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KOSS CORP
Form ARS
September 12, 2002

[PICTURE]

2002 ANNUAL
REPORT

[LOGO] KOSS CORPORATION

Dear Stockholder,

We are pleased to announce results for the fiscal year ending June 30, 2002.

Sales for the Fourth Quarter were \$9,665,170 compared to \$10,186,107 for the same period one year ago a decrease of 5%. Net income for the Quarter decreased by 5% to \$1,618,430 compared to \$1,692,877 in 2001. Diluted earnings per share were \$0.42 in 2002 compared to \$0.40 in the same quarter during 2001—an increase of 5%.

Net sales for the twelve months were \$36,571,303 compared to \$38,609,335 for the same period one year ago, a decrease of 5%. Net income for the twelve months was \$5,041,343. Diluted earnings per share for the twelve months were \$1.28 compared to \$1.28 in the same period during 2001.

What began as an extremely difficult year has come through with a solid finish. The company is continuing to monitor sales at the nation's largest retailers and remains confident in consumer spending. We have suffered throughout the year with many of our largest accounts that have either formally restructured their business or marginally reallocated their inventory purchases or model offerings to lower priced units in response to concerns in the economy.

In October, we took a very hard look at expenses and future sales and made several adjustments to our plan to prepare for a deepening recession. With all that has taken place on the world stage these past twelve months and the uncertainty that has prevailed upon the U.S. economy, I am particularly proud of the Koss team for their execution of the revised plan.

The Kmart bankruptcy in particular was a major disappointment to the Company during the fiscal year. Kmart's bankruptcy represented approximately 65% of the setback that the Company experienced in net income for the year. Nevertheless, we are confident in Kmart's current performance and restructure and believe that our continued commitment to their success will strengthen our relationship for many years to come.

Our European business reported the strongest finish in three years and the Company regards its export business as a bright spot for the coming year. The weakening U.S. dollar may actually help us this year since our export pricing is based exclusively in U.S. dollars to link with our costs which are denominated identically.

During the First Quarter of this fiscal year Koss paid a \$0.25 dividend to shareholders of record on September 30, 2001. This was the first time since 1984 that the Company paid a dividend. The Company split it's stock on November 5, 2002, and declared a quarterly dividend for each of the remaining quarters.

On July 29, 2002, the Company announced it would increase its quarterly cash dividend to 13 cents per share—an increase of 8%—on October 15, 2002 to shareholders of record on September 30, 2002. While the Company anticipates the ability to pay a quarterly dividend in the future, investors should be cautious not to expect this to automatically continue or to see any annual increase in

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the quarterly rates in the foreseeable future.

We would like to take this opportunity to thank our customers, suppliers, stockholders as well as the entire Koss team for their dedication to the current and future success of Koss Corporation.

/s/ John C. Koss

/s/ Michael J. Koss

John C. Koss
Chairman

Michael J. Koss
President and CEO

[PICTURE]

KOSS CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENT OF INCOME (AUDITED)

Period Ended June 30	Three Months		Twelve Months	
	2002	2001	2002	2001
Net sales	\$9,665,170	\$10,186,107	\$36,571,303	\$38,009,335
Cost of goods sold	5,886,050	6,060,475	21,996,819	23,037,127
Gross profit	3,779,120	4,125,632	14,574,484	15,572,208
Selling, general and administrative expense	1,461,654	1,604,499	7,267,429	7,446,119
Income from operations	2,317,466	2,521,133	7,307,055	8,126,089
Other income (expense)				
Royalty income	393,492	220,057	964,297	1,010,026
Interest income	7,424	4,576	30,445	85,423
Interest expense	(8,687)	(986)	(100,454)	(15,465)
Income before income taxes	2,709,695	2,744,780	8,201,343	9,206,073
Provisions for income taxes	1,096,265	1,051,903	3,160,000	3,518,552
Net income	\$1,613,430	\$ 1,692,877	\$ 5,041,343	\$ 5,687,521
Earnings per common share:				
Basic	\$0.44	\$0.43	\$1.36	\$1.35
Diluted	\$0.42	\$0.40	\$1.28	\$1.28
Dividends per common share	\$0.12	None	\$0.485	None

CONSOLIDATED BALANCE SHEETS

As of June 30,

2002

ASSETS

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Current Assets:	
Cash	\$ 1,052,364
Accounts receivable, less allowances of \$801,055 and \$301,252, respectively	8,371,187
Inventories	6,380,212
Prepaid expenses	600,928
Income taxes receivable	--
Deferred income taxes	714,973
Total current assets	17,119,664
Equipment and Leasehold Improvements, at cost:	
Leasehold improvements	1,104,954
Machinery, equipment, furniture, and fixtures	5,152,552
Tools, dies, molds, and patterns	9,513,252
	15,770,758
Less--accumulated depreciation	13,992,703
	1,778,055
Deferred Income Taxes	512,135
Other Assets	916,280
	\$20,326,134
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LIABILITIES AND STOCKHOLDERS' INVESTMENT	
Current Liabilities:	
Accounts payable	\$ 1,854,316
Accrued liabilities	1,587,551
Dividends payable	440,466
Income taxes payable	506,102
Total current liabilities	4,388,435
Contingently Redeemable Equity Interest	1,490,000
Deferred Compensation	737,599
Other Liabilities	437,354
Commitments and Contingencies	
Stockholders' Investment:	
Common stock, \$0.005 par value, authorized 8,500,000 shares; issued and outstanding 3,911,756 and 3,886,756 shares, respectively	19,559
Contingently redeemable common stock	(1,490,000)
Undistributed retained earnings	14,743,187
Total stockholders' investment	13,272,746
	\$20,326,134
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MANAGEMENT INFORMATION

OFFICERS AND SENIOR MANAGEMENT

John C. Koss
Chairman of the Board

Michael J. Koss
Vice Chairman

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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 17, 2002
9:00 am
Hilton - Milwaukee River Hotel
4700 N. Port Washington Avenue
Milwaukee, WI 53212

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
Milwaukee, Wisconsin

DIRECTORS

John C. Koss
Chairman of the Board
Koss Corporation

Thomas L. Doerr
President
Doerr Corporation

Victor L. Hunter
President
Hunter Business Group, LLC

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

Lawrence S. Mattson
Retired President
Oster Company

Martin F. Stein
Chairman

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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

16800 West Greenfield Avenue
Brookfield, WI 53005
Ms. Barbara Bahr
Shareholders Toll-free 1-800-937-5449

[KOSS CORPORATION LOGO]

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www.koss.com