KOSS CORP
Form DEF 14A
September 10, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Koss Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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

(4) Proposed maximum aggregate value of transaction:

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

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

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Koss Corporation
4129 North Port Washington Avenue
Milwaukee, Wisconsin 53212
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
to be held on
OCTOBER 10, 2007

We hereby notify you that we will hold the annual meeting of stockholders of Koss Corporation at the Milwaukee River Hilton Hotel at 4700 North Port Washington Avenue, Milwaukee, Wisconsin, on Wednesday, October 10, 2007, at 9:00 a.m. At the annual meeting, we will consider and act on the following proposals:

1. The election of six (6) directors;

2. The ratification of the appointment of Grant Thornton LLP, as the independent accountants of the Company for the fiscal year ending June 30, 2008; and

3. Such other business as may properly be brought before the annual meeting.

Only stockholders of record at the close of business on August 15, 2007, will be entitled to notice of and to vote at the annual meeting. Information regarding the matters to be considered and voted upon at the annual meeting is set forth in the Proxy Statement accompanying this notice.

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

By Order of the Board of Directors
/s/ Sujata Sachdeva
Sujata Sachdeva, Secretary
Milwaukee, Wisconsin
August 31, 2007

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Koss Corporation
PROXY STATEMENT
2007 ANNUAL MEETING OF STOCKHOLDERS
October 10, 2007

INTRODUCTION

THIS PROXY STATEMENT IS FURNISHED IN CONNECTION WITH THE SOLICITATION OF PROXIES BY THE BOARD OF DIRECTORS OF KOSS CORPORATION (the Company) for use at the Company s 2007 Annual Meeting of Stockholders (the Meeting) and any adjournment thereof, for the purposes set forth in the foregoing Notice of Annual Meeting of Stockholders.

Date, Time, and Location. The Meeting will be held at the Milwaukee River Hilton Hotel, 4700 North Port Washington Avenue, Milwaukee, Wisconsin 53212, on Wednesday, October 10, 2007, at 9:00 a.m. local time.

Purposes of the Meeting. The Company is soliciting the stockholders proxies. At the Meeting, stockholders will consider and vote upon the following: (i) the election of six (6) directors for one-year terms; (ii) a proposal to ratify the appointment of Grant Thornton LLP (Grant Thornton), as the independent accountants for the fiscal year ending June 30, 2008; and (iii) such other business as may properly be brought before the Meeting.

Proxy Solicitation. The cost of soliciting proxies will be borne by the Company. Proxies will be solicited primarily by mail and may be made by directors, officers, and employees personally or by telephone. The Company will reimburse brokerage firms, custodians, and nominees for their out-of-pocket expenses incurred in forwarding proxy materials to beneficial owners. Proxy Statements and proxies will be mailed to stockholders on approximately September 17, 2007.

Quorum and Voting Information. Only stockholders of record of the Company s $.005 par value common stock (the Common Stock) at the close of business on August 15, 2007 (the Record Date) are entitled to vote at the Meeting. As of the Record Date, there were issued and outstanding 3,669,569 shares of Common Stock, each of which is entitled to one vote per share. A quorum of stockholders is necessary to take action at the Meeting. A majority of the outstanding shares of Common Stock, represented in person or by proxy, will constitute a quorum of stockholders at the Meeting. Votes cast by proxy or in person at the Meeting will be tabulated by the inspector of elections appointed for the Meeting. The inspector of elections will determine whether or not a quorum is present at the Meeting. The inspector of elections will treat abstentions as shares of Common Stock that are present and entitled to vote for purposes of determining the presence of a quorum. If a broker indicates on the proxy that it does not have discretionary authority to vote certain shares of Common Stock on a particular matter (a broker non-vote), those shares will not be considered as present and entitled to vote with respect to that matter (although those shares are considered entitled to vote for quorum purposes and may be entitled to vote on other matters).

The six nominees receiving the greatest number of votes cast in person or by proxy at the Meeting will be elected directors of the Company. The vote required to ratify the appointment of Grant Thornton as independent accountants for the year ending June 30, 2008, and to approve any other matter to be presented to the Meeting, is the affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy at the Meeting. Abstentions and broker non-votes will have no effect on the election of directors and will have the same effect as votes against ratification of Grant Thornton as the Company s accountants for the year ending June 30, 2008.

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Proxies and Revocation of Proxies. A proxy in the accompanying form that is properly executed, duly returned to the Company, and not revoked, will be voted in accordance with instructions contained therein. In the event that any matter not described in this Proxy Statement properly comes before the Meeting, the accompanying form of proxy authorizes the persons appointed as proxies thereby (the Proxyholders) to vote on such matter in their sole discretion. At the present time, the Company knows of no other matters that are to come before the Meeting. *See* ITEM 3. TRANSACTION OF OTHER BUSINESS. If no instructions are given with respect to any particular matter to be acted upon, a proxy will be voted FOR the election of all nominees for director named in this Proxy Statement, and FOR the ratification of Grant Thornton as the Company s independent accountants for the year ending June 30, 2008. If matters other than those mentioned in this Proxy Statement properly come before the Meeting, a proxy will be voted in accordance with the best judgment of a majority of the Proxyholders named therein.

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

Annual Report. The Company s Annual Report to Stockholders, which includes the Company s audited financial statements for the year ended June 30, 2007, although not a part of this Proxy Statement, is delivered herewith.

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ITEM 1. ELECTION OF DIRECTORS

The By-Laws of the Company provide that the number of directors on the Board of Directors of the Company (the Board) will be no fewer than five and no greater than twelve. We had six directors during fiscal year 2007 and will also elect six directors for fiscal year 2007. Each director elected will serve until the next Annual Meeting of Stockholders and until the director s successor is duly elected, or until his prior death, resignation, or removal. The six nominees that receive the most votes will be appointed to serve on our Board for the next year.

Information as to Nominees

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

John C. Koss, 77, has served continuously as Chairman of the Board of the Company or its predecessors since 1958. Previously, he served as Chief Executive Officer from 1958 until 1991. He is the father of Michael J. Koss (the Company s Vice Chairman, President, Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer, and a nominee for director of the Company), and the father of John Koss, Jr. (the Company s Vice President - Sales).

Thomas L. Doerr, 63, has been a director of the Company since 1987. In 1972, Mr. Doerr co-founded Leeson Electric Corporation and served as its President and Chief Executive Officer until 1982. The company manufactures industrial electric motors. In 1983, Mr. Doerr incorporated Doerr Corporation as a holding company for the purpose of acquiring established companies involved in distributing products to industrial and commercial markets. Currently, Mr. Doerr serves as President of Doerr Corporation.

Michael J. Koss, 53, has held various positions at the Company since 1976, and has been a director of the Company since 1985. He was elected President, Chief Operating Officer, and Chief Financial Officer of the Company in 1987, Chief Executive Officer in 1991, and Vice-Chairman in 1998. He is the son of John C. Koss (the Company s Chairman of the Board) and the brother of John Koss, Jr. (the Company s Vice President Sales). Michael J. Koss is also a director of STRATTEC Security Corporation.

Lawrence S. Mattson, 75, has been a director of the Company since 1978. Mr. Mattson is the retired President of Oster Company, a division of Sunbeam Corporation, which manufactures and sells portable household appliances.

Theodore H. Nixon, 55, has been a director of the Company since 2006. Since 1992, Mr. Nixon has been the Chief Executive Officer of D.D. Williamson, which is a manufacturer of caramel coloring used in the food and beverage industries. Mr. Nixon joined D.D. Williamson in 1974 and was promoted to President and Chief Operating Officer in 1982. Mr. Nixon is also a director of the non-profit Center for Quality of Management.

John J. Stollenwerk, 67, has been a director of the Company since 1986. Mr. Stollenwerk is the President and Chief Executive Officer of the Allen-Edmonds Shoe Corporation, an international manufacturer and retailer of high quality footwear. He is also a director of Allen-Edmonds Shoe Corporation, Badger Meter, Inc., U.S. Bancorp, and Northwestern Mutual Life Insurance Company.

The Company expects that the Koss Family (John C. Koss, Michael J. Koss, and John Koss, Jr.), who beneficially own approximately 71.2% of the outstanding Common Stock, will vote for the election of all nominees named above to the Board of Directors.

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

Board Committees

The Board has appointed the following standing committees for auditing and accounting matters, executive compensation and board nominations. Each member of these committees is independent as defined in Nasdaq Marketplace Rule 4200.

Audit Committee. The Audit Committee, which is composed of Mr. Doerr, Mr. Mattson Mr. Nixon, and Mr. Stollenwerk, reviews and evaluates the effectiveness of the Company s financial and accounting functions, including reviewing the scope and results of the audit work performed by the independent accountants and by the Company s internal accounting staff. The Audit Committee met three times during the fiscal year ended June 30, 2007. The independent accountants were present at two of these meetings to discuss their audit scope and the results of their audit. For more information about the Audit Committee meetings, *see* the Audit Committee Report. The Audit Committee is governed by a written charter approved and adopted by the Board, which is attached hereto as Appendix A.

Audit Committee Financial Expert. The Board has determined that Mr. Mattson is an Audit Committee Financial Expert as that term is defined in Item 401(h) of Regulation S-K promulgated by the Securities and Exchange Commission (the SEC).

Compensation Committee. The Compensation Committee, which is composed of Mr. Doerr, Mr. Mattson, and Mr. Stollenwerk, has responsibility for reviewing and recommending adjustments for all employees whose annual salaries exceed $75,000 or who report directly to the Company s Chief Executive Officer. The Compensation Committee met once during the fiscal year ended June 30, 2007. For more information about the Compensation Committee meetings, *see* the Compensation Committee Report on Executive Compensation. The Company s 1990 Flexible Incentive Plan (the Plan) is administered by the Compensation Committee. Subject to the express provisions of the Plan, the Committee has complete authority to (i) determine when and to whom benefits are granted; (ii) determine the terms and provisions of benefits granted; (iii) interpret the Plan; (iv) prescribe, amend and rescind rules and regulations relating to the Plan; (v) accelerate, purchase, adjust or remove restrictions from benefits; and (vi) take any other action which it considers necessary or appropriate for the administration of the Plan.

Nominating Committee and Director Nomination Process. The Nominating Committee, which is composed of Mr. Doerr, Mr. Mattson, and Mr. Stollenwerk, has responsibility for overseeing the director nomination process and for identifying and evaluating potential candidates and recommending candidates to the Board for nomination. Candidates will be evaluated by the Nominating Committee on the basis of outstanding achievement in their professional careers, broad experience, wisdom, personal and professional integrity, and their experience with and understanding of the business environment. With respect to minimum qualifications of candidates, the Nominating Committee will consider candidates who have the experiences, skills, and characteristics necessary to gain a basic understanding of the principal operational and financial objectives and plans of the Company, the results of operations and financial condition of the Company, and the relative standing of the Company and its business segments in relation to its competitors. The Nominating Committee will consider qualified director candidates recommended by stockholders if such recommendations for director are submitted in writing to the Secretary, c/o Koss Corporation, 4129 North Port Washington Avenue, Milwaukee, Wisconsin 53212, and include the following information: (i) name and address of the stockholder making the recommendation; (ii) name and address of the candidate; and (iii) pertinent biographical information about the candidate. Any recommendations must be submitted by the deadline by which a stockholder must give notice of a matter that he or she wishes to bring before the Company s Annual Meeting as described in the Stockholder Proposals for the 2008 Annual Meeting section of this Proxy Statement. The Nominating Committee does not currently have a charter.

Attendance at Board and Committee Meetings

During the fiscal year ended June 30, 2007, the Board held four meetings. Every incumbent director attended 75% or more of the total of (i) all meetings of the Board, plus (ii) all meetings of the committees on which they served during their respective terms of office.

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Attendance at Annual Meetings

All of the members of the Board, Mr. John C. Koss, Mr. Michael J. Koss, Mr. Doerr, Mr. Mattson, Mr. Stollenwerk and Mr. Nixon, attended last year s annual meeting held on October 11, 2006. The Company has no formal written policy regarding attendance at annual meetings of the Company, but strongly encourages all directors to make attendance at all annual meetings a priority.

Independence of the Board

Each of Mr. Doerr, Mr. Mattson, Mr. Nixon, and Mr. Stollenwerk, is independent as such term is defined in Nasdaq Marketplace Rule 4200. These independent directors constitute a majority of the Board, as required under Nasdaq Marketplace Rule 4350(c).

Communications with the Board

Stockholders may communicate with the Board, individually or as a group, by sending written communications to: Koss Corporation, 4129 North Port Washington Avenue, Milwaukee, Wisconsin 53212. Stockholders may also communicate with members of the Board by telephone (414) 964-5000 or facsimile (414) 964-8615. If any correspondence is addressed to the Board or to a member of the Board, that correspondence is forwarded directly to the Board or member of the Board.

Code of Ethics

The Board approved and adopted a Code of Ethics for the Company s directors, officers, and employees, which is attached as Exhibit 14 to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2004.

Executive Officers

Information is provided below with respect to the executive officers of the Company. Each executive officer is elected annually by the Board of Directors and serves for one year or until his or her successor is appointed.

Name	**Age**	**Positions Held**	**Current Position Held Since**
Michael J. Koss	53	President, Chief Operating Officer, Chief Financial Officer, Chief Executive Officer	1987 (Chief Executive Officer since 1991)
John Koss, Jr.	50	Vice President Sales	1988
Sujata Sachdeva	43	Vice President Finance, Secretary	1992
Declan Hanley	60	Vice President International Sales	1994
Lenore E. Lillie	46	Vice President Operation	1998
Cheryl Mike	55	Vice President Human Resources and Customer Service	2001

Beneficial Ownership of Company Securities

Security Ownership by Nominees and Management. The following table sets forth, as of August 1, 2007, the number of shares of Common Stock beneficially owned (as defined under applicable regulations of the SEC), and the percentage of such shares to the total number of shares outstanding, for all nominees, for each executive officer named in the Summary Compensation Table (*see* Executive Compensation and Related Matters Summary Compensation Table), for all directors and executive officers as a group, and for each person and each group of persons who, to the knowledge of the Company as of June 30, 2007, were the beneficial owners of more than 5% of the outstanding shares of Common Stock.

Name and Business Address (1)	Number of Shares Beneficially Owned (2)	Percent of Outstanding Common Stock (3)
John C. Koss (4)	1,405,052	38.29%
Michael J. Koss (5)	1,039,417	27.28%
John Koss, Jr. (6)	333,494	8.87%
Thomas L. Doerr	0	*
Lawrence S. Mattson	0	*
Theodore H. Nixon	1,000	*
John J. Stollenwerk	12,127	*
Sujata Sachdeva (7)	19,921	*
Declan Hanley (8)	62,500	1.67%
Lenore E. Lillie (9)	54,464	1.47%
Cheryl Mike (10)	32,593	*
All directors and executive officers as a group (11 persons) (11)	2,960,568	73.72%
Koss Family Voting Trust, John C. Koss, Trustee (12)	1,217,785	33.18%
Koss Employee Stock Ownership Trust (KESOT) (13)	331,907	9.04%
Royce and Associates, LLC (14)	239,500	6.52%

(*) denotes beneficial ownership of less than 1%.

(1) Unless otherwise noted, the business address of all persons named in the above table is c/o Koss Corporation, 4129 North Port Washington Avenue, Milwaukee, WI 53212.

(2) Unless otherwise noted, amounts indicated reflect shares as to which the beneficial owner possesses sole

voting and dispositive powers. Also included are shares subject to stock options if such options are exercisable within 60 days of August 1, 2007.

(3) All percentages shown in the above table are based on 3,669,569 shares outstanding and entitled to vote on August 1, 2007, plus (for Michael J. Koss, John C. Koss, Jr., Ms. Sachdeva, Mr. Hanley, Ms. Lillie, Ms. Mike, and for all directors and executive officers as a group) the number of options exercisable within 60 days of August 1, 2007. The percentage calculation assumes, for each individual owning options and for directors and executive officers as a group, the exercise of that number of stock options that are

exercisable within 60 days of August 1, 2007.

(4) Includes the following shares which are deemed to be beneficially owned by John C. Koss: (i) 61,732 shares owned directly or by his spouse; (ii) 1,217,785 shares as a result of his position as trustee of the Koss Family Voting Trust; (iii) 124,300 shares as a result of his position as co-trustee of the John C. and Nancy Koss Revocable Trust; and (iv) 1,235 shares by reason of the allocation of those shares to his account under the Koss Employee Stock Ownership Trust (KESOT) and his ability to vote such shares pursuant to the terms of the KESOT *see* Executive Compensation and Related Matters Other Compensation

Arrangements Employee Stock Ownership Plan and Trust.

(5) Includes the following shares which are deemed to be beneficially owned by Michael J. Koss: (i) 524,578 shares owned directly or by reason of family relationships; (ii) 68,102 shares by reason of the allocation of those shares to his account under the KESOT and his ability to vote such shares; (iii) 111,034 shares as a result of his position as an officer of the Koss Foundation; (iv) 140,000 shares with respect to which he holds options which are exercisable within 60 days of August 1, 2007; and (v) 331,907 shares which are held by the KESOT (*see* Note (9), below). The 68,102 shares allocated to Michael J. Koss

KESOT account, over which he holds voting power, are included within the aforementioned 331,907 shares but are counted only once in his individual total.

(6) Includes the following shares which are deemed to be beneficially owned by John Koss, Jr.: (i) 243,494 shares owned directly or by reason of family relationships; (ii) 90,000 shares with respect

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to which he holds options which are exercisable within 60 days of August 1, 2007; and (iii) 49,347 shares by reason of the allocation of those shares to his account under the KESOT and his ability to vote such shares.

(7) Includes the following shares which are deemed to be beneficially owned by Sujata Sachdeva: (i) 12,000 shares with respect to which she holds options which are exercisable within 60 days of August 1, 2007; and (ii) 7,921 shares by reason of the allocation of those shares to her account under the KESOT and her ability to vote such shares.

(8) Includes the following shares which are deemed to be beneficially owned by Declan Hanley: (i) 62,500 with respect to which she holds options which are exercisable

within 60 days of August 1, 2007.

(9) Includes the following shares which are deemed to be beneficially owned by Lenore E. Lillie: (i) 10,044 shares owned directly; (ii) 28,662 shares with respect to which she holds options which are exercisable within 60 days of August 1, 2007; and (iii) 15,758 shares by reason of the allocation of those shares to her account under the KESOT and her ability to vote such shares.

(10) Includes the following shares which are deemed to be beneficially owned by Cheryl Mike: (i) 13,000 shares with respect to which she holds options which are exercisable within 60 days of August 1, 2007; and (iii) 19,593 shares by reason of the allocation of those shares to her account under the KESOT and her ability to vote such shares.

(11) This group includes 11 people, all of whom are listed on the accompanying table. To avoid double-counting: (i) the 68,102 total shares held by the KESOT and deemed to be beneficially owned by Michael J. Koss as a result of his position as a KESOT Trustee (*see* Note (5), above) include shares allocated to the KESOT accounts of John C. Koss, Michael J. Koss, John Koss, Jr., Ms. Sachdeva, Ms. Lillie, and Ms. Mike, in the above table but are included only once in the total; and (ii) the 1,217,785 shares deemed to be beneficially owned by John C. Koss as a result of his position as trustee of the Koss Family Voting Trust (*see* Note (4), above) are included in his individual total share ownership and are included only once in the total.

(12) The Koss Family Voting Trust was established by John C. Koss. The sole trustee is John C. Koss. The term of the Koss Family Voting Trust is indefinite. Under the Trust Agreement, John C. Koss, as trustee, holds full voting and dispositive power over the shares held by the Koss Family Voting Trust. All of the 1,217,785 shares held by the Koss Family Voting Trust are included in the number of shares shown as beneficially owned by John C. Koss (*see* Note (4), above).

(13) The KESOT holds 331,907 shares. Authority to vote these shares is vested in KESOT participants to the extent shares have been allocated to individual KESOT accounts. All 331,907 of these KESOT shares are also included in the number of shares shown as beneficially

owned by Michael J. Koss (*see* Note (5), above). Michael J. Koss and Cheryl Mike (the Company s Vice President of Human Resources) serve as Trustees of the KESOT and, as such, they share dispositive power with respect to (and are therefore each deemed under applicable SEC rules to beneficially own) all 331,907 KESOT shares.

(14) 1414 Avenue of the Americans, New York, NY 10019. The share ownership reported by Royce & Associates, LLC is based on the most recently available public information obtained by the Company from the amended Schedule 13G filed with the SEC by Royce & Associates, LLC on January 22, 2007.

COMPENSATION DISCUSSION AND ANALYSIS

The following discussion provides information concerning the compensation of the executives of the Company set forth in the Summary Compensation Table below (the Named Executive Officers).

Compensation Philosophy and Compensation Program Objectives

As a public company operating in the competitive audio/video industry segment of the home entertainment industry, we place high value on attracting and retaining our executives since it is their talent and performance that is

responsible for our success. Therefore, our compensation philosophy is to create a performance-based culture that attracts and retains a superior team. The Company s Named Executive Officers and other 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 as reported in an annual national survey. We aim to achieve this goal by designing a competitive and fiscally responsible compensation program to:

- Attract the highest caliber of talent required for the success of our business;
- Retain those individuals capable of achieving challenging performance standards;
- Incent our executives to strive for superior company wide and individual performance; and
- Align management and stockholder interests over both the short and long-term.

Our executive compensation program is designed in a manner to offer a compensation package that utilizes three key elements: (1) base salary; (2) annual cash incentives and (3) long-term equity incentives. We believe that together these performance-based elements support the objectives of our compensation program.

- *Base Salaries*. We seek to provide competitive base salaries factoring in the position, the executive s skills and experience, the executive s performance as well as other factors. We believe appropriate base salary levels are critical in helping us to attract and retain talented executives.
- *Annual Cash Incentives.* The aim of this element of compensation is to reward individual contributions to align with our annual operating performance and to recognize the achievement of challenging performance standards.
- *Long-Term Equity Incentives.* The long-term element of our compensation program consists of discretionary grants of equity awards which are reviewed annually. These grants of common stock and options to purchase common stock are designed to align interests of management and employees with those of the Company and its stockholders by directly linking individual compensation to the Company s long-term performance, as reflected in stock price appreciation and increased stockholder value.

Below is a description of our executive compensation process and a detailed discussion of each of the key elements of our compensation program as they apply to the Named Executive Officers set forth in the Summary Compensation Table. Because we are a competitive public company, we will continue to review the overall design of our executive compensation program to ensure that it is structured to most effectively meet our compensation philosophy and objectives. We will also evaluate the program in the context of competitive market practice, as well as applicable legal and regulatory guidelines, including IRS rules governing the deductibility of compensation. This review may result in changes to the program we use today.

The Executive Compensation Process

Compensation Committee

The Compensation Committee of the Company s Board of Directors (the Compensation Committee) is responsible for setting the Company s philosophy regarding executive compensation. The Compensation Committee is comprised entirely of non-employee directors and acts pursuant to a charter that has been approved by the Board and is annually reviewed by the Compensation Committee. The Compensation Committee is composed of Mr. Doerr, Mr. Mattson, and Mr. Stollenwerk. Each member of the Compensation Committee is a non-employee and an independent director as defined in Nasdaq Marketplace Rule 4200.

Our Compensation Committee goes through the following process prior to determining equity compensation:

- Reviewing and approving our compensation philosophy;
- Determining executive compensation levels;
-

Annually reviewing and assessing performance goals and objectives for all executive officers, including our Chief Executive Officer; and

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- o Determining short-term and long-term incentive compensation for all executive officers, including our Chief Executive Officer.

The Compensation Committee is responsible for the review of all employee salaries in excess of $75,000 or who report directly to the Company s Chief Executive Officer. The Compensation Committee also reviews all bonus, commission and stock option programs. The Compensation Committee meets as a group each spring and reviews its report with the full Board prior to the end of the fiscal year. This system enables management to plan the following year with the benefit of the Compensation Committee s input.

Our Compensation Committee relies upon its judgment in making compensation decisions, after reviewing the performance of the Company and carefully evaluating an executive s performance during the year against established goals, leadership qualities, operational performance, business responsibilities, career with the Company, current compensation arrangements and long-term potential to enhance stockholder value. Specific factors affecting compensation decisions for the Named Executive Officers include:

- o key financial measurements such as pre-tax income;

- o promoting commercial excellence by launching new or continuously improving products or services, being a leading market player and attracting and retaining customers and employees; and

- o supporting our corporate values by promoting compliance with internal ethics policies and legal obligations.

When necessary, our Compensation Committee will seek compensation advice from either our Board or executive officers.

Benchmarking Process

When making compensation decisions, the Compensation Committee considers the competitive market for executives and compensation levels provided by comparable companies. Our Compensation Committee has used Watson Wyatt Data Services to provide compensation figures of others in our industry. Though we generally target salary levels at the median of our peer group, total compensation may exceed or fall below the median for certain of our Named Executive Officers. Since one of the objectives of our compensation program is to consistently reward and retain top performers, actual compensation will vary depending on individual and our overall performance.

Compensation of the Chief Executive Officer

The Compensation Committee annually reviews and determines the compensation of the Company s Chief Executive Officer, Michael J. Koss. The Compensation Committee has reviewed all components of his compensation, including salary, bonus, equity and long-term incentive compensation. Michael J. Koss s compensation is based on his experience, responsibilities, historical salary levels and bonuses for himself and other executive officers of the Company, and the salaries and bonuses of Chief Executive Officers of other light assembly or manufacturing companies. Michael J. Koss is also eligible to receive a bonus calculated as a percentage of the Company s earnings before interest and taxes. He also participates in the Company s Flexible Incentive Plan. For the fiscal year ended June 30, 2007, Michael J. Koss s base salary was $275,000, his bonus was $339,298, and he was granted 40,000 stock options. Michael J. Koss s bonus was calculated as a percentage of the Company s earnings before interest and taxes for the year ended June 30, 2007. The Compensation Committee finds Michael J. Koss s total compensation in the aggregate to be reasonable and not excessive based upon individual performance and overall Company performance and profitability for the fiscal year ended June 30, 2007. Mr. Koss has not entered into an employment agreement with the Company.

Executive Officer Compensation

The Company employs a compensation program linked to company-wide performance and individual achievement. All executive officers are reviewed once each year. Raises in base salaries are made in July when necessary or when promotions are announced. In addition, the Company has a Flexible Incentive Plan, an Employee Stock Ownership Plan and Trust, a 401(k) Plan, and a Profit Sharing Plan. The Flexible Incentive Plan is administered by the Compensation Committee and vests the Compensation Committee with discretionary powers to choose from a variety of incentive compensation alternatives to make annual stock-based awards to officers, key employees and other members of the Company s management team. The Company also has a cafeteria benefits plan to provide flexibility to employees to choose their own health care and associated benefits package from an array of offerings. The Company shares the cost of medical insurance with its employees.

The Company s executive officers are paid base salaries commensurate with their responsibilities, after comparison with base salaries of executive officers of other light assembly or manufacturing companies taken from data in an annual national survey. As in years past, for the year ended June 30, 2007, executive officers were eligible for annual bonuses based upon individual performance and overall Company performance and profitability. Factors relevant to determining such bonuses included attainment of corporate revenue and earnings goals and the development of new accounts. The Company s Chief Executive Officer, Chairman and certain other executive officers are 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 International Sales is entitled to receive a bonus based upon the Company s sales in export markets.

Components of the Executive Compensation Program

Though we feel it is important to provide competitive cash compensation, we believe that a substantial portion of executive compensation should be performance-based. We believe it is essential for executives to have a meaningful equity stake linked to our long-term performance and, therefore, we have created compensation packages that aim to foster an owner-operator culture. Other than base salary, compensation of our executive officers and other key associates is also largely comprised of variable or at risk incentive pay linked to our financial and stock performance and individual contributions. Other factors we consider in evaluating executive compensation include internal equity, external market and competitive information, assessment of individual performance, level of responsibility, and the overall expense of the program. In addition, we also strive to offer competitive benefits and appropriate perquisites.

Base Salary

Base salary represents the fixed component of our Named Executive Officers and other executive officers compensation. The Compensation Committee sets base salary levels based upon experience and skills, position, level of responsibility, the ability to replace the individual, and market practices. The Compensation Committee reviews base salaries of the Named Executive Officers and our other executive officers annually and approves all salary increases for the Named Executive Officers and our other executive officers. Increases are based on several factors, including an assessment of individual performance and contribution, promotions, level of responsibility, scope of position and competitive market data.

Annual Cash Incentives

Our Named Executive Officers have the opportunity to earn cash incentives for meeting annual performance goals. The Compensation Committee establishes financial and performance targets and opportunities linked to our overall performance.

Long-Term Equity Incentives

Our executive officer compensation is heavily weighted in long-term equity as we believe superior stockholder returns are achieved through an ownership culture that encourages a focus on long-term performance by our Named Executive Officers and other executive officers. Our primary form of long-term equity incentive is stock option grants. By providing our Named Executive Officers and other executive officers with an equity stake in our future, we are better able to align the interests of our Named Executive Officers, our other executive officers and our stockholders. In establishing long-term equity incentive grants for our Named Executive Officers and other executive officers, the Compensation Committee reviews certain factors, including the outstanding equity grants held both by the individual and by our executives as a group, total compensation, performance, accumulated wealth analysis that includes projections of the potential value of vested equity (which is prepared reflecting assumptions about future stock price growth rates), the vesting dates of outstanding grants, tax and accounting costs, potential dilution and other factors.

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Perquisites and Other Benefits

We do not generally provide material perquisites that are not, in the Compensation Committee s view, integrally and directly related to the duties of our Named Executive Officers and other executive officers. The perquisites we do provide to certain of our Named Executive Officers include the payment of car leases and life insurance benefits. Our executive officers also participate in other broad-based benefit programs that are generally available to our salaried employees, including health and dental insurance programs and our retirement benefit plans described below.

Retirement Plans

The Compensation believes that an important aspect of attracting and retaining qualified individuals to serve as executive officers involves providing methods for those individuals to save for retirement. All of our employees and Named Executive Officers are eligible to participate in the 401(k) savings and retirement plan and KESOT plan of the Company.

Employment Agreements

None of our Named Executive Officers or other employees have entered into an employment agreement with the Company.

Benefits Upon Termination of Employment

None of our Named Executive Officers or other employees have agreements that entitle them to receive a payment upon a change of control or termination.

Other Compensation Arrangements

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

Supplemental Medical Care Reimbursement Plan. Each officer of the Company is covered by a medical care reimbursement plan for all medical expenses incurred that are not covered under group health insurance up to an annual maximum of 10% of salary.

Employee Stock Ownership Plan and Trust. In December 1975, the Company adopted the KESOT, which is a form of employee benefit plan designed to invest primarily in employer securities. The KESOT is qualified under Section 401(a) of the Internal Revenue Code. All full-time employees with at least six months uninterrupted service with the Company are eligible to participate in the KESOT. Contributions to the KESOT are allocated to the accounts of participants in proportion to the ratio that a participant s compensation bears to total compensation of all participants. Accounts are adjusted each year to reflect the investment experience of the trust and forfeitures from accounts of non-vested terminated participants. All unallocated shares will be voted by the KESOT Trustees as directed by the KESOT Committee. Michael J. Koss and Cheryl Mike currently serve as KESOT Trustees and as the members of the KESOT Committee. Voting rights for all allocated shares are passed through to the participant for whose account such shares are allocated, and must be voted by the Trustees in accordance with the participants direction. As of August 1, 2007 the KESOT held 331,907 shares of Common Stock (approximately 9.04% of the total number of shares outstanding).

Retirement Agreement. John C. Koss is eligible to receive his current base salary of $150,000 for the remainder of his life, whether he becomes disabled or not. John C. Koss is over 70 years old and will be entitled to receive this benefit upon his retirement from the Company. The Company has a deferred compensation liability of $400,000 recorded as of June 30, 2007 and $400,000 as of June 30, 2006 for this arrangement.

Stock Option Plans. In 1990, the Board of Directors created, and the stockholders approved, a Flexible Incentive Plan (the Plan). This Plan is administered by the Compensation Committee and vests the Compensation Committee with discretionary powers to choose from a variety of incentive compensation alternatives to make annual stock-based awards to officers, key employees, and other members of the Company s management team.

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Supplemental Executive Retirement Plan. The Board of Directors has by resolution entered into a Supplemental Executive Retirement Plan with Michael J. Koss which calls for Michael J. Koss to receive annual cash compensation following his retirement from the Company (Retirement Payments) in an amount equal to 2% of the base salary of Michael J. Koss, multiplied by his number of years of service to the Company (for example, if Michael J. Koss had worked 25 years, then he would be entitled to receive 50% of base salary). The base salary shall be calculated using the average base salary of Michael J. Koss during the three years preceding his retirement. The Retirement Payments are to be paid to Michael J. Koss monthly until his death, and after his death shall continue to be paid monthly to his surviving spouse until her death. The Company had a deferred compensation liability of $589,153 recorded as of June 30, 2007 and $592,831 as of June 30, 2006 for this arrangement.

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

401(k) Plan. All full-time employees of the Company are eligible to participate in the Company s 401(k) Plan the beginning of the fiscal quarter after they have completed one full fiscal quarter. Employees are able to defer a dollar amount up to the federal yearly maximum. The Company, in its discretion, matches the employee dollar deferral with a dollar per dollar match, not to exceed 10% of the employees annual compensation. The funds that are deferred and matched are immediately 100% vested to the employee s 401(k) account. The employees allocate their funds to a group of nine funds or they may self-direct their funds to a qualified 401(k) of their choice.

Tax and Accounting Matters

Section 162(m) of the Internal Revenue Code of 1986, enacted as part of the Omnibus Budget Reconciliation Act of 1993, generally disallows a tax deduction to public companies for compensation over $1,000,000 paid to the chief executive officer and the four other most highly compensated executive officers. Under Internal Revenue Service regulations, qualifying performance-based compensation will not be subject to the deduction limit if certain requirements are met. The Compensation Committee does not believe that any of the executive compensation arrangements for Fiscal 2007 will result in the loss of a tax deduction pursuant to Section 162(m). The Compensation Committee expects to continue to monitor the application of Section 162(m) to executive compensation and will take appropriate action if it is warranted in the future.

We operate our compensation programs with the intention of complying with Section 409A of the Code. Effective January 1, 2006, we began accounting for stock-based compensation with respect to our long-term equity incentive award programs in accordance with the requirements of SFAS 123(R).

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SUMMARY COMPENSATION TABLE

The following table presents certain summary information concerning compensation paid or accrued by the Company for services rendered in all capacities during the fiscal year ended June 30, 2007 for (i) the Chief Executive Officer (CEO) of the Company, and (ii) each of the other six executive officers of the Company (determined as of the end of the last fiscal year) whose total annual salary and bonus exceeded $100,000 (collectively, including the CEO, the Named Executive Officers).

Name & Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value & Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
John C. Koss (2) Chairman of the Board	2007	150,000	0	0	0	242,356	0	32,647	425,003
Michael J. Koss (3) Chief Executive Officer	2007	275,000	0	0	194,923	339,298	0	48,551	857,772
John Koss, Jr. (4) Vice President Sales	2007	181,000	0	0	97,461	25,000	0	31,890	335,351
Sujata Sachdeva (5) Vice President Finance	2007	130,000	0	0	27,004	30,688	0	20,315	208,007
Declan Hanley (6) Vice President International Sales	2007	105,987	0	0	27,004	241,686	0	18,700	393,377
Lenore Lillie (7) Vice President Operations	2007	123,000	0	0	27,004	29,035	0	20,847	199,886
Cheryl Mike (8) Vice President Human Resources & Cust. Service	2007	83,000	0	0	27,004	19,593	0	23,816	153,413

(1) For each of the stock option grants, the value shown is what is also included in the company s financial

statements per FAS 123(R). See the Company s Report on Form 10-K for the year ended June 30, 2007 for a complete description of the FAS 123(R) valuation. The actual number of awards granted is shown in the Grants of Plan Based Awards table included in this filing.

(2) Mr. John C. Koss, Sr. received $7,000 in Company matching contributions under the Company s 401K Plan. Mr. Koss also received Company contributions to the KESOT for the accounts of John C. Koss in the amount of $5,751. Car leases were paid by the Company for John C. Koss in the amount of $15,446, and premiums paid by the Company for life insurance in the amount $4,450.

(3) Mr. Michael J. Koss received $21,000 in Company matching contributions under the Company s 401K Plan. Mr. Koss also received Company contributions to the KESOT for the accounts of Michael J. Koss in the amount of $5,751. Car leases were paid by the Company for Michael J. Koss in the amount of $20,890, and premiums paid by the Company for life insurance in the amount $911.

(4) Mr. John Koss, Jr. received $16,846 in Company matching contributions under the Company s 401K Plan. Mr. Koss also received Company contributions to the KESOT for the accounts of John Koss, Jr. in the amount of $5,751. Car leases were paid by the Company for John Koss,

Jr. in the amount of $8,916, and premiums paid by the Company for life insurance in the amount $378.

(5) Ms. Sujata Sachdeva received $16,123 in Company matching contributions under the Company s 401K Plan. Ms.

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Sachdeva also received Company contributions to the KESOT for the accounts of Sujata Sachdeva in the amount of $4,192.

(6) Mr. Declan Hanley received $5,000 in Company contributions under the Company s 401K Plan. Car leases were paid by the Company for Declan Hanley in the amount of $13,700.

(7) Ms. Lenore Lillie received $16,233 in Company matching contributions under the Company s 401K Plan. Ms. Lillie also received Company contributions to the KESOT for the accounts of Lenore Lillie in the amount of $3,947. Premiums paid by the Company for life insurance in the amount $666.

(8) Ms. Cheryl Mike received $20,773 in Company matching contributions under the Company s 401K Plan. Ms. Mike also received Company contributions to the KESOT for the accounts of Cheryl Mike in the amount of $2,681. Premiums paid by the Company for life insurance in the amount $361.

GRANT OF PLAN-BASED AWARDS

The following table sets forth information regarding all plan awards that were made to the Named Executive Officers during 2007. Disclosure on a separate line item is provided for each grant of an award made to a Named Executive Officer during the year. The information supplements the dollar value disclosure of stock, option and non-stock awards in the Summary Compensation Table by providing additional details about such awards. Equity incentive-based awards are subject to a performance condition or a market condition as those terms are defined by FAS 123(R) and are intended to serve as an incentive for performance to occur over a specified period.

GRANTS OF PLAN-BASED AWARDS IN FISCAL 2007

	Estimated Future Payouts Under Non-Equity	Estimated Future Payouts Under Equity Incentive	All Other Stock Awards: Number	All Other Option Awards: Number of	Exercise	Fair Value of