UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 30, 2005

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

COMMISSION FILE NUMBER 0-3295

KOSS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	391168275
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
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, $0.005 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 ☑ NO o

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. ☑

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12(b)-2). YES o NO ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☑

The aggregate market value of the common voting stock held by nonaffiliates of the registrant as of December 31, 2004 was approximately $14,119,495 (based on the $19.46 per share closing price of the Company's common stock as reported on the NASDAQ Stock Market on December 31, 2004). 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 December 31, 2004 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 September 22, 2005, 3,744,525 shares of voting common stock were outstanding.

Documents Incorporated by Reference

Part III incorporates by reference information from Koss Corporation's Proxy Statement for its 2005 Annual Meeting of Stockholders filed with the Commission under Regulation 14A within 120 days of the end of the fiscal year covered by this Report.

TABLE OF CONTENTS

PART I
- Item 1. BUSINESS
- Item 2. PROPERTIES
- Item 3. LEGAL PROCEEDINGS
- Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

PART II
- Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS
- Item 6. SELECTED FINANCIAL DATA
- Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
- Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
- Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
- Item 9. CHANGES IN AND DISAGREEMENTS WITH AUDITORS ON ACCOUNTING AND FINANCIAL DISCLOSURE
- Item 9A. Controls and Procedures

PART III
- Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT
- Item 11. EXECUTIVE COMPENSATION
- Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
- Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
- ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

PART IV
- Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

SIGNATURES

EXHIBIT INDEX

License Agreement

Amendment to License Agreement

List of Subsidiaries

Consent of Grant Thornton LLP

Consent of PricewaterhouseCoopers LLP

Certification of CEO and CFO

Certification of CEO and CFO

PART I

Item 1. BUSINESS.

GENERAL

As used herein, the term "Company" means Koss Corporation and its consolidated subsidiaries, unless the context otherwise requires. The Company was incorporated in Delaware in 1971.

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 does not report its finances by segment, as the Company's principal business line is the design, manufacture, and sale of stereo headphones and related accessories. The percentage of total revenues related to this central business line over the past three fiscal years was:

	2005	2004	2003
Stereophones	100%	100%	100%

The Company's products are sold through audio specialty stores, the Internet, direct mail catalogs, regional department store chains, discount department stores, military exchanges, prisons, and national retailers under the "Koss" name and dual label. The Company also sells products to distributors for resale to school systems, and directly to other manufactures for inclusion with their own products. The Company has more than 1,600 domestic dealers and its products are carried in approximately 16,000 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.

In May of 2003, the Company purchased the assets of ADDAX Sound, a company that specializes in the development of communications headsets. ADDAX is principally a design and source operation utilizing contract manufacturers in Asia. The assets of ADDAX included inventory, receivables, tooling, furniture and fixtures as well as patents on designs for telecommunications products.

ADDAX has been renamed Bi Audio and services the public safety market through distributors. Bi Audio develops and sells headsets and microphones for communication via two-way radio by police, fire, and security personnel. Bi Audio also sells a line of telephone headsets for the small office and home office as well as for the call center industry. These products are developed on an original equipment manufacturer (OEM) basis and are sold to other companies for distribution at retail or direct to consumers.

Bi Audio also markets headsets to be used with cellular telephones and cordless home telephones. These products are developed on an OEM basis for sale to other companies who redistribute the products through retail channels or direct to consumers.

The Bi Audio category of products represents less than 5% of the Company's total revenue and is further split into products for three categories Public Safety, Call Center, and Cellular telephone.

Ninety five percent of the Company's products are stereo headphones for listening to music. The products are not significantly differentiated by channel or application with the exception of products sold to school systems, which sometimes include a microphone. Sales in this application represent less than 5% of the Company's revenue. There are no other product line differentiations other than the quality of

the sound produced by the stereo headphone itself, which is highly subjective. The business could also be classified by distribution channel. Consumers purchase more than 95% of the Koss stereophone range of product through some form of retail channel or reseller.

The Company maintains a sales office in Switzerland. The Company sells its products to independent distributors in countries outside the United States (see Foreign Sales section below), including Western and Eastern Europe, Scandinavia, The Middle East, Africa, Asia, South America, Latin America, the Caribbean, and Mexico. The Company sells products in the Canadian market directly to retailers, and also through a distributor who services smaller specialty accounts. During the last three fiscal years, foreign sales of all Koss products, including the products of Bi Audio (since its acquisition), were as follows:

	2005	2004	2003
Percentage of Revenue Derived from the Export of Koss Products	28%	15.7%	12.5%

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

No employment or compensation agreement exists between the Company and its dealers. The Company has two independent manufacturer’s representatives for distribution. The Company typically signs one year contracts with these manufacturer’s representatives. These agreements are seldom renewed in writing.

The Company has a manufacturer’s representative agreement with a firm in Detroit to work exclusively in the automotive arena. The sales from these agreements accounted for approximately 12% of the Company’s total revenue in 2005. The automotive representative was paid 5% for all business in this area in 2005, and will be paid 4% in 2006, 3% in 2007, and 2% thereafter.

The Company’s remaining agreements with distributors, past or present, pertain to geographic countries without compensation attached. The Company has the right to terminate these agreements with foreign distributors without cause.

INTELLECTUAL PROPERTY

John Koss has been recognized for creating the stereophone industry with the first SP3 stereophone in 1958. The Company regularly applies for registration of its trademarks in many countries around the world in which it does business, and over the years the Company has had numerous trademarks registered and patents issued in countries in North America, South America, Asia, Europe, Africa, and Australia. The Company currently has 193 trademarks registered in 65 countries around the world and patents in 25 countries. The Company has trademarks to protect the brand name Koss and its logo on its products. These trademarks are maintained throughout the countries in which the Company sells its products. The Company also holds many design patents that protect the unique visual appearance of some of its products. These trademarks and patents are important to differentiate the Company from its competitors. Certain of the Company’s trademarks are of material value and importance to the conduct of its business. The Company considers protection of its proprietary developments important; however, the Company’s business is not, in the opinion of management, materially dependent upon any single trademark or patent.

See Part II, Item 7 — “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS” herein for information relating to the Company’s license agreements.

SEASONALITY

Although retail sales of consumer electronics are typically higher during the holiday season, stereophones have also seen increased interest as gift items over the years. Management of the Company is of the opinion that its business and industry segment are no longer seasonal as evidenced by the fact that 47% of sales occurred in the first six months of the fiscal year ended June 30, 2005, and 53% of sales occurred in the latter six months of that fiscal year. Management believes that the reason for this level performance of sales to retailers is related to the fact that stereo headphones have become replacement items for portable electronic products. Therefore upgrades and replacements appear to have as much interest over the course of the year as gifts of stereophones.

WORKING CAPITAL AND BACKLOG

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. From time to time, although rarely, the Company may extend payment terms to its dealers for a special promotion. For instance, the Company has in the past offered a 90-120 day payment period for certain customers, such as computer retailers and office supply stores. 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 deemed material in relation to net sales during fiscal 2005.

CUSTOMERS

The Company markets a line of products used by consumers to listen to music. The Company distributes these products through retail channels in the U.S. and independent distributors throughout the rest of the world. The Company markets its products to approximately 2,000 retailers and distributors worldwide. During 2005, the Company’s sales to its largest single customer, Wal-Mart Stores Inc., were approximately 15% of total gross sales. The Company is dependent upon its ability to retain a base of retailers and distributors to sell the Company’s line of products. Loss of retailers and distributors means loss of product placement. The Company has broad distribution across many channels including specialty stores, mass merchants, electronics stores, and computer retailers. Management believes that any loss of Wal-Mart’s revenues would be partially offset by a corresponding decrease, on a percentage basis, in expenses, thereby partially reducing the impact on the Company’s operating income. The five largest customers of the Company (including Wal-Mart) accounted for approximately 42% of total sales in 2005.

COMPETITION

The Company focuses on the headphone industry. The acquisition of ADDAX in 2003, now Bi Audio, expands the Company’s investment into additional categories of headsets, headphones, and stereophones. In the stereophone market, the Company competes directly with approximately five major competitors, several of which are large and diversified and have greater total assets and resources than the Company. The Company’s single product focus is unique in the marketplace. The extent to which retailers view the Company as an innovative vendor of high quality headphone products, and a provider of excellent after sales customer service, is the extent to which the Company maintains a competitive advantage. The Company relies upon its unique sound, quality workmanship, brand identification, engineering skills, and customer service to maintain its competitive position.

RESEARCH AND DEVELOPMENT

The amount spent on engineering and research activities relating to the development of new products or the improvement of existing products was $173,000 during fiscal 2005 as compared with $125,000 during fiscal 2004 and $134,000 during fiscal 2003. These activities were conducted by both Company personnel and outside consultants.

ENVIRONMENTAL MATTERS

The Company believes that it has materially complied with all currently existing federal, state and local statutes and regulations regarding environmental standards and occupational safety and health matters to which it is subject. During fiscal 2005, 2004 and 2003, the amounts incurred in complying with federal, state and local statutes and regulations pertaining to environmental standards and occupational safety and health laws and regulations did not materially affect the Company's earnings or financial condition.

EMPLOYEES

As of June 30, 2005, the Company employed 95 people. The Company also utilizes temporary personnel to meet seasonal production demands.

FOREIGN SALES

International markets are serviced through manufacturer's representatives or independent distributors with product produced in the United States. The countries are too numerous to mention here but include countries in the following regions: Western and Eastern Europe, Scandinavia, The Middle East, Africa, Asia, South America, Latin America, the Caribbean, and Mexico. The Company sells products in the Canadian market directly to retailers, and also through a distributor who services smaller specialty accounts.

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. In addition, the governments of foreign nations may elect to erect trade barriers on imports. The creation of such barriers would reduce the Company's revenue and profit. In addition, any fluctuations in currency exchange rates could affect the pricing of the Company's products and cause customers to purchase lower-priced, less profitable products. For further information, see Part II, Item 7 and Note 11 to the consolidated financial statements accompanying this Form 10-K.

The Company operates a small sales office in Switzerland to service the international export marketplace. The Company is aware of no material risks in maintaining this operation. Loss of this office would result in a transfer of sales and marketing responsibility. The Company uses contract manufacturing facilities in the Peoples Republic of China, Taiwan, and South Korea. These independent supplier entities are distant from the Company, which means that we are at risk of business interruptions due to natural disaster, war, disease, and government intervention through tariffs or trade restrictions. The Company maintains finished goods inventory in its US facility to mitigate this risk. Finished goods inventory is stocked at an average of approximately 90 days demand per item. Recovery of a single facility through a replacement of supplier in the event of a disaster or suspension of supply could take 120 days. The Company believes that it could restore production of its top twelve selling models (which represent 75% of the Company's sales revenue) within 1 year. The Company is also at risk if the trade restrictions are introduced on its products based upon country of origin. In addition, any increase in tariffs and freight charges would not be acceptable to pass along to the Company's customers and would directly impact the Company's profits.

AVAILABLE INFORMATION

Our internet website is http://www.koss.com. The Company makes available free of charge through its internet website the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Proxy Statements and all amendments to those reports as soon as reasonably practicable after they are electronically filed with (or furnished to) the Securities and Exchange Commission (SEC). Reports, Proxy Statements and other information regarding the Company are also contained on the SEC's internet website at http://www.sec.gov.

Item 2. PROPERTIES.

The Company leases its main plant and offices in Milwaukee, Wisconsin from its Chairman, John C. Koss. On May 28, 2003, the lease was renewed for a period of five years, and is being accounted for as an operating lease. The lease extension maintained the rent at a fixed rate of $380,000 per year. At anytime during this period the Company has the option to renew the lease for an additional five years for the period commencing July 1, 2008 and ending June 30, 2013 under the same terms and conditions. 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 business purposes.

Item 3. LEGAL PROCEEDINGS.

From time to time the Company is involved in routine litigation; however, neither the Company 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, 2005.

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 779 record holders of the Company's common stock as of August 1, 2005. This number does not include individual participants in security position listings. The quarterly high and low sale prices of the Company's common stock for the last two fiscal years as well as dividends paid are shown below.

Quarter Ended	High	Low	Per Share Dividend
September 30, 2003	$ 20.50	$ 17.50	$ 0.13
December 31, 2003	$ 20.70	$ 16.25	$ 0.13
March 31, 2004	$ 26.50	$ 19.50	$ 0.13
June 30, 2004	$ 26.00	$ 20.38	$ 0.13
September 30, 2004	$ 23.96	$ 20.00	$ 0.13
December 31, 2004	$ 23.00	$ 18.15	$ 0.13
March 31, 2005	$ 21.45	$ 18.25	$ 0.13
June 30, 2005	$ 20.76	$ 16.80	$ 0.13

The Company's stockholders are entitled to receive dividends as may be declared by the Board of Directors and paid out of funds legally available therefore. The Company began paying dividends for the quarter ended September 30, 2002 and has paid a dividend for each quarter since, including the last fiscal quarter ending June 30, 2005. On June 15, 2005, the Company announced its quarterly dividend of $0.13 per share for stockholders of record on June 30, 2005. Although the Company anticipates it will continue to pay a quarterly dividend, the decision to pay dividends and the amount of such dividends are within the sole discretion of the Board of Directors, who meet quarterly. The decision to pay dividends will depend on the Company's operating results, financial condition, tax considerations, alternative uses for such funds, and other factors the Board of Directors deem relevant, and there can be no assurance that dividends will be paid in the future.

See Part III, Item 12 for information relating to the Company's equity compensation plan information.

COMPANY REPURCHASES OF EQUITY SECURITIES

Period (2005)	Total # of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (1)	Approximate Dollar Value of Shares Available under Repurchase Plan
April 1—April 30	—	—	—	$ 2,244,421
May 1—May 31	—	—	—	$ 2,244,421
June 1—June 30	5,000	$ 17.25	5,000	$ 2,158,171

(1) In April of 1995, the Board of Directors approved a stock repurchase program authorizing the Company to purchase from time to time up to $2,000,000 of its common stock for its own account. Subsequently, the Board of Directors periodically has approved increases in the stock repurchase program. The most recently approved increase was for additional purchases of $2,000,000, which occurred in October of 2004, for an aggregate maximum of $40,500,000, of which $36,521,800 had been expended through June 30, 2005.

Item 6. SELECTED FINANCIAL DATA.

	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001
Net sales	$40,286,691	$40,493,211	$33,802,634	$36,571,303	$38,609,335
Income before cumulative effect of accounting change	$ 4,493,827	$ 5,448,147	$ 4,169,411	$ 5,041,343	$ 5,687,521
Net income	$ 4,493,827	$ 5,372,272	$ 4,169,411	$ 5,041,343	$ 5,687,521
Basic earnings per common share:					
Before cumulative effect of accounting change	$ 1.21	$ 1.45	$ 1.14	$ 1.36	$ 1.35
Accounting change	—	$ (0.02)	—	—	—
Basic earnings per common share	$ 1.21	$ 1.43	$ 1.14	$ 1.36	$ 1.35
Diluted earnings per common share:					
Before cumulative effect of accounting change	$ 1.14	$ 1.39	$ 1.08	$ 1.28	$ 1.28
Accounting change	—	$ (0.02)	—	—	—
Diluted earnings per common share	$ 1.14	$ 1.37	$ 1.08	$ 1.28	$ 1.35
Total assets	$29,241,461	$25,679,556	$23,786,818	$20,326,134	$21,496,328
Contingently redeemable common stock	—	—	$ 1,490,000	$ 1,490,000	$ 1,490,000
Cash dividends per common share	$ 0.52	$ 0.52	$ 0.52	—	—

See Part II, Item 7 and Consolidated Financial Statements and Notes to the Consolidated Financial Statements for more information relating to Selected Financial Data.

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

LIQUIDITY AND CAPITAL RESOURCES

During fiscal 2005, cash provided by operations was $7,963,037. Working capital was $17,532,194 at June 30, 2005. The net increase in working capital of $724,960 from June 30, 2004 represents primarily the net effect of an increase in cash, accounts payables, income taxes and accrued liabilities. The increase in the Company's accounts receivable is attributable to higher sales experienced in the last quarter.

Capital expenditures for new property and equipment (including production tooling) were $1,170,494, $1,344,169, and $627,567, in fiscal 2005, 2004, and 2003, respectively. Depreciation charges totaled $816,857, $590,414, and $569,776, for the same fiscal years. Budgeted capital expenditures for fiscal 2006 are $1,723,700. The Company expects to generate sufficient funds through operations to fund these expenditures.

Stockholders' investment increased to $22,121,242 at June 30, 2005 from $21,089,787 at June 30, 2004. The increase reflects net income of $4,493,827. On June 15, 2005, the Company declared a quarterly cash dividend of $0.13 per share, $486,918 payable on July 15, 2005 to stockholders of record on June 30, 2005, which is recorded as dividends payable.

The Company's credit facility matures on November 1, 2005. This unsecured 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. The maximum leverage of the Company, which consists of the ratio of its total liabilities to its tangible net worth, must not exceed 1.50 to 1.0. The tangible net worth of the Company must not fall below $12.5 million at any time. The fixed charge ratio of the Company, which consists of the ratio of its earnings before interest, income taxes, depreciation, amortization, and other non-cash charges to its total interest expense, must not be less than 2.10 to 1.0. The current ratio of the Company, which is the ratio of its current assets to its current liabilities, must exceed 2.50 to 1.0. The Company has been and is well within these requirements. However, if the Company at some point in the future fails to meet the financial covenants, the lender may accelerate the debt and allow creditors to foreclose on the assets. The Company uses its credit facility from time to time, although there was no utilization of this credit facility at June 30, 2005 or June 30, 2004.

In April of 1995, the Board of Directors approved a stock repurchase program authorizing the Company to purchase from time to time up to $2,000,000 of its common stock for its own account. Subsequently, the Board of Directors periodically has approved increases in the stock repurchase program. The most recently approved increase was for additional purchases of $2,000,000, which occurred in October of 2004, for an aggregate maximum of $40,500,000. The Company intends to effect 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. The Company will continue to repurchase its shares from the market when the board determines the shares to be undervalued. The Company may elect to use the purchase of these shares to minimize the dilutive effects to its stockholders when the Company's stock is used in acquisitions as consideration. The Company has no immediate plans to make another acquisition at this time.

For fiscal 2005, the Company purchased 99,250 shares of its common stock at an average net price of $22.33 per share, for a total purchase price of $2,216,875. As of the date hereof, the Company's Board of Directors has authorized the repurchase by the Company of up to $3,978,200 in Company common stock at the discretion of the Chief Executive Officer of the Company.

From the commencement of the Company's stock repurchase program through June 30, 2005, the Company has purchased a total of 5,074,084 shares for a total gross purchase price of $42,998,735 (representing an average gross purchase price of $8.48 per share) and a total net purchase price of $36,521,800 (representing an average net purchase price of $7.20 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.

2005 RESULTS OF OPERATIONS COMPARED WITH 2004

Net sales for 2005 were $40,286,691 compared with $40,493,211 in 2004, a decrease of $206,520 or less than 1%. This was due to the Company experiencing a decline in segments of its domestic retail sales , which was partially offset by growth in segments of Europe where shipments were up 82% for the fiscal year.

Gross profit, as a percentage of net sales, was $15,069,931 or 37% in 2005 compared with $15,961,953 or 40% in 2004. The decrease is primarily due to the Company experiencing higher freight costs on incoming shipments of supplies.

Selling, general, and administrative expenses for 2005 were $8,544,383 compared with $8,089,765 in 2004, an increase of $454,618 or 6%. The increase was a result of the Company experiencing higher marketing expenses associated with participation in the Consumer Electronics Show held in January 2005.

Income from operations was $7,395,828 in 2005 compared with $8,965,177 in 2004, a decrease of 21%. Interest income was $64,795 in 2005 compared with $22,311 in 2004, an increase of 191%. Interest income fluctuates in relation to cash balances on hand throughout the year and fluctuations in interest rates earned.

Royalty income was $805,485 in 2005 compared with $1,071,638 in 2004, a decrease of 25%. The decrease in royalty income was primarily a result of the Company terminating a License Agreement with Jiangsu Electronics Industries Limited (Jiangsu). Effective November 23, 2004 the Company terminated the License Agreement dated November 15, 1991, as subsequently amended between the Company and Jiangsu. As a result of the termination, other than Jiangsu's post-termination right to sell Company-approved licensed products, as set forth in the License Agreement, Jiangsu no longer has the right to use certain Company trademarks in connection with the manufacture, marketing and distribution of Jiangsu's products under this license agreement. Royalty income on all previously approved products, which are already in the pipeline, will still be owed to the Company.

Effective June 30, 2003, the Company entered into a License Agreement (the "License Agreement") with Sonigem Products, Inc. ("Sonigem") of Ontario, Canada whereby the Company licensed to Sonigem the right to sell video and communications products under the Koss brand name. This License Agreement covers Canada, requiring royalty payments by Sonigem through June 30, 2010, subject to certain minimum annual royalty amounts. To further enhance the relationship between the Company and

Sonigem, on June 30, 2005, the Company announced the extension of its licensing agreement for electronics products with Sonigem. The Amendment to the License Agreement with Sonigem was effective August 1, 2005 (the "Amendment"). The Amendment provides Sonigem with the exclusive right and license to use certain Company trademarks in Canada in connection with the manufacture, production, distribution and sale of an increased number of licensed products, with the prior approval of the Company. In consideration for these increased rights, the Amendment also provides for increased minimum royalty payments payable to the Company, which may partially offset the previously discussed reductions in royalty income.

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.

The provision for income taxes was $2,902,001 and $3,517,030 in 2005 and 2004, respectively. The effective tax rate was 39% in 2005 and 39% in 2004.

2004 RESULTS OF OPERATIONS COMPARED WITH 2003

Net sales for 2004 were $40,493,211 compared with $33,802,634 in 2003, an increase of $6,690,577 or 20%. This was due to the Company experiencing growth in segments of its domestic retail sales and Europe where shipments were up 72% for the fiscal year.

Gross profit, as a percentage of net sales, was $15,961,953 or 39% in 2004 compared with $13,848,039 or 41% in 2003. The slight decrease is due to shifts in the Company's model mix.

Selling, general, and administrative expenses for 2004 were $8,089,765 compared with $7,737,030 in 2003, an increase of $352,735 or 5%. The increase was a result of the Company experiencing higher selling expenses associated with higher sales for the fiscal year.

Income from operations was $7,872,188 in 2004 compared with $6,111,009 in 2003, an increase of 28%. Interest income was $22,311 in 2004 compared with $12,711 in 2003, an increase of 76%. Interest income fluctuates in relation to cash balances on hand throughout the year and fluctuations in interest rates earned. Interest expense for 2004 was $960 compared with $14,572 in 2003. The decrease in interest expense is due to the Company's lack of borrowing activity under its unsecured line of credit during the fiscal year.

On May 1, 2003, the Company acquired certain assets of ADDAX Sound Company ("ADDAX") in exchange for 19,875 shares of common stock of the Company (value on May 1, 2003 of $317,603 based upon a market price of $15.98) plus $100 in cash and assumed certain liabilities of ADDAX.

Royalty income was $1,071,638 in 2004 compared with $755,364 in 2003, an increase of 42%. The increase in royalty income was primarily a result of increases in sales by licensees under certain royalty agreements with Jiangsu, Sonigem, and Logitech.

The provision for income taxes was $3,517,030 and $2,695,101 in 2004 and 2003, respectively. The effective tax rate was 39% in 2004 and 39% in 2003

OFF-BALANCE SHEET FINANCING

The Company has no "off-balance sheet" financing arrangements.

DISCLOSURE ABOUT CONTRACTUAL OBLIGATIONS

The Company has the following long term lease obligations as of June 30, 2005:

	Obligations Due by Period (in thousands)				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating Lease Obligations	$ 3,420	$ 380	$ 1,140	$ 1,900	—

DISCLOSURE ABOUT CERTAIN TRADING ACTIVITIES THAT INCLUDE NON-EXCHANGE TRADED CONTRACTS ACCOUNTED FOR AT FAIR VALUE

The Company does not have any trading activities that include non-exchange traded contracts accounted for at fair value.

DISCLOSURE ABOUT EFFECTS OF TRANSACTIONS WITH RELATED AND CERTAIN OTHER PARTIES

The Company has an agreement with its Chairman, John C. Koss, in the event of his death, at the request of the executor of his estate, to repurchase his Company common stock from his estate. 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 will be sufficient to provide proceeds which are the lesser of $2,500,000 or the amount of estate taxes and administrative expenses incurred by the Chairman's estate. The Company may elect to pay the purchase price in cash or may elect to pay cash equal to 25% of the total amount due and to execute a promissory note for the balance, payable over four years, at the prime rate of interest. The Company maintains a $1,150,000 life insurance policy to fund a substantial portion of this obligation.

In 1991, the Board of Directors agreed to continue the Chairman's current base salary in the event he becomes disabled prior to age 70. After age 70, he shall receive his current base salary for the remainder of his life, whether he becomes disabled or not. The Chairman has turned 70. The Company has a deferred compensation liability of $400,000 recorded as of June 30, 2005, and $520,000 as of June 30, 2004 for this arrangement.

The Company leases its main plant and offices in Milwaukee, Wisconsin from its Chairman. On May 28, 2003, the lease was renewed for a period of five years, and is being accounted for as an operating lease. The lease extension maintained the rent at a fixed rate of $380,000 per year. At anytime during this period the Company has the option to renew the lease for an additional five years for the period commencing July 1, 2008 and ending June 30, 2013 under the same terms and conditions. In the opinion of the independent directors of the Board, 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 of the property.

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

DISCLOSURE ABOUT CRITICAL ACCOUNTING POLICIES

The Company’s more critical accounting policies include revenue recognition, royalty income, and the use of estimates (which inherently involve judgment and uncertainties) in valuing inventory and accounts receivable.

Revenue Recognition

The Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred (either FOB shipping point or delivery taken at the Company’s dock); the seller’s price to the buyer is fixed and determinable (pricing is finalized through the purchase order); and collectibility is reasonably assured. These criteria are generally satisfied and the Company recognizes revenue upon shipment. The Company also offers certain of its customers the right to return products that do not meet the standards agreed with the customer. The Company continuously monitors such product returns and while such returns have historically been minimal, the Company cannot guarantee that they will continue to experience the same return rates that they have experienced in the past. Any significant increase in product quality failure rates and the resulting credit returns could have a material adverse impact on the Company’s operating results for the period or periods in which such returns materialize.

The Company provides for certain sales incentives, which include sales rebates. The Company records a provision for estimated incentives based upon the incentives offered to customers on product related sales in the same period as the related revenues are recorded. The Company also records a provision for estimated sales returns and allowances on product related sales in the same period as the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. If the historical data the Company uses to calculate these estimates does not properly reflect future returns, adjustments may be required in future periods.

Products sold are covered by a lifetime warranty. The Company accrues a warranty reserve for estimated costs to provide warranty services. The Company’s estimate of costs to service its warranty obligations is based on historical experience and expectation of future conditions. To the extent the Company experiences increased warranty claim activity or increased costs associated with servicing those claims, its warranty accrual will increase accordingly and result in decreased gross profit.

Royalty Income

The Company’s net income is significantly affected by the levels of royalty income generated in any given period. Royalty income is recognized when earned under the terms of the Company’s license agreements. These agreements require minimum annual royalty payments. The Company currently has two royalty agreements, which expire in 2008 and 2010, respectively. The inability of the Company to negotiate favorable royalty arrangements and renew current agreements could have a material adverse impact on the Company’s results for the period. Based upon the favorable relationships the Company has with the parties under these license agreements, termination, non-renewal or a renegotiation toward more unfavorable terms under the current agreements is not considered likely.

Accounts Receivable

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer’s current credit worthiness, as determined by the review of the customer’s current credit information. The Company continuously monitors collections and payments from customers and maintains a provision for estimated credit losses based upon the Company’s

historical experience and any specific customer collection issues that have been identified. The Company values accounts receivable net of an allowance for uncollectible accounts. The allowance is calculated based upon the Company's evaluation of specific customer accounts where the Company has information that the customer may have an inability to meet its financial obligations (bankruptcy, etc.). In these cases, the Company uses its judgment, based on the best available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are re-evaluated and adjusted as additional information is received that impacts the amount reserved. However, the ultimate collectibility of a receivable is dependent upon the financial condition of an individual customer, which could change rapidly and without advance warning.

Inventories

The Company values its inventories at the lower of cost or market. Cost is determined using the last-in, first-out method. Valuing inventories at the lower of cost or market requires the use of estimates and judgment. Our customers may cancel their orders or change purchase volumes. Any of these, or certain additional actions, could create excess inventory levels, which would impact the valuation of our inventories. The Company continues to use the same techniques to value inventory as have been used in the past. Any actions taken by our customers that could impact the value of our inventory are considered when determining the lower of cost or market valuations. The Company regularly reviews inventory quantities on hand and records a provision for excess and obsolete inventory based primarily on our estimated forecast of product demand and production requirements for the next twelve months. If the Company is not able to achieve its expectations of the net realizable value of the inventory at its current value, the Company would have to adjust its reserves accordingly.

RECENTLY ISSUED FINANCIAL ACCOUNTING PRONOUNCEMENTS

During May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Company adopted SFAS No. 150 effective July 1, 2003. Upon adoption, the Company recorded a derivative liability for the fair value of a written put option of $125,000 on the balance sheet and a cumulative effect of change in accounting principle of $75,875 (net of the tax effect equal to $49,125) on the income statement. In addition, a contingently redeemable equity interest of $1,490,000, as of July 1, 2003, was reclassified into equity.

During December 2004, the FASB issued SFAS No. 123R, "Share-Based Payments", which changed the accounting for equity compensation programs. Under SFAS No. 123R, companies that award share-based payments to employees, including stock options, must begin to recognize the expense of these awards in the financial statements at the time the employee receives the award. As allowed by SFAS 123 and SFAS 148, the Company elected to follow APB Opinion No. 25 in accounting for its stock option plan until the effective date of SFAS 123R. The accounting as provided by SFAS 123R will be effective for the Company beginning July 1, 2005, which is the beginning of the Company's next fiscal year.

Under APB 25's intrinsic value method, no compensation cost for employee stock options is recognized. Accordingly, the adoption of SFAS 123R's fair value method will have an impact on the Company's results of operations, although it will not have an impact on the overall financial position. The impact of the adoption of SFAS 123R will depend on levels of share-based payments granted in the future and is expected to reduce pre-tax earning by approximately $330,000 in fiscal 2006. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing

cash flow, rather than as an operating cash flow as required under the current standards. This requirement will reduce the net cash provided by operating activities and increase the net cash from financing activities in periods after adoption. While the Company cannot estimate what these amounts will be in the future because it will depend on, among other things, when employees exercise stock options, the amount of cash flows from operating activities in prior periods for such excess tax deductions were approximately $105,000, $330,000 and zero in fiscal years 2005, 2004 and 2003, respectively.

RISK FACTORS

Investing in our common stock involves a high degree of risk. Any of the following risks could have a material adverse effect on our financial condition, liquidity, and results of operations or prospects, financial or otherwise. Reference to these factors in the context of a forward-looking statement or statements will be deemed to be a statement that any one or more of the following factors may cause actual results to differ materially from those in such forward-looking statement or statements.

REDUCTION IN PRESENT LEVELS OF CASH FLOW COULD ADVERSELY AFFECT THE COMPANY’S BUSINESS

The Company’s primary source of liquidity over the past twelve months has been operating cash flows. The Company’s future cash flows from operations (on both a short term and long term basis) are dependent upon, but not limited to:

- the Company’s ability to attract new customers that will sell the Company’s products and pay for them,
- the Company’s ability to retain the Company’s existing customers at the level of sales previously produced,
- the volume of sales for these customers,
- the loss of business of one or more primary customers,
- changes in types of products that the customers purchase in their sales mix,
- the volume of royalty income paid to the Company by its licensees based upon the terms of each royalty agreement, including the inability to negotiate favorable royalty arrangements and renew current arrangements with certain existing favorable terms,
- poor or deteriorating economic conditions which would directly impact the ability of the Company’s customers to remain in business and pay for their products on a timely basis,
- management’s ability to hold the line on any requests for increases in material or labor cost increases, and
- the ability to collect in full and in a timely manner, amounts due to the Company.

In addition, as noted above, the Company’s cash flow is also dependent, to some extent, upon the ability to maintain operating margins. If there were a general downturn in economic conditions or

other events that caused the Company’s customers to turn to lower-priced, lower-margin products, the Company’s cash flow and profitability could be materially and adversely affected.

FAILURE TO ATTRACT AND RETAIN CUSTOMERS TO SELL THE COMPANY’S PRODUCTS COULD ADVERSELY AFFECT SALES VOLUME AND FUTURE PROFITABILITY

The Company markets a line of products used by consumers to listen to music. The Company distributes these products through retail channels in the U.S. and independent distributors throughout the rest of the world. The Company is dependent upon the Company’s ability to retain an existing base of customers to sell the Company’s line of products. Loss of customers means loss of product placement. The Company has broad distribution across many channels including specialty stores, mass merchants, electronics stores and computer retailers. Since distribution is broadly based, any loss of a customer directly translates into a reduction in sales volume which can only be replaced by replacing a similar number of representative retail outlets. The inability of the Company’s sales and marketing staff to obtain new distribution outlets translates into a lack of future growth and possibly a setback in sales volumes when loss of current customers occurs. For example, the loss of a customer representing 10% of the Company’s business would translate into a reduction in revenues of up to 10% based upon the point through the fiscal year that the customer was lost. Attracting a new customer during the course of a fiscal year could have a positive impact or simply replace an account which has been lost. In addition, a customer can decide to make a change in the models that it decides to offer for sale. Such changes can take place arbitrarily throughout the course of a year which can cause reductions in sales revenues in proportion to the number of retail outlets that the store represents in the market. The Company may not be able to maintain customers or model selections and therefore experience a reduction in its sales revenue until a model is restored to the mix or a customer is replaced by a new customer. A reduction in sales volume would cause a reduction in profitability. The Company’s failure to retain existing customers, obtain new customers or develop new product lines that customers would choose to offer to consumers could significantly affect the Company’s future profitability. The loss of business of one or more principal customers or a change in the sales volume from a particular customer could have a material adverse effect on the Company’s sales volume and profitability.

SHIFT IN CUSTOMER SPECIFICATIONS TO LOWER PRICED ITEMS CAN REDUCE PROFIT MARGINS NEGATIVELY IMPACTING PROFITABILITY

The Company sells a line of products with a suggested retail price ranging from less than $10 to $1,000. The gross margin for each of these models is unique in terms of percentages. The price range of the products also produces a different level of actual dollar contribution per unit. For example a product with a gross margin contribution of 50% might yield a $5.00 contribution for one item, while another item may feature a 30% gross margin which could yield $50.00. The Company finds the low priced portion of the market most competitive and therefore most subject to pressure on gross margin percentages, which tends to lower profit contributions. Retail preference for lower priced items can reduce profit margins and contributions. The risk is that a shift in retail customer specifications toward lower priced items can lead to lower gross margins and lower profit contributions per unit of sale. Due to the range of products that the Company sells, the product sales mix can produce a variation in terms of a range of profit margins. Some customers sell a limited range of products that yield lower profit margins than others. Most notably, the budget priced headphone segment of the market below $10.00 retail which is distributed through computer stores, office supply stores, and mass market retailers tend to yield the lowest gross margins. An increase in business with these types of accounts, if coupled with a simultaneous reduction in sales to customers with higher gross margins would reduce profit margins and profitability.

POOR ECONOMIC CONDITIONS CAN RESTRICT OR LIMIT PRODUCT PLACEMENT, SALES AND REPLENISHMENT WHICH COULD DECREASE PROFITS

Deteriorating or weak economic conditions, or a forecast for the same, can trigger changes in inventory stocking at retail. This may in turn lead to a reduction in model offerings and to out of stock situations. If a retail customer of the Company does not have adequate stocks of the Company's products to offer for sale in a retail store, consumers may choose another competitive model instead. Customers operating retail stores anticipate future sales demands and inventory products accordingly. Whenever a general economic slowdown occurs, at both the domestic or foreign level, sales volume levels and re-orders change. These changes directly impact the Company's sales and profitability. The Company is not in a position to determine how it will be affected by these circumstances, how extensive the effects may be, or for how long the Company may be impacted by these circumstances. The Company's customers respond to changes in economic conditions and any adverse changes in economic conditions can therefore restrict product placement, availability, sales, replenishment and ultimately profitability. These conditions exist domestically and internationally.

MANAGEMENT IS SUBJECT TO DECISIONS MADE OUTSIDE ITS CONTROL WHICH COULD DIRECTLY AFFECT FUTURE PROFITABILITY

Retail customers determine which products they will stock for resale. The Company competes with other manufacturers to secure shelf space in retail stores for the Company's products. During the course of a year, changes in the customers' management personnel can ultimately lead to changes in the stock assortment offered to consumers. These changes are often arbitrary. In addition to changes in personnel within the Company's customers, it is also possible that a strategic decision can be made by a retail customer to consolidate vendors, or to discontinue certain product categories altogether. In these instances, the Company's management team may not able to convince customers to reverse such decisions. The Company's management team is also engaged in the effective procurement, assembly, and manufacture of products. The ability to negotiate with suppliers, maintain productivity, and hold the line on cost increases can be subjected to pressures outside the control of management. For example, increases in fuel costs can increase rates of freight. Increases of this nature can seldom be avoided and the Company may not be able to pass such increases along to its customers. Management's effective control of the manufacturing processes will have a direct impact on the Company's future profitability. The Company regularly makes decisions that affect production schedules, shipping schedules, employee levels, and inventory levels. The Company's ability to make effective decisions in managing these areas has a direct effect on future profitability.

ACCOUNTS RECEIVABLE AMOUNTS DUE FROM OUR CUSTOMERS CAN BE LOST AS A RESULT OF CUSTOMER BANKRUPTCY, OPERATIONAL DIFFICULTY, OR FAILURE TO PAY NEGATIVELY IMPACTING FUTURE PROFITABILITY

The Company has significant accounts receivable or other amounts due from the Company's customers or other parties. The accounts receivable balance at the end of the last 4 quarters averaged approximately $8 million. Terms of payment for customers generally range from cash in advance to net 90 day credit terms. These credit arrangements are negotiated at unspecified and irregular intervals. The largest customers generate the largest receivable balances. If a customer develops operational difficulty it is not uncommon to temporarily suspend payment to vendors. The Company is subject to this risk in the retail marketplace. From time to time a customer may develop severe operating losses which can lead to a bankruptcy. In these cases, the Company may lose most of the outstanding balance due. Occasionally, the Company has been current with a customer at the time such an event occurs. The more material risk is that losing the revenue of the customer which might be more onerous than losing the current outstanding accounts receivable. In addition, many companies that will insure accounts receivables will

not do so for the Company's largest mass market customers. An example of such a loss was KMART Corporation. The Company recorded a loss of approximately $500,000 of which $37,000 has been repaid in 2005 and $312,000 in 2004, when KMART filed for re-organization. KMART was current with the Company at the time that KMART filed Chapter 11 bankruptcy. The Company continued to supply KMART during its post petition re-organization and continues to supply the customer profitably today. The risk is that the Company derives most of the Company's sales revenue and profits from selling products to retailers for resale to consumers. The failure of the Company's customers to pay in full amounts due to the Company could negatively affect future profitability.

COMPANY PROFITS CAN SUFFER FROM INTERRUPTIONS IN SUPPLY CHAIN

The Company operates a small sales office in Switzerland to service the international export marketplace. The Company is aware of no material risks in maintaining this operation. Loss of this office would result in a transfer of sales and marketing responsibility. The Company uses contract manufacturing facilities in Mainland China, Taiwan, and South Korea. These independent supplier entities are distant from the Company which means that the Company is at risk of business interruptions due to natural disaster, war, disease, and government intervention through tariffs or trade restrictions that do not affect the domestic market. The Company maintains a finished goods inventory level in the Company's US facility to mitigate this risk. The approximate level of finished goods inventory is stocked at an average of 90 days demand per item. Recovery of a single facility through a replacement of supplier in the event of disaster or suspension of supply could take approximately 120 days. The Company believes that it could restore production of its top fourteen selling models (which represent 75% of the Company's sales revenue) within 1 year. The Company is also at risk if trade restrictions are imposed on the Company's products based upon country of origin. In addition, any increase in tariffs and freight charges may not be acceptable to pass along to the Company's customers and could directly impact the Company's profits.

FLUCTUATIONS IN CURRENCY EXCHANGE RATES COULD AFFECT PRICING OF PRODUCTS AND CAUSE CUSTOMERS TO PURCHASE LOWER-PRICED, LESS PROFITABLE PRODUCTS

The Company receives a material portion of its revenue and profits from business in Canada and the European Union. To the extent that value of the U.S. dollar increases relative to currencies in those jurisdictions, it increases the cost of the Company's products in those jurisdictions, which could create negative pressure on the demand for the Company's products. To the extent that increased prices arising from currency fluctuations decreases the Company's sales or moves customers to purchase lower-priced, lower profit products, the Company's revenues, profits, and cash flows could be adversely affected.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

In management's opinion, the Company does not engage in any material market risk sensitive activities and does not have any market risk sensitive instruments, other than the Company's commercial credit facility used for working capital purposes and stock repurchases.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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 independent 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, 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.

Consolidated financial statements of the Company at June 30, 2005 and 2004 and for each of the quarters in the period ended June 30, 2005 and the notes thereto, and the reports of independent auditors thereon are set forth on pages 24 to 39.

Selected unaudited quarterly financial data is as follows:

	Quarter			
2005	**First**	**Second**	**Third**	**Fourth**
Net sales	$8,972,580	$10,225,079	$9,772,686	$11,316,346
Gross profit	3,422,973	3,958,618	3,613,481	4,074,859
Net income	889,911	1,219,442	885,976	1,498,498
Basic earnings per common share:	$ 0.24	$ 0.33	$ 0.24	$ 0.40
Diluted earnings per common share:	$ 0.23	$ 0.31	$ 0.23	$ 0.39

	Quarter			
2004	**First**	**Second**	**Third**	**Fourth**
Net sales	$9,164,691	$9,839,572	$10,547,180	$10,941,768
Gross profit	3,497,645	3,742,000	4,247,511	4,474,797
Income before cumulative effect of accounting change	1,020,504	1,295,476	1,157,816	1,974,351
Net income	944,629	1,295,476	1,157,816	1,974,351
Basic earnings per common share:				
Before cumulative effect of accounting change	$ 0.27	$ 0.34	$ 0.31	$ 0.52
Accounting change	(0.02)	—	—	—
Basic earnings per common share (1)	0.25	0.34	0.31	0.52
Diluted earnings per common share:				
Before cumulative effect of accounting change	$ 0.26	$ 0.33	$ 0.29	$ 0.50
Accounting change	(0.02)	—	—	—
Diluted earnings per common share (1)	0.24	0.33	0.29	0.50

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

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

On March 15, 2004, the Company dismissed PricewaterhouseCoopers LLP ("PWC") as its independent public accountants and appointed Grant Thornton LLP as its new independent public accountants. The decision to dismiss PWC and to retain Grant Thornton LLP was made by the Company's Audit Committee. The decision to dismiss PWC did not involve a dispute with the Company over accounting policies or practices.

During the fiscal years ended June 30, 2002 and 2003 and the interim period through March 15, 2004, there were no disagreements with PWC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to PWC's satisfaction, would have caused PWC to make reference to the subject matter of the disagreement in connection with its reports on the financial statements for such years, and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

Item 9A. Controls and Procedures.

(a) *Evaluation of Disclosure Controls and Procedures*. The Company maintains a system of disclosure controls and procedures that are designed to provide reasonable assurance that information, which is required to be timely disclosed, is accumulated and communicated to management in a timely fashion. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer/Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act)) as of the end of the period covered by this report, have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

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

absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

PART 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”, “ELECTION OF DIRECTORS — Beneficial Ownership of Company Securities” and the “ELECTION OF DIRECTORS — Executive Officers” contained in the Koss Corporation Proxy Statement for its 2005 Annual Meeting of Stockholders (the “2005 Proxy Statement”), which 2005 Proxy Statement was 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.

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 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 the Chief Executive Officer. The CEO’s salary is based on his experience, responsibilities, historical salary levels for himself/herself and other executive officers of the Company, and the salaries of Chief Executive Officers of other light assembly or manufacturing companies.

The CEO’s cash bonus is strictly based upon a quantitative measure of performance. If the CEO does not achieve profitability, the cash bonus is not paid. The CEO is eligible to receive a bonus calculated as a fixed percentage of the Company’s earnings before interest and taxes. The CEO also participates in the Company’s Flexible Incentive Plan.

Further information relating to executive compensation is incorporated herein by reference from the “ELECTION OF DIRECTORS — Executive Compensation and Related Matters” section of the 2005 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 2005 Proxy Statement.

Equity Compensation Plan Information. The table set forth below provides certain information with respect to the Company's equity compensation plans as of the end of the most recently completed fiscal year ended June 30, 2005, under which equity securities of the Company are authorized for issuance.

Equity Compensation Plan Information Table

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	765,000	$ 18.87	667,308
Equity compensation plans not approved by security holders	Not applicable	Not applicable	Not applicable
Total	765,000	$ 18.87	667,308

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 2005 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Information relating to the principle accountant fees and services is incorporated herein by reference from the "RATIFICATION OF APPOINTMENT OF INDEPENDENT ACCOUNTANTS" section of the 2005 proxy statement.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

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 25 to 29:

Reports of Independent Registered Public Accounting Firms	25
Consolidated Statements of Income for the Years Ended June 30, 2005, 2004, and 2003	27
Consolidated Balance Sheets as of June 30, 2005 and 2004	28
Consolidated Statements of Cash Flows for the Years Ended June 30, 2005, 2004, and 2003	29
Consolidated Statements of Stockholders' Investment for the Years Ended June 30, 2005, 2004, and 2003	30
Notes to Consolidated Financial Statements	31

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

See Exhibit Index attached hereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
KOSS CORPORATION

We have audited the accompanying consolidated balance sheets of KOSS CORPORATION and subsidiaries as of June 30, 2005 and 2004, and the related consolidated statements of income, stockholders' investment, and cash flows for the years then ended. 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. The consolidated financial statements of Koss Corporation and subsidiaries as of June 30, 2003 and for the year then ended, were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dual dated July 11, 2003 and February 13, 2004.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KOSS CORPORATION and subsidiaries as of June 30, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, New Accounting Pronouncements, the Company adopted Statement of Financial Accounting Standards No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" in fiscal 2004.

GRANT THORNTON LLP

/s/ Grant Thornton LLP

Milwaukee, Wisconsin

July 7, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Koss Corporation:

In our opinion, the accompanying consolidated statements of income, stockholders' investment and cash flows for the year ended June 30, 2003 present fairly, in all material respects, the results of operations and cash flows of Koss Corporation and its subsidiaries for the year ended June 30, 2003, 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 audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards 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 audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Milwaukee, Wisconsin
July 11, 2003, except as to the restatement described in Note 14 (not presented herein),
which is as of February 13, 2004

KOSS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

Year Ended June 30,	2005	2004	2003
Net sales	$40,286,691	$40,493,211	$33,802,634
Cost of goods sold	25,216,760	24,531,258	19,954,595
Gross profit	15,069,931	15,961,953	13,848,039
Selling, general, and administrative expense	8,544,383	8,089,765	7,737,030
Income from operations	6,525,548	7,872,188	6,111,009
Other income (expense):			
Royalty income	805,485	1,071,638	755,364
Interest income	64,795	22,311	12,711
Interest expense	—	(960)	(14,572)
Income before income tax provision and cumulative effect of change in accounting principles	7,395,828	8,965,177	6,864,512
Provision for income taxes (Note 5)	2,902,001	3,517,030	2,695,101
Income before cumulative effect of change in accounting principles	4,493,827	5,448,147	4,169,411
Cumulative effect of change in accounting principles (net of tax effect of $49,125)	—	(75,875)	—
Net income	$ 4,493,827	$ 5,372,272	$ 4,169,411
Basic earnings per common share:			
Before cumulative effect of accounting change	$ 1.21	$ 1.45	$ 1.14
Accounting change	—	(0.02)	—
Basic earnings per common share	1.21	1.43	1.14
Diluted earnings per common share:			
Before cumulative effect of accounting change	$ 1.14	$ 1.39	$ 1.08
Accounting change	—	(0.02)	—
Diluted earnings per common share	1.14	1.37	1.08
Dividends per common share	$ 0.52	$ 0.52	$ 0.52

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

KOSS CORPORATION

CONSOLIDATED BALANCE SHEETS

As of June 30,	2005	2004
ASSETS		
Current Assets:		
Cash	$ 5,218,698	$ 2,110,917
Accounts receivable, less allowances of $583,671 and 738,995, respectively (Note 13)	8,763,968	9,340,091
Inventories	7,595,803	7,315,359
Prepaid expenses	1,129,939	659,135
Deferred income taxes (Note 5)	857,840	861,236
Total current assets	23,566,248	20,286,738
Equipment and Leasehold Improvements, at cost:		
Leasehold improvements	1,662,506	1,163,318
Machinery, equipment, furniture, and fixtures	5,068,368	4,956,821
Tools, dies, molds, and patterns	11,198,723	11,013,042
	17,929,597	17,133,181
Less—accumulated depreciation	14,935,897	14,435,868
	2,993,700	2,697,313
Deferred Income Taxes (Note 5)	315,531	250,260
Other Assets	2,365,982	2,445,245
	$29,241,461	$25,679,556
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current Liabilities:		
Accounts payable	$ 3,012,736	$ 1,049,406
Accrued liabilities (Note 7)	1,841,862	1,754,038
Dividends payable	486,918	490,070
Income taxes payable	692,538	185,990
Total current liabilities	6,034,054	3,479,504
Deferred Compensation	961,165	985,265
Derivative Liability	125,000	125,000
Stockholders' Investment:		
Common stock, $0.005 par value, authorized 8,500,000 shares; issued and outstanding 3,745,525 and 3,769,429 shares, respectively	18,728	18,849
Retained earnings	22,102,514	21,070,938
Total stockholders' investment	22,121,242	21,089,787
	$29,241,461	$25,679,556

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

KOSS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended June 30,	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 4,493,827	$ 5,372,272	$ 4,169,411
Adjustments to reconcile net income to net cash provided by operating activities:			
Allowance for doubtful accounts	155,324	236,694	198,846
Depreciation and amortization	1,043,951	660,805	584,761
Deferred income taxes	(61,875)	91,504	24,000
Tax benefit of non-qualified stock options	104,749	330,019	—
Deferred compensation	(24,100)	(28,902)	(105,744)
Net changes in operating assets and liabilities (Note 8)	2,251,161	(2,160,704)	(2,074,658)
Net cash provided by operating activities	7,963,037	4,501,688	2,796,616
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of ADDAX, net of cash acquired	—	—	8,648
Acquisition of equipment and leasehold improvements	(1,170,494)	(1,344,169)	(627,567)
Net change in cash surrender value of insurance and long-term investments	(177,641)	—	—
Net cash used in investing activities	(1,288,135)	(1,344,169)	(618,919)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends	(1,926,938)	(1,959,563)	(1,866,782)
Purchase of common stock	(2,217,371)	(1,004,068)	(340,000)
Exercise of stock options	577,188	359,925	533,825
Net cash used in financing activities	(3,567,121)	(2,603,706)	(1,672,957)
Net increase in cash	3,107,781	553,813	504,740
Cash at beginning of year	2,110,917	1,557,104	1,052,364
Cash at end of year	$ 5,218,698	$ 2,110,917	$ 1,557,104

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

KOSS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT

	Common Stock		Retained Earnings
	Shares	Amount	
Balance, June 30, 2002	3,670,554	$ 18,353	$15,207,181
Net income	—	—	4,169,411
Dividends declared	—	—	(1,915,172)
Common stock issued in conjunction with the acquisition of ADDAX	19,875	99	317,504
Exercise of stock options	90,000	450	533,376
Purchase and retirement of treasury stock	(20,000)	(100)	(339,900)
Balance, June 30, 2003	3,760,429	18,802	17,972,400
Net income	—	—	5,372,272
Dividends declared	—	—	(1,959,563)
Exercise of stock options	60,000	300	689,644
Purchase and retirement of treasury stock	(50,654)	(253)	(1,003,815)
Balance, June 30, 2004	3,769,775	18,849	21,070,938
Net income	—	—	4,493,827
Dividends declared	—	—	(1,926,938)
Exercise of stock options	75,000	375	681,562
Purchase and retirement of treasury stock	(99,250)	(496)	(2,216,875)
Balance, June 30, 2005	3,745,525	$ 18,728	$22,102,514

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

Table of Contents

KOSS CORPORATION

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, the Internet, direct mail catalogs, 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 16,000 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 21% and 12% of the Company's accounts receivable at June 30, 2005 and 2004, 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 (either FOB shipping point or delivery taken at the Company's dock); the seller's price to the buyer is fixed and determinable (pricing is finalized through the purchase order); and collectibility is reasonably assured. These criteria are generally satisfied upon shipment of the Company's products. The Company may offer slotting fees, cooperative advertising programs and sales discounts from time to time and the estimated costs for these items are accrued for at the time revenue is recognized. These amounts are recorded as a reduction to sales.

ROYALTY INCOME—The Company recognizes royalty income when earned under the terms of two license agreements, which expire in 2008 and 2010. This agreement requires minimum annual royalty payments. Royalty income owed to the Company is calculated by the licensee and then verified by the Company. Royalty payments are calculated based upon predetermined percentages of net sales of the licensed products or based upon minimum annual royalty payments, as set forth in the Company's license agreements. Royalty income is booked monthly, on an accrual basis. When the royalty payments are received each quarter, the Company then reduces the accounts receivable accordingly.

INVENTORIES—Substantially all of the Company's inventories are 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 $873,393 and $949,207 higher than reported at June 30, 2005 and 2004, respectively. The Company did not maintain any work-in-process inventories at June 30, 2005 and June 30, 2004.

The components of inventories at June 30 are as follows:

	2005	2004
Raw materials	$ 3,254,155	$ 1,630,651
Finished goods	4,341,648	5,684,708
Total	$ 7,595,803	$ 7,315,359

DISTRIBUTION NETWORK—The Company includes inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs, and other costs of distribution in the “cost of goods sold” line item.

EQUIPMENT AND LEASEHOLD IMPROVEMENTS—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 $173,000 in 2005, $125,000 in 2004, and $134,000 in 2003.

SHIPPING AND HANDLING FEES AND COSTS—Shipping and handling fees charged to customers are included in net sales, and shipping and handling costs incurred by the Company are included in cost of goods sold within the accompanying consolidated statements of income.

FAIR VALUE OF FINANCIAL INSTRUMENTS—Cash, accounts receivable, and accounts payable recorded in the consolidated balance sheets approximate fair value based on the short maturity of these instruments.

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 reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENTS—During May 2003, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,” which establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Company adopted SFAS No. 150 effective July 1, 2003. Upon adoption, the Company recorded a derivative liability for the fair value of a written put option of $125,000 on the balance sheet and a cumulative effect of change in accounting principle of $75,875 (net of the tax effect equal to $49,125) on the income statement.

During December 2004, the FASB issued SFAS No. 123R, “Share-Based Payments”, which changed the accounting for equity compensation programs. Under SFAS No. 123R, companies that award share-based payments to employees, including stock options, must begin to recognize the expense of these awards in the financial statements at the time the employee receives the award. As allowed by SFAS 123 and SFAS 148, the Company elected to follow APB Opinion No. 25 in accounting for its stock option

plan until the effective date of SFAS 123R. The accounting as provided by SFAS 123R will be effective for the Company beginning July 1, 2005, which is the beginning of the Company's next fiscal year.

Under APB 25's intrinsic value method, no compensation cost for employee stock options is recognized. Accordingly, the adoption of SFAS 123R's fair value method will have an impact on the Company's results of operations, although it will not have an impact on the overall financial position. The impact of the adoption of SFAS 123R will depend on levels of share-based payments granted in the future and is expected to reduce pre-tax earning by approximately $330,000 in fiscal 2006. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under the current standards. This requirement will reduce the net cash provided by operating activities and increase the net cash from financing activities in periods after adoption. While the Company cannot estimate what these amounts will be in the future because it will depend on, among other things, when employees exercise stock options, the amount of cash flows from operating activities in prior periods for such excess tax deductions were approximately $105,000, $330,000 and zero in fiscal years 2005, 2004 and 2003, respectively.

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

STOCK-BASED COMPENSATION—At June 30, 2005, the Company has a stock-based employee compensation plan, which is described more fully in Note 4. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. All options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

Year Ended June 30,	2005	2004	2003
Net income, as reported	$4,493,827	$5,372,272	$4,169,411
Add: Total stock-based employee compensation recorded	104,749	330,019	351,764
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards outstanding	341,192	531,403	447,679
Pro forma net income	$4,257,114	$5,170,888	$4,073,496
Earnings per share:			
Basic—as reported	$ 1.21	$ 1.43	$ 1.14
Basic—pro forma	$ 1.15	$ 1.37	$ 1.11
Diluted—as reported	$ 1.14	$ 1.37	$ 1.08
Diluted—pro forma	$ 1.08	$ 1.32	$ 1.06

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, 2005, 2004, and 2003, were 3,711,821, 3,769,033, and 3,671,585, respectively. When dilutive, stock options are included in earnings per share as share equivalents using the treasury stock method. Common stock equivalents of 226,787, 158,657, and 173,010 related to stock option grants were included in the computation of the weighted-average number of shares outstanding for diluted earnings per share for the fiscal years ended June 30, 2005, 2004, and 2003, respectively.

3. CREDIT FACILITY

The Company amended its existing credit facility in November 2003, extending the maturity date of the unsecured line of credit to November 1, 2005. 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, which require the Company to maintain a minimum tangible net worth, and specified current, interest coverage, and leverage ratios. There were no borrowings under this credit facility at June 30, 2005 or 2004.

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. In 2001, the Board of Directors authorized the reservation of an additional 300,000 shares for the 1990 Plan, which was also approved by the stockholders. Options generally vest at 25% each anniversary date after grant, with a maximum term of five to ten years.

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	Weighted Average Exercise Price
Shares under option at June 30, 2002	607,500	$ 5.10—$18.48	$ 12.20
Granted	180,000	$15.75—$17.32	$ 16.62
Exercised	(90,000)	$ 5.38—$6.73	$ 5.97
Settled	(47,500)	$ 5.38—$6.73	$ 5.97
Shares under option at June 30, 2003	650,000	$ 5.10—$18.48	$ 14.75
Granted	250,000	$22.01—$24.21	$ 23.15
Exercised	(15,000)	$ 5.38—$6.73	$ 6.23
Settled	(45,000)	$ 5.92	$ 5.92
Shares under option at June 30, 2004	840,000	$ 5.10—$24.21	$ 17.88
Granted	—	—	—
Exercised	(75,000)	$ 6.73—$16.80	$ 7.69
Settled	—	—	—
Shares under option at June 30, 2005	765,000	$ 5.10—$24.21	$ 18.87

The range of options as of June 30, 2005 is as follows:

	Number of Options Outstanding/Exercisable	Weighted Average Exercise Price Outstanding/Exercisable	Weighted Average Remaining Contractual Life (In Years)
$ 5.10 — $ 6.73	27,500 / 27,500	$ 5.97 / $5.97	4.1
$15.75 — $18.48	487,500 / 360,625	$ 17.41 / $17.55	4.0
$22.01 — $24.21	250,000 / 62,500	$ 23.15 / $23.15	6.4
		$ 18.87 / $17.62	

There were no options granted in 2005. 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 2004 and 2003 was $4.56 and $3.69, respectively. There were no options granted in 2004 or 2003 for which the exercise price was less than the market price on the date of grant. The weighted-average fair value at date of grant for options whose exercise price was equal to the market price of the stock on the grant date during 2004 and 2003 was $2.87 and $5.94, respectively. As of June 30, 2005, the weighted-average remaining contractual life of all outstanding options approximates 4.21 years.

For the pro forma information disclosed in Note 1, 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:

	2005	2004	2003
Expected stock price volatility	35.00%	35.00%	43.40%
Risk free interest rate	3.69%	3.69%	2.84%
Expected dividend yield	2.27%	2.27%	3.30%
Expected life of options	4.21 years	5.21 years	5.33 years

The Company has an agreement with its Chairman, John C. Koss, in the event of his death, at the request of the executor of his estate, to repurchase his Company common stock from his estate. The Company does not have the right to require the estate to sell stock to the Company. As such, this arrangement is accounted for as a written put option with the fair value of the put option recorded as a derivative liability. The fair value of the option at June 30, 2005 and 2004 was $125,000. 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 will be sufficient to provide proceeds which are the lesser of $2,500,000 or the amount of estate taxes and administrative expenses incurred by the Chairman's estate. The Company may elect to pay the purchase price in cash or may elect to pay cash equal to 25% of the total amount due and to execute a promissory note for the balance, payable over four years, at the prime rate of interest. The Company maintains a $1,150,000 life insurance policy to fund a substantial portion of this obligation.

5. INCOME TAXES

The Company utilizes the liability method of accounting for income taxes. The liability method measures the expected income tax impact of future taxable income and deductions implicit in the consolidated balance sheets. The provision for income taxes in 2005, 2004, and 2003 consists of the following:

Year Ended June 30,	2005	2004	2003
Current:			
Federal	$2,527,001	$2,888,401	$2,170,101
State	486,000	488,000	501,000
Deferred	(111,000)	140,629	24,000
	$2,902,001	$3,517,030	$2,695,101

Table of Contents

The 2005, 2004, and 2003 tax provision results in an effective rate different than the federal statutory rate due to the following:

Year Ended June 30,	2005	2004	2003
Federal income tax at statutory rate	$ 2,514,582	$ 3,048,160	$ 2,333,934
State income taxes, net of federal tax Benefit	354,247	371,531	331,000
Other	33,172	97,339	30,167
Total provision for income taxes	$ 2,902,001	$ 3,517,030	$ 2,695,101

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

	2005	2004
Deferred Income Tax Assets:		
Deferred compensation	$ 157,000	$ 204,000
Accrued expenses and reserves	859,000	660,000
Package design and trademarks	251,000	188,000
Other	48,000	99,000
	1,315,000	1,151,000
Deferred Income Tax Liabilities:		
Royalties receivable/deferred	—	—
Equipment and leasehold improvements	(140,000)	(40,000)
Net deferred income tax asset	$ 1,175,000	$ 1,111,000

Table of Contents

6. INTANGIBLE ASSETS

A summary of intangibles included in other assets in the accompanying balance sheets as of June 30, 2005 and 2004 and their respective estimated useful lives is as follows:

	2005	2004	Estimated useful lives
Patents	$ 710,291	$ 710,291	15 years
Customer lists and other	188,811	188,811	15 years
	899,102	899,102	
Less accumulated amortization	294,456	97,552	
	$ 604,646	$ 801,550	

7. ACCRUED LIABILITIES

Accrued liabilities at June 30 consist of the following:

	2005	2004
Employee compensation	$ 411,294	$ 538,605
Cooperative advertising and promotion allowances	870,378	674,713
Payroll taxes and other employee benefits	169,377	203,913
Other	390,813	336,807
	$ 1,841,862	$ 1,754,038

8. ADDITIONAL CASH FLOW INFORMATION

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

	2005	2004	2003
Accounts receivable	$ 420,799	$ (881,232)	$ (153,589)
Inventories	(280,444)	18,413	(854,186)
Prepaid expenses and other assets	(443,744)	(302,811)	(102,554)
Income taxes	506,548	367,861	(662,538)
Accounts payable	1,963,330	(1,744,144)	939,234
Accrued liabilities	84,672	381,209	(1,241,025)
Net change	$ 2,251,161	$ (2,160,704)	$ (2,074,658)

	2005	2004	2003
Net cash paid during the year for:			
Interest	$ —	$ 960	$ 14,572
Income taxes	$ 1,388,822	$ 2,872,155	$ 3,332,091

9. 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 $54,000 in 2005, $-0- in 2004, and $49,000 in 2003.

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 2005, 2004, and 2003, 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. Company contributions were approximately $307,000, $269,000, and $281,000 during 2005, 2004, and 2003, respectively.

10. DEFERRED COMPENSATION

The Company has deferred compensation agreements with a former and current officer.

The Board of Directors has entered into an agreement to continue the Chairman's current base salary for the remainder of his life. The Company has a deferred compensation liability of $400,000 and $520,000 recorded as of June 30, 2005 and 2004, respectively.

The Board of Directors has approved a supplemental retirement plan with an officer that calls for annual cash compensation following retirement from the Company in an amount equal to 2% of base salary multiplied by the number of years of service to the Company. The retirement payments are to be paid monthly to the officer until his death and then to his surviving spouse monthly until her death. The Company has a deferred compensation liability of $561,165 and $465,265 recorded as of June 30, 2005 and 2004, respectively.

11. INDUSTRY SEGMENT INFORMATION, FOREIGN SALES 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 $11,404,941 during 2005, $7,008,448 during 2004, and $4,205,683 during 2003.

Sales during 2005, 2004 and 2003 to the Company's five largest customers represented approximately 42%, 43% and 50% of the Company's total sales, respectively. Included in these percentages, sales to a single customer represented approximately 15%, 19%, and 20% of the Company's total sales during 2005, 2004, and 2003, respectively. These customers generally are large, national retailers.

12. COMMITMENTS AND CONTINGENCIES

The Company leases its main plant and offices in Milwaukee, Wisconsin from its Chairman. On May 28, 2003, the lease was renewed for a period of five years, and is being accounted for as an operating lease. The lease extension maintained the rent at a fixed rate of $380,000 per year. At anytime during this period the Company has the option to renew the lease for an additional five years for the period commencing July 1, 2008 and ending June 30, 2013 under the same terms and conditions. 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. Total rent expense, which includes this lease, approximated $416,000 in 2005, $416,000 in 2004, and $426,000 in 2003.

13. SUPPLEMENTARY INFORMATION

Changes in the allowance for doubtful accounts for 2005, 2004, and 2003 are summarized as follows:

Year Ending	Balance at Beginning Of Period	Charges Against/ (Credits To) Income	Deductions*	Balance at End of Period
2005	$ 738,995	$ (202,193)	$ 357,517	$ 583,671
2004	$ 975,689	$ (237,938)	$ 1,244	$ 738,995
2003	$ 801,055	$ 198,846	$ (24,212)	$ 975,689

*Represents charges against the allowance, net of recoveries.

Advertising costs included within selling, general, and administrative expenses in the accompanying statements of income were $46,000 in 2005, $76,000 in 2004, and $97,000 in 2003. Such costs are expensed as incurred.

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.

Table of Contents

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

Dated: September 28, 2005

By: /s/ Sujata Sachdeva
Sujata Sachdeva,
Vice President — Finance
Principal Accounting Officer
Secretary

Dated: September 28, 2005

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 indicated on September 28, 2005:

/s/ John C. Koss
John C. Koss, Director

/s/ Michael J. Koss
Michael J. Koss, Director

/s/ Martin F. Stein
Martin F. Stein, Director

/s/ John J. Stollenwerk
John J. Stollenwerk, Director

/s/ Thomas L. Doerr
Thomas L. Doerr, Director

/s/ Lawrence S. Mattson
Lawrence S. Mattson, Director

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

Table of Contents

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/Secretary

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

ANNUAL MEETING

October 12, 2005 — 9:00a.m.
Milwaukee River Hilton Inn
4700 N. Port Washington Rd.
Milwaukee, WI 53212

INDEPENDENT AUDITORS

Grant Thornton LLP
Milwaukee, Wisconsin

LEGAL COUNSEL

Hughes & Luce, L.L.P.
Dallas, Texas

DIRECTORS

John C. Koss
Chairman of the Board
Koss Corporation

Table of Contents

Thomas L. Doerr
President
Doerr Corporation

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

TRANSFER AGENT

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

American Stock Transfer
& Trust Company
59 Maiden Lane
New York, NY 10038

W176 N9743 Rivercrest Drive
Germantown, WI 53022
Attn: Barbara Bahr
Shareholders Toll-free: 1-800-937-5449

Table of Contents

EXHIBIT INDEX

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

Exhibit No.	Exhibit Description
10.12	Loan Agreement, effective as of February 17, 1995. Filed as Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995 and incorporated herein by reference.
10.13	Amendment to Loan Agreement dated June 15, 1995, effective as of February 17, 1995. Filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended June 30, 1995 and incorporated herein by reference.
10.14	Amendment to Loan Agreement dated April 29, 1999. Filed as Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended June 30, 1999 and incorporated herein by reference.
10.15	Amendment to Loan Agreement dated December 15, 1999. Filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended June 30, 2000 and incorporated herein by reference.
10.16	Amendment to Loan Agreement dated October 10, 2001. Filed as Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2001 and incorporated herein by reference.
10.17	License Agreement dated June 30, 1998 between Koss Corporation and Logitech Electronics Inc. (including Addendum to License Agreement dated June 30, 1998). Filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended June 30, 1998 and incorporated herein by reference.
10.18	Amendment and Extension Agreement between Koss Corporation and Logitech Electronics Inc. dated May 1, 2001. Filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference.
10.19	License Agreement dated June 30, 2003 between Koss Corporation and Sonigem Products, Inc. *
10.20	Amendment to License Agreement dated August 1, 2005, between Koss Corporation and Sonigem Products, Inc. *
14	Koss Corporation Code of Ethics. Filed as Exhibit 14 to the Company's Annual Report on Form 10-K for the year ended June 30, 2004 and incorporated herein by reference.
21	List of Subsidiaries of Koss Corporation *
23.1	Consent of Grant Thornton LLP *
23.2	Consent of PricewaterhouseCoopers LLP *
31	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer/Chief Financial Officer *
32	Section 1350 Certification of Chief Executive Officer/Chief Financial Officer **

* Filed herewith

** Furnished herewith

Exhibit 10.19

LICENSE AGREEMENT

THIS AGREEMENT is made this 30th day of June, 2003 (the “Effective Date”) by and between KOSS CORPORATION, a Delaware corporation with its principal place of business at 4129 North Port Washington Avenue, Milwaukee, WI 53212 (the “LICENSOR”) and SONIGEM PRODUCTS, INC., a corporation organized under the laws of the Province of Ontario, with its principal place of business at 300 Alden Road, Markham, Ontario L3R 4C1(the “LICENSEE”).

WHEREAS, LICENSEE desires to obtain the right to use certain trademarks of LICENSOR in connection with the marketing and sale of certain of LICENSEE’s products; and

WHEREAS, LICENSOR is willing to grant such rights to LICENSEE upon the terms and conditions set forth below;

NOW, THEREFORE, for and in consideration of the premises and of the mutual promises and conditions herein contained, the parties hereby agree as follows:

1. DEFINITIONS.

For purposes of this Agreement, unless the context otherwise requires, the following terms shall have the meanings set forth below:

1.1 “Licensed Trademarks” mean the “Koss” trademarks listed on Exhibit A to this Agreement.

1.2 “Products” mean the consumer electronic products of LICENSEE set forth on Exhibit B to this Agreement.

1.3 “Licensed Products” mean all Products of LICENSEE that have the Licensed Trademarks affixed or attached thereto in any manner.

1.4 “Territory” means Canada.

1.5 “Contract Period” means the period beginning on the Effective Date and ending on June 30, 2008 and any applicable renewal period.

1.6 “Contract Year” means the fiscal year of Koss Corporation (July 1-June 30).

1.7 “Calendar Quarter” means each three-month period during the term of this Agreement, with the first Calendar Quarter beginning on July 1, 2003 (i.e., July 1, 2003 through September 30, 2003; October 1, 2003 though January 31, 2004, etc.).

2. GRANT OF LICENSE; LICENSOR’S SALES.

2.1 Subject to the terms and conditions of this Agreement, LICENSOR hereby grants to LICENSEE the exclusive right and license to use the Licensed Trademarks within the

Territory during the Contract Period in connection with, and only with, the manufacture, promotion, distribution and sale of the Licensed Products.

2.2 LICENSEE will not make or authorize any use, direct or indirect, of the Licensed Trademarks outside of the Territory; provided, however, that subject to the provisions of Section 2.3 below, LICENSEE has the right to have the Licensed Products manufactured outside the Territory solely for sale by LICENSEE inside the Territory.

2.3 LICENSEE has the right to subcontract the manufacture of the Licensed Products to another entity, provided that such entity executes a letter agreement in form substantially similar to Exhibit C attached hereto. LICENSEE shall not grant any other subcontracting rights other than as provided in this Section 2.3.

2.4 LICENSEE agrees to sell Products and Licensed Products to LICENSOR at a price equal to the price LICENSEE pays for such Products or Licensed Products, plus ten percent (10%), payment terms of net ninety (90) days. Notwithstanding anything to the contrary set forth in this Agreement, any schedule or Exhibit hereto, or any other document, LICENSOR and LICENSEE acknowledge and agree that LICENSOR has the right, without any restrictions and on terms acceptable to LICENSOR in its sole discretion, to sell Products or Licensed Products (i) within the Territory or outside of the Territory to the U.S. military or U.S. government or any other military or governmental agency (ii) by direct mail or out of any of LICENSOR's outlet stores existing now or in the future, or (iii) directly to customers or end-users through LICENSOR's web site or otherwise via the Internet.

3. LICENSEE'S OBLIGATIONS.

3.1 LICENSEE will not manufacture, advertise, promote, distribute or sell any Licensed Products:

(a) in violation of any law or regulatory restriction; or

(b) in any manner that damages the image, reputation or goodwill of the Licensed Trademarks or of LICENSOR or portrays LICENSOR or the Licensed Products in a false or poor light.

3.2 During the Contract Period, LICENSEE will diligently manufacture, promote, distribute and sell Licensed Products and make and maintain adequate arrangements for the distribution, repair and servicing of the Licensed Products throughout the Territory. LICENSEE and LICENSOR shall each inform the other party of their respective toll-free customer service telephone numbers, and shall inform customers who have mistakenly telephoned one party of the other party's customer service telephone number.

3.3 LICENSEE will not sell refurbished Products labeled with the Licensed Trademarks unless such Products are clearly and conspicuously labeled as refurbished merchandise.

3.4 At the request of LICENSOR, LICENSEE will pay to LICENSOR in advance all translation costs, filing fees and all other fees, costs and expenses associated with “registered user” filings within the Territory.

3.5 A breach of LICENSEE’s obligations regarding the Licensed Trademarks may result in irreparable injury for which there may be no adequate remedy at law. Therefore, in the event of any breach or threatened breach of LICENSEE’s obligations regarding the Licensed Trademarks, LICENSOR will be entitled to seek equitable relief in addition to its other available legal remedies in a court of competent jurisdiction.

4. APPROVAL OF LICENSED PRODUCTS.

4.1 LICENSOR has the right to approve or disapprove, in the manner provided herein in advance of sale, the quality, style, appearance, material and workmanship of all Licensed Products and the packaging therefor, and to approve or disapprove in advance any and all trademarks, trade names, designs and logos (whether included in the Licensed Trademarks or not) used in connection with the Licensed Products. LICENSEE shall not advertise, distribute or sell any such Licensed Product that has not been approved by LICENSOR. Before selling or distributing any Licensed Product, LICENSEE shall submit to LICENSOR for its approval, artist renderings of the proposed Products and/or mock-ups with full engineering specifications together with packaging, labels and the like. Within twenty (20) business days after receipt of each of the renderings and/or mock-ups, LICENSOR will approve or disapprove such Products in writing, failing which such products shall be deemed to have been approved. After LICENSOR has approved the proposed Products and LICENSEE has obtained tooling for the proposed Products, LICENSEE shall provide LICENSOR with off-tool and/or production samples of the Products and LICENSOR shall disapprove such samples in writing within twenty (20) business days after LICENSOR’s receipt of such items or else LICENSOR shall be deemed to have approved them. LICENSEE shall also provide to LICENSOR, at no cost to LICENSOR, three (3) working samples of each Product within thirty (30) days of the commencement of production of such Product. Licensed Products that are sold or distributed by LICENSEE under this Agreement will be of no lesser quality than the corresponding samples approved by LICENSOR. LICENSOR will not unreasonably withhold approval required by LICENSOR under this Section 4.1.

4.2 During the Contract Period, LICENSEE shall take all actions reasonably necessary to cure any defects in the Licensed Products and will act to preserve the image, reputation and goodwill of the Licensed Trademarks and of LICENSOR.

4.3 LICENSEE shall make such warranties as are legally required in connection with the sale of the Licensed Products, including all manufacturer’s warranties to customers.

5. APPROVAL OF ADVERTISING, APPEARANCE AND USE OF LICENSED TRADEMARKS.

5.1 LICENSOR has the right to approve or disapprove, in advance of LICENSEE’s commercial use of the Licensed Products, the contents, appearance and presentation of all advertising materials that incorporate the Licensed Trademarks or that make reference in any

way to the Licensed Trademarks or Licensed Products. Before producing, publishing or distributing any advertising materials hereunder, LICENSEE shall submit to LICENSOR, for its approval, line art and color specifications for the materials. LICENSOR will, within twenty (20) business days after receipt, approve or disapprove such material in writing, failing which such material shall be deemed to have been approved, provided that LICENSOR's approval shall be subject to submission and approval of LICENSEE's final packaging materials. LICENSOR will not unreasonably withhold approval required by LICENSOR under this Section 5.1.

5.2 LICENSEE agrees to protect, indemnify and save harmless LICENSOR, LICENSOR's parent, subsidiaries and affiliates and all officers, directors, agents, employees and representatives thereof, from and against any and all expenses, damages, claims, suits, actions, judgments and costs whatsoever, including reasonable attorneys' fees, arising out of, or in any way connected with, any claim or action relating to the contents of LICENSEE's advertising or of the Licensed Products, whether or not approved by LICENSOR hereunder, but not including claims that the Licensed Trademarks infringe a third party's intellectual property rights.

5.3 LICENSOR has the right to include a full line catalog of LICENSOR's products within each Product to which the Licensed Trademarks are affixed and distributed by LICENSEE. A sample of the full line catalog will be provided to LICENSEE, who shall instruct LICENSOR on a quarterly basis as to the quantity of full line catalogs needed and the destination where they should be shipped for LICENSEE's packaging purposes. LICENSOR also has the right to include promotional coupons for certain of LICENSOR's products on a quarterly basis except as prohibited by specific retailers. Such coupons shall be provided in a manner similar to that set forth above for the full line catalog and are to be included in every product bearing the Licensed Trademarks and distributed by LICENSEE.

5.4 LICENSEE will provide to LICENSOR a copy of LICENSEE's most recent list of holders of warranties on all Products distributed by LICENSEE. LICENSOR agrees to keep such information confidential and to use it solely for soliciting direct mail consumer sales.

6. ROYALTIES; PAYMENT; RENEWAL.

6.1 During each Calendar Quarter of the term of this Agreement, LICENSEE will pay to LICENSOR as royalties ("Royalties") the greater of (1) the royalty rate percentage of net sales of the Licensed Products as set forth in Exhibit B to this Agreement, and (2) the Minimum Quarterly Royalty in Section 6.2 below. The term "net sales" with respect to the Licensed Products means the total amount invoiced by LICENSEE for sales of the Licensed Products less (a) the total amount of returns of the Licensed Products, as exemplified on Exhibit D to this Agreement, (b) volume rebate credits and co-operative advertising allowances (which LICENSEE shall provide to LICENSOR on the quarterly commission schedule), and (c) any sales taxes (i.e., provincial sales tax and GST) included in the price of the Licensed Products. No Royalties will be due on sales of products from LICENSEE to LICENSOR.

6.2 During the applicable Contract Year, the minimum quarterly Royalties ("Minimum Quarterly Royalties") for each Calendar Quarter during that Contract Year are as follows:

Contract Year	Minimum Quarterly Royalties
July 1, 2003 — June 30, 2004	U.S. $12,500
July 1, 2004 — June 30, 2005	U.S. $18,750
July 1, 2005 — June 30, 2006	U.S. $25,000
July 1, 2006 — June 30, 2007	U.S. $31,250
July 1, 2007 — June 30, 2008	The greater of U.S. $37,500 or the Minimum Quarterly Royalties paid by LICENSEE for July 1, 2006 — June 30, 2007

If at the end of any Calendar Quarter, the cumulative total Royalties paid by LICENSEE to LICENSOR do not equal or exceed the cumulative Royalty for such Calendar Quarter as set forth in Exhibit E, then LICENSEE shall pay to LICENSOR the difference between the Minimum Quarterly Royalties for such Calendar Quarter and the Royalties paid by LICENSEE to LICENSOR for such Calendar Quarter within thirty (30) days following the end of such Calendar Quarter.

6.3 If as of June 30, 2008, LICENSOR elects to renew this Agreement as hereinafter provided for an additional two (2) year period, LICENSEE shall pay to LICENSOR the following Minimum Quarterly Royalties:

Contract Year	Minimum Quarterly Royalties
July 1, 2008 — June 30, 2009	The greater of U.S. $39,375 or the Minimum Quarterly Royalties paid by LICENSEE for July 1, 2007 — June 30, 2008
July 1, 2009 — June 30, 2010	The greater of U.S. $41,344 or the Minimum Quarterly Royalties paid by LICENSEE for July 1, 2008 — June 30, 2009

If at the end of any Calendar Quarter, the cumulative total Royalties paid by LICENSEE to LICENSOR do not equal or exceed the cumulative Royalty for such Calendar Quarter as set forth in Exhibit E, then LICENSEE shall pay to LICENSOR the difference between the Minimum Quarterly Royalties for such Calendar Quarter and the Royalties paid by LICENSEE to LICENSOR for such Calendar Quarter within thirty (30) days following the end of such Calendar Quarter.

6.4 LICENSEE shall make payment of Royalties quarterly on or before the 20th day following the end of each Calendar Quarter of each Contract Year during the term of this Agreement (i.e., January 20, April 20, July 20 and October 20) and within thirty (30) days after the expiration or earlier termination of this Agreement, in respect of all Licensed Products shipped during such quarter.

6.5 LICENSEE’s payment of all Royalties must be in United States dollars. The late payment of any Royalties will bear interest at the rate of one and one-half percent (1-1/2%) per month, or at the highest rate permitted by applicable state law, whichever is lower.

7. BOOKS, RECORDS, AND STATEMENTS.

7.1 LICENSEE shall maintain for three (3) years following the close of each Contract Year accurate books and records that disclose, at a minimum, the following: the cost of sales of the Licensed Products, the amount of sales of the Licensed Products, the amount of credits for returns, trade discounts and customers’ shipping costs, the amount of all Royalties payable hereunder by LICENSEE and the manner in which such Royalties were determined.

7.2 LICENSEE shall deliver to LICENSOR with each quarterly payment a detailed accounting statement showing the calculation of such Royalties payment. Such statement must be in sufficient detail to be audited from the books of LICENSEE maintained pursuant to Section 7.1. By the 15th day of each month during each Contract Year during the term of this Agreement, LICENSEE shall also provide LICENSOR with a preliminary tabulation of the sales and returns by customer and by Product model number for the prior month, for LICENSOR’s use and analysis.

7.3 Within ninety (90) days after the close of each Contract Year, LICENSEE shall furnish to LICENSOR a statement, certified to be true and correct by LICENSEE’s Chief Financial Officer, that the accounting for sales is complete and correct, and the total sales of the Licensed Products to each retail account.

7.4 LICENSOR, at its expense, has the right at any time during regular business hours after the end of any Contract Year, upon five (5) days written notice to LICENSEE, to have a representative of LICENSOR examine or audit the books, accounts and records of LICENSEE that pertain to the manufacture, distribution and sale of the Licensed Products and the amount of credit for returns, trade discounts and customers’ shipping costs with respect thereto, and other books and records as they may be reasonably required by LICENSOR’s accountants to verify the figures reported in any statements furnished to LICENSOR pursuant to this Section 7. LICENSEE shall make such books of account and records available to LICENSOR and its accountants at LICENSEE’s office located as herein stated or such other place as the parties mutually agree. LICENSEE shall render all possible assistance to LICENSOR and its accountants for the purpose of facilitating the checking or auditing of net sales and of the figures set forth in any of LICENSEE’s statements. If the examination or audit reveals the underpayment of any Royalties, LICENSEE shall immediately pay LICENSOR the amount of the deficiency with interest, and if the deficiency exceeds five percent (5%) of the amount of Royalties paid with respect to such year or years audited, LICENSEE shall pay the cost of the examination or audit.

8. TRADEMARKS.

8.1 LICENSEE will imprint irremovably and legibly on each Licensed Product manufactured, distributed or sold under this Agreement (including, but not limited to, advertising, promotional, packaging and wrapping material and any other such material wherein

the Licensed Trademarks may appear), the appropriate trademark and/or copyright notices, as designated in writing in advance by LICENSOR. LICENSEE will deliver to LICENSOR upon request, free of cost, samples of each Licensed Product together with their packaging and wrapping material for approval and for trademark and/or copyright registration purposes.

8.2 LICENSEE will not, during the term of this Agreement or thereafter, file any application for trademark registration or otherwise obtain or attempt to obtain ownership of any name, design, logo, trademark or trade name, within the Territory or in any other country of the world, which includes or is confusingly similar to or suggestive of the Licensed Trademarks.

8.3. LICENSEE will not, directly or indirectly, challenge or contest LICENSOR's ownership of or rights in the Licensed Trademarks, whether for the Licensed Products or otherwise.

8.4 All use of the Licensed Trademarks by LICENSEE inure to the benefit of LICENSOR, and LICENSEE does not and will not acquire any rights therein adverse to LICENSOR.

9. MAINTENANCE OF LICENSED TRADEMARKS.

LICENSEE shall promptly notify LICENSOR in writing of any infringement by others of the Licensed Trademarks on articles similar to the Licensed Products if and when such infringement becomes known to LICENSEE and shall provide LICENSOR with any available evidence of such infringement. Only LICENSOR has the right to commence legal proceedings against such infringer. In any infringement action, proceeding or claim brought by LICENSOR, LICENSEE, at its expense, shall make available to LICENSOR any relevant books, records, papers, information, designs, samples, specimens, and the like and shall cause any of LICENSEE's employees to be deposed or to testify, whenever requested to do so by LICENSOR.

10. INDEMNIFICATION AND INSURANCE.

10.1 LICENSEE shall protect, indemnify and save harmless LICENSOR, LICENSOR's parent, subsidiaries and affiliates and all officers, directors, agents, employees and representatives thereof, and any of them, from and against any and all expenses, damages, claims, suits, actions, judgments and costs whatsoever, including reasonable attorneys' fees, arising out of, or in any way connected with, any claim or action for the violation by LICENSEE of any statutory or regulatory obligation, any claim or action for injury or damage to property, personal injury, death or other cause of action involving alleged defects in Licensed Products, and any other claim or action arising out of LICENSEE's activities pursuant to this Agreement or other conduct of its business, including infringement claims.

10.2 LICENSEE shall, within thirty (30) calendar days after the execution of this Agreement, obtain from an insurance company reasonably acceptable to LICENSOR, and maintain during the term of this Agreement and for a period of twenty-four (24) months following the expiration or termination of this Agreement, public and products liability insurance with a limit of liability of not less than Two Million ($2,000,000) U.S. dollars per occurrence to protect LICENSOR against any liabilities with which it may be charged because of damage or

injuries suffered by any servants, agents, contractors, employees or customers of LICENSEE or by the general public, resulting from the use or sale of the Licensed Products manufactured, distributed, advertised, leased or sold by LICENSEE or by LICENSEE's contractor. LICENSEE shall include LICENSOR's name in such policy as an additional named insured and an additional loss payee, and shall deliver to LICENSOR a certificate thereof. Said insurance shall provide that it cannot be canceled without the insurer first giving LICENSOR twenty (20) calendar days' advance written notice thereof. LICENSEE shall furnish or cause to be furnished to LICENSOR evidence of the maintenance and renewal of the insurance required herein, including, but not limited to, copies of policies, certificates of insurance, with applicable riders and endorsements, and proof of premium payments.

11. DEFAULT; TERMINATION.

11.1 In the event of a default by either party in the performance of any of its obligations pursuant to this Agreement, the non-defaulting party shall give written notice of such default to the defaulting party. Within 30 days of its receipt of such notice, the defaulting party shall cure the default. If the defaulting party does not take such corrective actions or cure the default within 30 days, the non-defaulting party has the right to terminate this Agreement by providing written notice to the defaulting party. The right to remedy a default does not apply to LICENSEE's breach of Sections 4, 5, 6 or 7 of this Agreement, which will give LICENSOR the right to treat such breach as a non-curable default and to terminate this Agreement.

11.2 Either party has the right to terminate this Agreement upon ten (10) days prior notice upon the occurrence of any of the following events:

(a) If the other party becomes insolvent or makes an assignment for the benefit of creditors or becomes the subject of receivership, bankruptcy or other insolvency or debtor relief proceedings, or any similar proceedings;

(b) If the other party ceases to do business; or

(c) Except as permitted under Section 14 below, if the other party attempts to assign any of its rights under this Agreement.

A party's exercise of its right, pursuant to this Section 11.2, to terminate this Agreement is without prejudice to any other legal or equitable remedy such party may hold against the other party by reason of the other party's breach of any term or condition of this Agreement.

11.3 LICENSEE has the right to terminate this Agreement at any time by giving written notice to LICENSOR during the course of any Contract Year, in which case this Agreement will continue in full force and effect for an additional one (1) Contract Year after December 31 of the Contract Year in which the notice of termination was given. The Minimum Quarterly Royalties in effect at the time of the notice of termination will remain constant for the remaining Contract Years of this Agreement.

11.4 Commencing with the Contract Year starting January 1, 2005, LICENSOR has the right to terminate this Agreement during the Course of any Contract Year if one of the following thresholds is not met with regard to the Royalties paid by LICENSEE for the periods

referenced below: (i) LICENSEE's average Royalties from the two (2) most recent Contract Years do not exceed 110% of the average annual Minimum Quarterly Royalties from the same two (2) year period, or (ii) LICENSEE's actual Royalties for the most recent Contract Year do not exceed 70% of the actual Royalties for the immediately preceding Contract Year. In the event of such notice of termination from LICENSOR, this Agreement will continue in full force and effect for an additional one (1) Contract Year after December 31 of the Contract Year in which the notice of termination was given. The Minimum Quarterly Royalties in effect at the time of the notice of termination will remain constant for the remaining Contract Years of this Agreement.

11.5 No assignee for the benefit of creditors, receiver, liquidator, trustee in bankruptcy, sheriff or any other officer of the court or official charged with taking over custody of LICENSEE's assets or business, has any right to continue performance of this Agreement, and this Agreement may not be assigned by operation of law.

11.6 Failure to terminate this Agreement pursuant to this Section 11 does not effect or constitute a waiver of any remedies the non-defaulting party is entitled to demand, whether by way of damages, termination or otherwise. Termination of this Agreement is without prejudice to the rights and liabilities of either party to the other in respect of any matter arising under this Agreement.

12. RIGHTS AFTER TERMINATION.

12.1 Except as provided in Section 12.2 below, from and after the termination of this Agreement, whether because of non-renewal, default or otherwise, all of the rights of LICENSEE to the use of the Licensed Trademarks will, except as hereinafter expressly provided, cease absolutely, and LICENSEE must not thereafter manufacture, advertise, promote, distribute or sell any item in connection with the Licensed Trademarks. It is further agreed that following such termination, LICENSEE shall not manufacture, advertise, promote, distribute or sell any item in connection with the use of any name, figure, design, logo, trademark or trade name similar to or suggestive of the Licensed Trademarks.

12.2 Notwithstanding Section 12.1 above, so long as LICENSOR does not terminate this Agreement as set forth in Sections 11.1 and 11.2 above, any Licensed Products for which as of the date of any other termination LICENSEE has non-cancelable open orders may be sold by LICENSEE on a non-exclusive basis during the 9-month period following the date of termination. LICENSEE shall continue to pay Royalties to LICENSOR with respect to such sales at the rate and in the manner specified in this Agreement. Within 30 days of the date of termination, LICENSEE shall provide to LICENSOR a complete listing of the inventory in transit and the warehoused inventory. LICENSEE has no right to manufacture any additional Licensed Products after the date of termination.

13. NOTICE.

All notices required or provided for in this Agreement must be in writing and must be given by registered mail, prepaid and properly addressed to the last known address of the party to be served herewith, or by telecopy facsimile and confirmed by regular mail, and will be deemed

to have been given on the third (3rd) day after mailing or on the same day as the facsimile transmission is received. Notices sent to LICENSOR shall be addressed as follows:

KOSS Corporation
4129 North Port Washington Avenue
Milwaukee, WI 53212
Attn: President
Fax No.: (414) 967-1537

Notices sent to LICENSEE shall be addressed as follows:

Sonigem Products, Inc.
300 Alden Road
Markham, Ontario L3R 4C1
Attn: President
Fax No.: 905-940-4411

14. ASSIGNMENT.

This Agreement binds and inures to the benefit of LICENSOR, and the successors and assigns of LICENSOR. The rights granted LICENSEE hereunder are exclusive to it and may not, without the prior written consent of LICENSOR, be transferred or assigned to any other entity. In the event of the merger or consolidation of LICENSEE with any other entity, LICENSOR has the right to terminate this Agreement by so notifying LICENSEE in writing on or before sixty (60) days after LICENSOR has received written notice of such merger or consolidation.

15. INDEPENDENT CONTRACTORS.

The relationship of LICENSOR and LICENSEE established by this Agreement is that of independent contractors, and nothing contained in this Agreement will be construed to (a) give either party the power to direct and control the day-to-day activities of the other, (b) constitute the parties as partners, joint venturers, co-owners, or otherwise as participants in a joint or common undertaking, or (c) allow LICENSEE or LICENSOR to create or assume any obligation on behalf of the other party for any purpose whatsoever, unless otherwise expressly provided in this Agreement.

16. CONFIDENTIALITY.

16.1 Definition of Confidential Information. Each party may receive (the "Recipient") confidential or proprietary information from the other party (the "Disclosing Party") in the course of performing its obligations under this Agreement. Confidential information includes the terms of this Agreement and any information from the Disclosing Party that: (i) is marked as "Confidential" or "Proprietary," (ii) is reasonably identifiable as the confidential information of the Disclosing Party, (iii) is not generally known in the businesses and industries in which the Recipient is engaged, or (iv) under the circumstances of the disclosure should reasonably be considered as confidential or proprietary information of the Disclosing Party. Confidential information does not include any information that is: (a) rightly and lawfully known to the Recipient before receipt from

the Disclosing Party; (b) publicly available through no fault of the Recipient; (c) rightly and lawfully received by the Recipient from a third party without a duty of confidentiality; or (d) independently developed by the Recipient without use of or access to the Disclosing Party's confidential information.

16.2 Obligations of Confidentiality. Both parties will take reasonable care, but in no event less care than the party uses to protect its own confidential information, to preserve in strict confidence any confidential or proprietary information obtained by them, their agents or employees. Each party will use the confidential information only in the course of performing its obligations under this Agreement, unless otherwise agreed to by the Disclosing Party in writing. Disclosure of confidential information required by a government body or court of law is not a violation of this Section 16 if the Recipient gives prompt notice of the required disclosure to the Disclosing Party (and a reasonable opportunity for the Disclosing Party to obtain a protective order) and the Recipient discloses only the amount of confidential information required to comply with the government body or court of law.

16.3 Obligations Upon Termination. Each party shall at its own expense return to the other party or otherwise dispose as the Disclosing Party may instruct, any information sent by the Disclosing Party (including electronically sent) to the Recipient.

17. MISCELLANEOUS.

17.1 Section headings contained herein are solely for the purpose of aiding in location of subject matter and are not to be given weight in the construction of this Agreement.

17.2 This writing constitutes the entire Agreement between the parties regarding the subject matter of this Agreement and may not be changed or modified except by a writing signed by the parties to this Agreement.

17.3 If and to the extent that any provisions of this Agreement are prohibited or unenforceable under any applicable law, such provisions shall be ineffective to the extent of such prohibition or unenforceable without invalidating the remaining provisions hereof or affecting the validity or enforceability of any other provision hereof.

17.4 The failure of either party at any time or times to demand strict performance by the other of any of the terms, covenants or conditions set forth herein shall not be construed as a continuing waiver or relinquishment thereof and each may at any time demand strict and complete performance by the other of said terms, covenants and conditions.

17.5 This Agreement is governed by the substantive laws of the State of Wisconsin (regardless of laws that might be applicable under principles of conflicts of laws) as to all matters, including but not limited to matters of validity, construction, effect and performance. Resolution of any and all disputes between LICENSOR and LICENSEE arising from or in connection with this Agreement, whether based on contract, tort, common law, equity, statute, regulation, order or otherwise, will be governed by and settled in accordance with binding arbitration by three (3) arbitrators; provided, however, that the three arbitrators selected must each have extensive knowledge in the area of federal trademark law. If the parties cannot agree on the selection of three arbitrators, each party shall select one arbitrator, and those two

arbitrators together shall select the third arbitrator, and the three arbitrators, shall resolve the dispute as provided herein. The arbitrators' findings and decisions must be limited to the subject matter of the dispute, and such findings and decisions must be in writing and are final and binding on the parties hereto, and must specify the reasons for and facts on which such findings and decisions were reached. The parties hereto shall bear equally the arbitrators' fees and charges, and each party shall bear its other costs and expenses for the arbitration, including attorneys' fees. The arbitration must be conducted in Milwaukee, Wisconsin. To the extent that the parties hereto need to enforce the arbitration provisions in this Agreement or need to enforce or otherwise give effect to any arbitration finding, decision or award, any such action or proceeding must be adjudicated before a federal or state court located in Milwaukee, Wisconsin, and the parties hereby submit to the exclusive jurisdiction of the courts of the State of Wisconsin located in Milwaukee, Wisconsin, and of the federal courts located in Milwaukee, Wisconsin, with respect to any such action or proceeding commenced by either party. The parties hereto irrevocably waive any objection they now or hereafter may have respecting the venue of any such action or proceeding brought in such a court or respecting the fact that such court is an inconvenient forum, and hereby consent to the service of process in any such action or proceeding by means of registered or certified mail, return receipt requested, in care of the applicable address set forth under the notice provisions in this Agreement.

17.6 No delay, failure or default in performance of any obligation by either party will constitute a breach of this Agreement to the extent caused by an act of God, natural disaster, civil disturbance or other cause beyond the party's reasonable control and that the party could not have prevented by reasonable precautions. If a force majeure event prevents LICENSEE from performing under this Agreement for more than 90 days, LICENSOR may terminate this Agreement by providing written notice of such termination to LICENSEE.

IN WITNESS WHEREOF, each party hereto has caused this Agreement to be executed as of the Effective Date.

KOSS CORPORATION

By: /s/ Michael J. Koss
Michael J. Koss
Title: President and CEO

SONIGEM PRODUCTS, INC.

By: /s/ Reuben Klein
Reuben Klein
Title: President and CEO

EXHIBIT A

KOSS (Plain Block Letters) (as shown in U.S. Registration No. 1,821,035)

KOSS (Stylized) (as shown in U.S. Registration No. 1,850,556)

KOSS & Design (as shown in U.S. Registration No. 2,070,098)

EXHIBIT B

Description of Products to be sold under LICENSOR's Trademark.

1. Video Products. Includes, but is not limited to (i) Televisions using Cathode Ray Tube, Liquid Crystal Display, Plasma and Projection Technology, and (2) Video Cassette Recorders/Players (VCRs).

2. Communications Products. Includes, but is not limited to (i) Telephones (line operated whether corded or cordless handsets), (ii) Answering Machines with or without an Integrated Telephone, and (iii) Two-way Radios whether in FRS, GMRS or MURS Technology Formats.

<u>EXHIBIT C</u>

TO:

FROM: (Subcontractor) Manufacturing Factory

RE: Use of the “Koss” Brandname

The purpose of this letter is to acknowledge that ____________________ has the right to manufacture Licensed Products, as defined in the License Agreement between Sonigem Products, Inc. (“Sonigem”) and Koss Corporation dated ____________________, 2003 (“License Agreement”), bearing the “Koss” brandname and trademarks only for the account of Sonigem and only as a subcontract manufacturer pursuant to Sections 2.2 and 2.3 of the License Agreement and for no other purpose. We agree that we will not use the “Koss” name on any products other than those manufactured for Sonigem’s account. ____________________ agrees that neither it nor any affiliated or related individual or entity (i) will, at any time, file any application for trademark registration or otherwise obtain or attempt to obtain ownership of the “Koss” brandname or trademarks, or any name or mark that is confusingly similar thereto, anywhere in the world or (ii) directly or indirectly challenge or contest Koss Corporation’s ownership of or rights in the “Koss” brandname and tradenames, whether for the Licensed Products or otherwise.

EXHIBIT D

Calculation of Quarterly Royalties Payment (in U.S. Dollars)

Products	Total Sales	Returns	Net Sales	Royalty Rate
Video Products	$_____	$_____	$_____	1%
Communications Products	$_____	$_____	$_____	1.5%

TOTAL ROYALTIES PAYMENT U.S. $__________

EXHIBIT E

Cumulative Royalty Schedule

Calendar Quarter	Cumulative Royalty
July 1, 2003 — September 30, 2003	$ 12,500
October 1, 2003 — December 31, 2003	$ 25,000
January 1, 2004 — March 31, 2004	$ 37,500
April 1, 2004 — June 30, 2004	$ 50,000
July 1, 2004 — September 30, 2004	$ 68,750
October 1, 2004 — December 31, 2004	$ 87,500
January 1, 2005 — March 31, 2005	$106,250
April 1, 2005 — June 30, 2005	$125,000
July 1, 2005 — September 30, 2005	$150,000
October 1, 2005 — December 31, 2005	$175,000
January 1, 2006 — March 31, 2006	$200,000
April 1, 2006 — June 30, 2006	$225,000
July 1, 2006 — September 30, 2006	$256,250
October 1, 2006 — December 31, 2006	$287,500
January 1, 2007 — March 31, 2007	$318,750
April 1, 2007 — June 30, 2007	$350,000
July 1, 2007 — September 30, 2007	The greater of $387,500 or $350,000 + the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2006 — June 30, 2007 (the "17th Minimum Quarterly Royalty")
October 1, 2007 — December 31, 2007	The 17th Minimum Quarterly Royalty + the greater of (i) $37,500 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2006 — June 30, 2007 (the "18th Minimum Quarterly Royalty")
January 1, 2008 — March 31, 2008	The 18th Minimum Quarterly Royalty + the greater of (i) $37,500 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2006 — June 30, 2007 (the "19th Minimum Quarterly Royalty")
April 1, 2008 — June 30, 2008	The 19th Minimum Quarterly Royalty + the greater of (i) $37,500 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2006 — June 30, 2007 (the "20th Minimum Quarterly Royalty")

Calendar Quarter	Cumulative Royalty
July 1, 2008 — September 30, 2008	The 20th Minimum Quarterly Royalty + the greater of (i) $39,375 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2007 — June 30, 2008 (the “21st Minimum Quarterly Royalty”)
October 1, 2008 — December 31, 2008	The 21st Minimum Quarterly Royalty + the greater of (i) $39,375 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2007 — June 30, 2008 (the “22nd Minimum Quarterly Royalty”)
January 1, 2009 — March 31, 2009	The 22nd Minimum Quarterly Royalty + the greater of (i) $39,375 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2007 — June 30, 2008 (the “23rd Minimum Quarterly Royalty”)
April 1, 2009 — June 30, 2009	The 23rd Minimum Quarterly Royalty + the greater of (i) $39,375 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2007 — June 30, 2008 (the “24th Minimum Quarterly Royalty”)
July 1, 2009 — September 30, 2009	The 24th Minimum Quarterly Royalty + the greater of (i) $41,344 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2008 — June 30, 2009 (the “25th Minimum Quarterly Royalty”)
October 1, 2009 — December 31, 2009	The 25th Minimum Quarterly Royalty + the greater of (i) $41,344 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2008 — June 30, 2009 (the “26th Minimum Quarterly Royalty”)
January 1, 2010 — March 31, 2010	The 26th Minimum Quarterly Royalty + the greater of (i) $41,344 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2008 — June 30, 2009 (the “27th Minimum Quarterly Royalty”)
April 1, 2010 — June 30, 2010	The 27th Minimum Quarterly Royalty + the greater of (i) $41,344 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2008 — June 30, 2009 (the “28th Minimum Quarterly Royalty”)

Exhibit 10.20

AMENDMENT TO LICENSE AGREEMENT

This Amendment to License Agreement (this "Amendment") is made and entered into this 1st day of August, 2005 (the "Amendment Effective Date") by and between Koss Corporation, a Delaware corporation ("Licensor"), and Sonigem Products, Inc., a corporation organized under the laws of the Province of Ontario ("Licensee"). The License Agreement amended by this Amendment is referred to in this Amendment as the "Agreement".

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree to amend the Agreement as follows as of the Amendment Effective Date:

1. Section 2.4 of the Agreement is amended so that (i) the phrase "Products or Licensed Products" is deleted from line 6 of Section 2.4 of the Agreement and is replaced with "Products, Licensed Products, and any other items", and (ii) the phrase "through LICENSOR's web site or otherwise via the Internet" at the end of Section 2.4 of the Agreement is deleted.

2. Section 3.2 of the Agreement is amended so that the following is added as the second sentence of that section:

LICENSEE shall repair and service the Licensed Products in a professional and workmanlike manner consistent with the highest industry standards.

3. Section 6.2 of the Agreement is deleted in its entirety and replaced with the following:

6.2 During the applicable Contract Year, the minimum quarterly Royalties ("Minimum Quarterly Royalties") for each Calendar Quarter during that Contract Year are as follows:

Contract Year	**Minimum Quarterly Royalties**
July 1, 2003 — June 30, 2004	U.S. $12,500
July 1, 2004 — June 30, 2005	U.S. $18,750
July 1, 2005 — June 30, 2006	U.S. $75,000
July 1, 2006 — June 30, 2007	U.S. $81,250
July 1, 2007 — June 30, 2008	The greater of U.S. $87,500 or the Minimum Quarterly Royalties paid by LICENSEE for July 1, 2006 — June 30, 2007

If at the end of any Calendar Quarter, the cumulative total Royalties paid by LICENSEE to LICENSOR do not equal or exceed the cumulative Royalty for such Calendar Quarter as set forth in Exhibit E, then, within thirty (30) days following the end of such Calendar Quarter, LICENSEE shall pay to LICENSOR the difference between the Minimum Quarterly Royalties for such Calendar Quarter and the Royalties paid by LICENSEE to LICENSOR for such Calendar Quarter.

4. Section 6.3 of the Agreement is deleted in its entirety and replaced with the following:

6.3 If as of June 30, 2008, LICENSOR elects to renew this Agreement as hereinafter provided for an additional two (2) year period, LICENSEE shall pay to LICENSOR the following Minimum Quarterly Royalties:

Contract Year	**Minimum Quarterly Royalties**
July 1, 2008 — June 30, 2009	The greater of U.S. $89,375 or the Minimum Quarterly Royalties paid by LICENSEE for July 1, 2007 — June 30, 2008
July 1, 2009 — June 30, 2010	The greater of U.S. $91,344 or the Minimum Quarterly Royalties paid by LICENSEE for July 1, 2008 — June 30, 2009

If at the end of any Calendar Quarter, the cumulative total Royalties paid by LICENSEE to LICENSOR do not equal or exceed the cumulative Royalty for such Calendar Quarter as set forth in Exhibit E, then, within thirty (30) days following the end of such Calendar Quarter, LICENSEE shall pay to LICENSOR the difference between the Minimum Quarterly Royalties for such Calendar Quarter and the Royalties paid by LICENSEE to LICENSOR for such Calendar Quarter.

5. The following provision is added to the Agreement as new Section 7.5

During the term of this Agreement, by the 10th day of each calendar month after the Amendment Effective Date, LICENSEE will provide LICENSOR with (i) the inventory of Products and Licensed Products as of the last day of the previous calendar month, (ii) a list of all Products and Licensed Products in transit, (iii) a list of purchase orders received by LICENSEE for the previous month, and (iv) a list of companies that LICENSEE has subcontracted the manufacture of Licensed Products under Section 2.3 of this Agreement.

6. Exhibit B to the Agreement is deleted in its entirety and replaced with Exhibit B to this Amendment.

7. Exhibit D to the Agreement is deleted in its entirety and replaced with Exhibit D to this Amendment.

8. Exhibit E to the Agreement is deleted in its entirety and replaced with Exhibit E to this Amendment.

9. This Amendment has been jointly drafted by the parties, reflects the parties mutual intent, and no terms shall be construed more or less favorably to either party on the grounds that is was drafted by such party.

10. Except as set forth in this Amendment, the Agreement remains in full force and effect.

KOSS CORPORATION

By: /s/ Michael J. Koss
Michael J. Koss
Title: President and CEO

SONIGEM PRODUCTS, INC.

By: /s/ Reuben Klein
Reuben Klein
Title: President and CEO

EXHIBIT B

A. Description of Licensed Products to be sold under LICENSOR’s Trademark.

1. Video Products. LICENSEE may only sell the following video products:

   a. DVD players

   b. Portable DVD players (TV/DVD)

   c. DVD combos

   d. VCR

   e. Mobile video

   f. Home theatre in a box with or without a DVD player

   g. Television (CRT and LCD)

   h. Personal media player / recorder

2. Audio Products & Telephones. LICENSEE may only sell the following audio products and telephones:

   a. Radios

   b. Personal CD players

   c. MP3 player / recorder in flash and hard drive formats

   d. Boomboxes

   e. Home stereo

   f. Automotive audio

   g. Telephones only (i.e., the device can have no other functionality other than as a telephone)

   h. Satellite radio

3. GPS Navigational Devices. LICENSEE may only sell the following GPS navigational devices:

   a. Portable

   b. Mobile

---

4. Speakers. LICENSEE may only sell speakers for the following:

a. Special MP3/IPOD style speaker

b. Car

5. LICENSEE may include headphones and earbuds as part of a system only when the product being sold does not include a speaker. For example, headphones and earbuds may be included as part of a portable or mobile personal media player, portable or mobile personal CD player, portable or mobile personal MP3 player, and a radio without a speaker.

B. For clarification, other than as set forth in Section A.5 of this Exhibit B, LICENSEE may not, under any circumstances, sell or provide headphones, stereophones, or headsets, including wireless headphones, stereophones and headsets.

C. The royalty rates for the Licensed Products listed on this Exhibit B are set forth in Exhibit D to this Agreement.

EXHIBIT D

Calculation of Quarterly Royalties Payment (in U.S. Dollars)

Licensed Products	Total Sales	Returns	Net Sales	Royalty Rate
Video Products	$_____	$_____	$_____	1.0%
Audio Products & Telephones	$_____	$_____	$_____	1.5%
GPS Navigational Devices	$_____	$_____	$_____	1.5%
Speakers	$_____	$_____	$_____	5.0%

TOTAL ROYALTIES PAYMENT U.S. $___

EXHIBIT E

Cumulative Royalty Schedule

Calendar Quarter	**Cumulative Royalty**
July 1, 2003 — September 30, 2003	$ 12,500
October 1, 2003 — December 31, 2003	$ 25,000
January 1, 2004 — March 31, 2004	$ 37,500
April 1, 2004 — June 30, 2004	$ 50,000
July 1, 2004 — September 30, 2004	$ 68,750
October 1, 2004 — December 31, 2004	$ 87,500
January 1, 2005 — March 31, 2005	$ 106,250
April 1, 2005 — June 30, 2005	$ 125,000
July 1, 2005 — September 30, 2005	$ 200,000
October 1, 2005 — December 31, 2005	$ 275,000
January 1, 2006 — March 31, 2006	$ 350,000
April 1, 2006 — June 30, 2006	$ 425,000
July 1, 2006 — September 30, 2006	$ 506,250
October 1, 2006 — December 31, 2006	$ 587,500
January 1, 2007 — March 31, 2007	$ 668,750
April 1, 2007 — June 30, 2007	$ 750,000
July 1, 2007 — September 30, 2007	The greater of $837,500 or $750,000 + the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2006 — June 30, 2007 (the “17th Minimum Quarterly Royalty”)
October 1, 2007 — December 31, 2007	The 17th Minimum Quarterly Royalty + the greater of (i) $87,500 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2006 — June 30, 2007 (the “18th Minimum Quarterly Royalty”)
January 1, 2008 — March 31, 2008	The 18th Minimum Quarterly Royalty + the greater of (i) $87,500 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2006 — June 30, 2007 (the “19th Minimum Quarterly Royalty”)
April 1, 2008 — June 30, 2008	The 19th Minimum Quarterly Royalty + the greater of (i) $87,500 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2006 — June 30, 2007 (the “20th Minimum Quarterly Royalty”)

Calendar Quarter	Cumulative Royalty
July 1, 2008 — September 30, 2008	The 20th Minimum Quarterly Royalty + the greater of (i) $89,375 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2007 — June 30, 2008 (the “21st Minimum Quarterly Royalty”)
October 1, 2008 — December 31, 2008	The 21st Minimum Quarterly Royalty + the greater of (i) $89,375 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2007 — June 30, 2008 (the “22nd Minimum Quarterly Royalty”)
January 1, 2009 — March 31, 2009	The 22nd Minimum Quarterly Royalty + the greater of (i) $89,375 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2007 — June 30, 2008 (the “23rd Minimum Quarterly Royalty”)
April 1, 2009 — June 30, 2009	The 23rd Minimum Quarterly Royalty + the greater of (i) $89,375 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2007 — June 30, 2008 (the “24th Minimum Quarterly Royalty”)
July 1, 2009 — September 30, 2009	The 24th Minimum Quarterly Royalty + the greater of (i) $91,344 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2008 — June 30, 2009 (the “25th Minimum Quarterly Royalty”)
October 1, 2009 — December 31, 2009	The 25th Minimum Quarterly Royalty + the greater of (i) $91,344 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2008 — June 30, 2009 (the “26th Minimum Quarterly Royalty”)
January 1, 2010 — March 31, 2010	The 26th Minimum Quarterly Royalty + the greater of (i) $91,344 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2008 — June 30, 2009 (the “27th Minimum Quarterly Royalty”)
April 1, 2010 — June 30, 2010	The 27th Minimum Quarterly Royalty + the greater of (i) $91,344 and (ii) the average Minimum Quarterly Royalties paid by LICENSEE for July 1, 2008 — June 30, 2009 (the “28th Minimum Quarterly Royalty”)

Exhibit 21

List of Subsidiaries of Koss Corporation

Bi-Audio

Koss Classics

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

We have issued our report dated July 7, 2005, accompanying the consolidated financial statements and schedules incorporated by reference in the Annual Report of Koss Corporation on Form 10-K for the years ended June 30, 2005 and 2004. We hereby consent to the incorporation by reference of said reports in the Registration Statement of KOSS CORPORATION on Forms S-8 (File No. 333-89872, 33-60804, 333-37986 and 333-20405).

GRANT THORNTON LLP

/s/ Grant Thornton LLP

Milwaukee, Wisconsin

September 28, 2005

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-89872, 33-60804, 333-37986 and 333-20405) of Koss Corporation of our report dated July 11, 2003, except as to the restatement described in Note 14 (not presented herein), which is as of February 13, 2004, relating to the financial statements which appear in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Milwaukee, Wisconsin

September 26, 2005

Exhibit 31

**Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael J. Koss, certify that:

1. I have reviewed this annual report on Form 10-K of Koss Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: September 28, 2005

/s/ Michael J. Koss

Michael J. Koss
Chief Executive Officer, President and
Chief Financial Officer

Exhibit 32

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the following certifications are being made to accompany the Registrant's annual report on Form 10-K for the fiscal year ended June 30, 2005:

Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

I, Michael J. Koss, Chief Executive Officer and Chief Financial Officer of Koss Corporation (the "Company") hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(i) the Annual Report on Form 10-K of the Company for the fiscal year ended June 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 28, 2005

/s/ Michael J. Koss

Michael J. Koss
Chief Executive Officer, President and
Chief Financial Officer