years with the yearly cumulative total return on (i) stocks included in The Nasdaq Stock Market (US Companies) Index, and (ii) a group of peer companies ("Peer Group"). The Peer Group consists of Boston Acoustics, Inc., Digital Video Systems, Inc., and Phoenix Gold International, Inc. The Peer Group used last year also included Sensory Science Corporation, which is not included in this year's Peer Group as a result of its acquisition by another company. For purposes of the graph and table, it is assumed that on June 30, 1997, \$100 was invested in the stock of each of (i) the Company, (ii) the companies on The Nasdaq Stock Market (US Companies) Index, and (iii) the companies in the Peer Group (the cumulative return for the investment in the stock of companies in the Peer Group is weighted according to the relative market capitalization of each company as adjusted at the end of each fiscal year shown on the table). The graph and table also assume that all dividends paid were reinvested in the stock of the issuing companies. THE STOCK PRICE PERFORMANCE INFORMATION SHOWN IN THE GRAPH AND TABLE BELOW SHOULD NOT BE CONSIDERED INDICATIVE OF FUTURE PERFORMANCE.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN  
ASSUMES INITIAL INVESTMENT OF \$100  
JUNE 2002

[PERFORMANCE CHART]

1997	1998	1999	2000	2001	2002
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Koss Corp	\$ 100.00	\$ 115.71	\$ 138.57	\$ 181.43	\$ 357.14	\$ 394.81
NASDAQ US	\$ 100.00	\$ 131.62	\$ 189.31	\$ 279.93	\$ 151.75	\$ 102.81
Peer Group	\$ 100.00	\$ 88.16	\$ 68.19	\$ 52.96	\$ 45.68	\$ 45.07

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### RELATED TRANSACTIONS

**BUILDING LEASE.** The Company leases its main plant and offices in Milwaukee, Wisconsin, from its Chairman, John C. Koss, under a lease which expires on June 30, 2003 (subject to renewal) at a current rent of \$380,000 per year. The Company is responsible for all property maintenance, insurance, taxes and other normal expenses related to ownership. The Company believes that the lease is on terms no less favorable to the Company than those that could be obtained from unaffiliated parties.

**STOCK REPURCHASES.** The Company has previously announced its intention to repurchase shares of Common Stock in the open market or in private transactions as such shares become available from time to time, because the Company believes that its stock is undervalued in the current market and that such repurchases enhance the value to stockholders. Consistent with this policy, the Company repurchased 301,202 shares during the fiscal year ended June 30, 2002. The Company believes that purchases of Common Stock enhance stockholder value and will continue from time to time to engage in such transactions either on the open market or in private transactions.

The Company has an agreement with its Chairman, John C. Koss, 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 the prime rate of interest for the balance. The Company maintains a \$1,150,000 life insurance policy to fund a substantial portion of this obligation. At June 30, 2002, \$1,490,000 has been classified as a Contingently Redeemable Equity Interest on the Company's financial statements reflecting the estimated obligation in the event of execution of the agreement.

### SECTION 16 BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the SEC and with The Nasdaq Stock Market reports of ownership and changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on review of such reports furnished to the Company or representations that no other reports were required, the Company believes that, during the 2002 fiscal year, all filing requirements applicable to its officers, directors, and greater than 10% beneficial owners were complied with except as follows:

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- John C. Koss will file two late reports covering two transactions (the minimum required distribution of shares and in-service withdrawal of shares allocated to his KESOT account, and the gifting of shares to grandchildren);
- Michael J. Koss filed two late reports covering two transactions (a grant of 60,000 stock options on April 24, 2002, and an exercise (with no corresponding resale) of 20,000 stock options of June 27, 2002);
- John C. Koss, Jr. filed one late report covering the grant of 40,000 stock options on April 24, 2002;
- Sujata Sachdeva filed one late report covering the grant of 10,000 stock options on April 24, 2002; and
- Lenore Lillie filed one late report covering the grant of 10,000 stock options.

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### ITEM 2. RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR

The Board of Directors, following the recommendation of its Audit Committee, has retained PricewaterhouseCoopers as independent accountants to audit the consolidated financial statements of the Company and its subsidiaries for the fiscal year ending June 30, 2003. PricewaterhouseCoopers has served the Company as its independent auditors since September 1992. Representatives of PricewaterhouseCoopers are expected to be present at the Meeting, and will have the opportunity to make a statement if they desire to do so. The PricewaterhouseCoopers representatives are expected to be available to respond to appropriate questions at the Meeting.

**AUDIT FEES.** The aggregate fees billed by PricewaterhouseCoopers for professional services rendered for the audit of the Company's annual consolidated financial statements and the reviews of the consolidated financial statements included in the Company's quarterly 10-Q filings, for the fiscal year ended June 30, 2002, were \$79,000.

**FINANCIAL INFORMATION SYSTEMS DESIGN AND IMPLEMENTATION FEES.** The aggregate fees billed by PricewaterhouseCoopers for professional services rendered in connection with consulting on financial information systems design implementation, for the fiscal year ended June 30, 2002, were \$0.

**ALL OTHER FEES.** The aggregate fees billed by PricewaterhouseCoopers for professional services rendered, which primarily related to income tax compliance, tax consulting, audits of employee benefit plans, and other services for the fiscal year ended June 30, 2002, were \$80,900.

The Audit Committee has considered whether the performance of the services described above under the caption "All Other Fees" is compatible with maintaining PricewaterhouseCoopers' independence.

Although this appointment is not required to be submitted to a vote by

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stockholders, the Board believes it appropriate, as a matter of policy, to request that the stockholders ratify the appointment. If stockholder ratification (by the affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy at the Meeting) is not received, the Board will reconsider the appointment. Unless otherwise directed, the proxy will be voted in favor of the ratification of such appointment.

THE BOARD OF DIRECTORS RECOMMENDS THAT  
STOCKHOLDERS VOTE "FOR" RATIFICATION OF  
PRICEWATERHOUSECOOPERS AS INDEPENDENT  
ACCOUNTANTS FOR THE YEAR ENDING JUNE 30, 2003

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ITEM 3. TRANSACTION OF OTHER BUSINESS

The Board of Directors of the Company is not aware of any other matters that may come before the meeting. If any other matters are properly presented to the meeting for action, it is the intention of the persons named as proxies in the enclosed form of proxy to vote such proxies in accordance with their best judgment on such matters.

STOCKHOLDER PROPOSALS FOR 2003 ANNUAL MEETING

There are no stockholder proposals on the agenda for the Meeting. In order to be eligible for inclusion in the Company's proxy materials for its 2003 annual meeting, a stockholder proposal must be received by the Company no later than May 27, 2003 and must otherwise comply with the applicable rules of the Securities and Exchange Commission. To avoid controversy over when a stockholder proposal is received, stockholder proposals should be sent by certified mail, return receipt requested, and should be addressed to the Secretary of the Company.

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PLEASE DATE, SIGN AND MAIL YOUR  
PROXY CARD BACK AS SOON AS POSSIBLE!

ANNUAL MEETING OF STOCKHOLDERS  
KOSS CORPORATION

OCTOBER 17, 2002

\ / Please Detach and Mail in the Envelope Provided \ /

A [X] PLEASE MARK YOUR  
VOTES AS IN THIS  
EXAMPLE.

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FOR all nominees listed at right (except as specified below) WITHHOLD AUTHORITY to vote for all nominees listed at right

1. ELECTION / / OF DIRECTORS:  
 (Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the space provided below.)

Nominees:  
 1 - John C. Koss  
 2 - Thomas L. Doerr  
 3 - Michael J. Koss  
 4 - Lawrence S. Mallson  
 5 - Martin F. Stein  
 6 - John J. Stollenwerk

2. PROPOSAL TO APPOINTMENT PRICEWATERHO LLP AS INDEP AUDITORS OF CORPORATION YEAR ENDING

3. IN THEIR DIS TO VOTE UPON PROPERLY COM

Check appropri

Indicate change

Signature \_\_\_\_\_ Date: \_\_\_\_\_, 2002 Signature \_\_\_\_\_

NOTE: Please sign exactly as name appears hereon. When shares are held by joint tenants, both shareholders, executors, administrators, trustee or guardian, please give full title as such. If a corporate name by President or other authorized officer. If a partnership, please sign in person.

PLEASE DATE, SIGN AND MAIL YOUR PROXY CARD BACK AS SOON AS POSSIBLE!

ANNUAL MEETING OF STOCKHOLDERS KOSS CORPORATION

KESOT PLAN

OCTOBER 17, 2002

\ / Please Detach and Mail in the Envelope Provided \ /

A [X] PLEASE MARK YOUR VOTES AS IN THIS EXAMPLE.

FOR all nominees listed at right (except as specified below) WITHHOLD AUTHORITY to vote for all nominees listed at right

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1. ELECTION / / / /  
OF  
DIRECTORS:  
(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the space provided below.)

Nominees:  
1 - John C. Koss  
2 - Thomas L. Doerr  
3 - Michael J. Koss  
4 - Lawrence S. Mallson  
5 - Martin F. Stein  
6 - John J. Stollenwerk

2. PROPOSAL TO  
APPOINTMENT  
PRICEWATERHO  
LLP AS INDEP  
AUDITORS OF  
CORPORATION  
YEAR ENDING

3. IN THEIR DIS  
TO VOTE UPON  
PROPERLY COM

Check appropriate

Indicate change

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Signature \_\_\_\_\_ Date: \_\_\_\_\_, 2002 Signature \_\_\_\_\_

NOTE: Please sign exactly as name appears hereon. When shares are held by joint tenants, both shareholders, executors, administrators, trustee or guardian, please give full title as such. If a corporate name by President or other authorized officer. If a partnership, please sign in person.