

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, 1998  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

KOSS CORPORATION Commission file number 0-3295

-----  
(Exact name of registrant as specified  
in its charter)

A Delaware Corporation 391168275

-----  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

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, \$0.01 par value (voting)  
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(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 X NO  
--- ---

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.

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of September 10, 1998 was approximately \$12,781,844 (based on the \$10.875 per share closing price of the Company's Common Stock as reported on the NASDAQ Stock Market on September 10, 1998). 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 September 10, 1998 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 10, 1998, 3,177,269 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 1998 Annual Meeting of Stockholders to be filed within 120 days of the end of the fiscal year covered by this Report. The exhibits hereto incorporate by reference information from the Company's Annual Report on Form 10-K for the fiscal years ended June 30, 1988, 1990, 1995, and 1996, and the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995 and March 31, 1997.

## PART I

## Item 1. BUSINESS.

As used herein, the term "Company" means Koss Corporation and its consolidated subsidiaries, unless the context otherwise requires.

The Company operates in the audio/video industry segment of the home entertainment industry through its design, manufacture and sale of stereo headphones, audio/video loudspeakers, and related accessory products.

The Company's principal product is the design, manufacture, and sale of stereophones and related accessories. The percentage of total revenues related to the product line over the past three years was:

	1998	1997	1996
	----	----	----
Stereophones	87%	83%	80%

The Company's products are sold through audio specialty stores, catalog showrooms, 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 more than 17,000 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.

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

The Company regularly applies for registration of its trademarks and has numerous patents. Certain of its trademarks are of material value and importance to the conduct of its business. Although the Company considers protection of its proprietary developments important, the Company's business is not, in the opinion of management, materially dependent upon any single patent.

Although retail sales of consumer electronics are predictably higher during the holiday season, management of the Company is of the opinion that its business and industry segment are not seasonal as evidenced by the fact that 54% of sales occurred in the first six months of the fiscal year and 46% of sales occurred in the latter six months of the fiscal year.

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. The Company provides extended payment terms for product sales to certain customers. Based on historical trends, management does not expect these practices to have any material effect on net sales or revenues. The Company's current backlog of orders is not material in relation to annual net sales.

The Company markets its products to approximately 2,000 customers worldwide. During 1998 the Company's sales to its largest single customer, Tandy Corporation, were 19% of total sales. Management believes that any loss of this customer's revenues would be partially offset by a corresponding decrease, on a percentage basis, in expenses thereby dampening the impact on the Company's operating income. Although perhaps initially material, management believes this impact would be offset in future years by expanded sales to both existing and new customers. The five largest customers of the Company accounted for approximately 39% of total sales in 1998.

Although competition in the stereophone market has increased this past year, the Company has maintained its competitive position as a leading marketer and producer of high fidelity stereophones in the United States. 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 amount spent on engineering and research activities relating to the development of new products or the improvement of existing products was \$265,000 during fiscal 1998 as compared with \$245,000 during fiscal 1997 and \$225,000 during fiscal 1996. These activities were conducted by both Company personnel and outside consultants. The Company relies upon its unique sound, quality workmanship, brand identification, engineering skills and customer service to maintain its competitive position.

As of June 30, 1998, the Company employed 184 people. The Company also utilizes temporary personnel to meet seasonal production demands.

#### Foreign Sales.

International markets are serviced through manufacturers representatives or independent distributors with product produced in the United States. In the opinion of management, the Company's competitive position and risks attendant to the conduct of its business in such markets are comparable to the domestic market. For further information, see Note 10 to consolidated financial statements accompanying this Form 10-K.

#### Item 2. PROPERTIES.

The Company leases its main plant and offices in Milwaukee, Wisconsin from its Chairman, John C. Koss. On June 25, 1993, the lease was renewed for a period of ten years, and is being accounted for as an operating lease. The lease extension increases the rent from \$280,000 per year (plus Consumer Price Index increase in 1994) to a fixed rate of \$350,000 per year for three years and \$380,000 for the seven years thereafter. 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 purposes.

#### Item 3. LEGAL PROCEEDINGS.

Neither Koss nor its subsidiaries are subject to any material legal proceedings.

#### 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, 1998.

## 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 1,087 holders of the Company's common stock as of September 10, 1998. No dividends have been paid for the years ended June 30, 1998, 1997, and 1996. The quarterly high and low sale prices of the Company's common stock for the last two fiscal years are shown below.

Quarter -----	Fiscal Year 1998 -----		Fiscal Year 1997 -----	
	High ----	Low ----	High ----	Low ----
First	\$14-0/0	\$8-1/4	\$7-3/8	\$5-3/4
Second	\$15-1/8	\$11-1/4	\$7-0/0	\$5-3/4
Third	\$12-1/2	\$10-0/0	\$13-0/0	\$6-1/4
Fourth	\$11-1/4	\$9-1/2	\$11-1/4	\$8-3/4

## Item 6. SELECTED FINANCIAL DATA.

-----	1998	1997	1996	1995	1994
Net sales	\$40,638,747	\$39,554,720	\$36,422,377	\$33,432,344	\$35,561,322
Net income	\$5,477,629	\$3,587,688	\$2,360,963	\$2,087,994	\$2,800,855
Earnings per common share:					
Basic	\$1.68	\$1.09	\$0.69	\$0.63	\$0.88
Diluted	\$1.65	\$1.07	\$0.67	\$0.58	\$0.75
Total assets	\$32,028,769	\$26,332,923	\$22,005,257	\$20,972,923	\$19,220,406
Long-term debt	\$2,746,000	\$1,221,000	\$470,000	\$570,000	\$2,068,741

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

FINANCIAL CONDITION AND LIQUIDITY

During 1998, cash provided by operations was \$1,839,750. Working capital was \$25,044,408 at June 30, 1998. The increase of \$4,255,260 from the balance at June 30, 1997 represents primarily the net effect of an increase in inventory of \$4,938,405. The increase in inventory is the result of anticipated higher sales volume in the upcoming year.

Capital expenditures for new property and equipment including production tooling were \$221,560, \$782,287, and \$690,932 in 1998, 1997, and 1996, respectively. Depreciation charges aggregated \$636,558, \$649,099, and \$629,985 for the same fiscal years. Budgeted capital expenditures for fiscal year 1999 are \$1,100,000. The Company expects to generate sufficient funds through operations to fulfill these expenditures.

Stockholders' investment increased to \$22,591,160 at June 30, 1998 from \$20,274,494 at June 30, 1997. The increase reflects primarily the effect of net income, the purchase and retirement of common stock, and the exercise of stock options for the year. No cash dividends have been paid since the first quarter of fiscal 1984.

The Company has an unsecured working capital line of credit facility with a bank which expires November 1, 1999. This credit facility provides for borrowings up to a maximum of \$8,000,000. Borrowings under this credit facility bear interest at the bank's prime rate, or LIBOR plus 2.25%. This credit facility includes certain covenants that require the Company to maintain a minimum tangible net worth and specified current, interest coverage and leverage ratios. Borrowings under this credit facility as of June 30, 1998 totaled \$2,746,000. There are no commitments for foreign letters of credit at June 30, 1998.

In April, 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. In January, 1996 the Board of Directors approved an increase in the total amount of potential stock purchases for the Company's own account from \$2,000,000 to \$3,000,000. In July of 1997, the Board of Directors again approved an increase in the total amount of potential stock purchases for the Company's own account from \$3,000,000 to \$5,000,000. In August of 1998, the Board of Directors approved an increase of \$3,000,000 in the Company's stock repurchase program, thereby increasing the total amount of stock repurchases for the Company's own account from \$5,000,000 to \$8,000,000. The Company intends to effectuate 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. For the fiscal year ended June 30, 1998, the Company purchased 547,772 shares of its common stock at an average gross price of \$12.75 per share (and an average net price of \$7.96 per share), and retired all such shares.

From the commencement of the Company's stock repurchase program through June 30, 1998, the Company has purchased and retired a total of 891,348 shares for a total gross purchase price of \$9,108,577 (representing an average gross purchase price of \$10.22 per share) and a total net purchase price of \$6,485,677 (representing an average net purchase price of \$7.28 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.

## 1998 RESULTS COMPARED WITH 1997

Net sales for 1998 were \$40,638,747 compared with \$39,554,720 in 1997, an increase of \$1,084,027 or 3%. The increase was the result of higher sales of current products as well as the introduction of new products.

The Company anticipates a decline in net sales for fiscal 1999 as a result of the Company's previously announced decision to exit the computer speaker business, which accounted for \$5,831,234 of gross sales for the fiscal year ending June 30, 1998.

Gross profit was \$15,794,779 or 38.9% in 1998 compared with \$13,632,099 or 34.5% in 1997. Shifts in product mix resulted in the increase in gross profit as compared to last year.

Selling, general and administrative expenses for 1998 were \$7,822,338 compared with \$8,594,260 in 1997, a decrease of \$771,922 or 9%. This decrease is a result of the closing of Koss Limited in Canada.

Income from operations was \$7,972,441 in 1998 compared with \$5,037,839 in 1997, an increase of 58%. Net interest expense for 1998 was \$253,171 compared with \$200,401 in 1997. The increase is due to increased levels of borrowings during the fiscal year.

The Company had a License Agreement with Trabelco N.V., a Netherlands, Antilles company and a subsidiary of Hagemeyer, N.V., a diverse international trading company based in the Netherlands. This License Agreement covered North America, Central America, and South America. Effective March 31, 1997, the Company assigned this License Agreement to Jiangsu Electronics Industries Limited ("Jiangsu"), a subsidiary of Orient Power Holdings Limited. Orient Power is based in Hong Kong and has an extensive portfolio of audio and video products. Pursuant to this assignment, Jiangsu has agreed to make royalty payments through December 31, 2000, subject to certain minimum royalty amounts due for the years 1998, 1999, and 2000. In May of 1998, the Company and Jiangsu entered into an amendment to this License Agreement expanding the products covered by this License Agreement to include mobile electronics and increasing the minimum royalties due for the years 1998, 1999, and 2000. This License Agreement is subject to renewal for additional 3 year periods. Royalty income earned in connection with this License Agreement for the year ended June 30, 1998 was \$1,206,359 as compared to \$1,131,250 for the same period in 1997. The Company recognizes royalty income when earned. The increase in royalty income for the twelve-month period is the result of higher sales volume in products covered under this License Agreement.

The License Agreement with Trabelco N.V. covering many European countries remains in place. No sales have been reported under this License Agreement to date; however, certain minimum royalties are due for calendar year 1998. This License Agreement expires on December 31, 1998; however, Trabelco N.V. has the option to renew this License Agreement for additional 3 year periods.

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. This License Agreement extends for 5 years and includes a 5 year renewal option at the Company's discretion. This License Agreement requires royalty payments by Logitech through June 30, 2003, subject to certain minimum royalty amounts due each year.

Income taxes are discussed in Note 6 to the financial statements.

## 1997 RESULTS COMPARED WITH 1996

Net sales for 1997 were \$39,554,720 compared with \$36,422,377 in 1996, an increase of \$3,132,343 or 9%. The increase was the result of higher sales of current product as well as the introduction of new products.

Gross profit was \$13,632,099 or 34.5% in 1997 compared with \$11,180,754 or 30.7% in 1996. Shifts in product mix resulted in the increase in gross profit as compared to last year.

Selling, general and administrative expenses for 1997 were \$8,594,260 compared with \$8,528,098 in 1996, an increase of \$66,162 or less than 1%.

Income from operations was \$5,037,839 in 1997 compared with \$2,652,656 in 1996, an increase of 90%. Net interest expense for 1997 was \$200,401 compared with \$40,195 in 1996. The increase is due to increased levels of borrowings during the fiscal year.

The Company had a License Agreement with Trabelco N.V., a Netherlands, Antilles company and a subsidiary of Hagemeyer, N.V., a diverse international trading company based in the Netherlands. This License Agreement covered North America, Central America, and South America. Effective March 31, 1997, the Company assigned this License Agreement to Jiangsu Electronics Industries Limited ("Jiangsu"), a subsidiary of Orient Power Holdings Limited. Orient Power is based in Hong Kong and has an extensive portfolio of audio and video products. Pursuant to this assignment, Jiangsu has agreed to make royalty payments through December 31, 2000, subject to certain minimum royalty amounts due for the years 1998, 1999, and 2000. In May of 1998, the Company and Jiangsu entered into an amendment to this License Agreement expanding the products covered by this License Agreement to include mobile electronics and increasing the minimum royalties due for the years 1998, 1999, and 2000. This License Agreement is subject to renewal for additional 3 year periods. Royalty income earned in connection with this License Agreement for the year ended June 30, 1997 was \$1,131,250 as compared to \$1,303,502 for the same period in 1996. The Company recognizes royalty income when earned. The decrease in royalty income for the twelve-month period is the result of lower sales volume in products covered under this License Agreement.

The License Agreement with Trabelco N.V. covering many European countries remains in place. No sales have been reported under this License Agreement to date; however, certain minimum royalties are due for calendar years 1997 and 1998. This License Agreement expires on December 31, 1998; however, Trabelco N.V. has the option to renew this License Agreement for additional 3 year periods.

Income taxes are discussed in Note 6 to the financial statements.

## 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 generally accepted accounting principles 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.

The Board of Directors, acting through the Audit Committee, is 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, with or without the presence of management representatives, to discuss the scope and the results of their audit work. The Audit Committee is comprised solely of non-employee directors.

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.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," (SFAS 131) which establishes standards for reporting information about operating segments in annual financial statements and interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS 131 is effective for fiscal years beginning after December 15, 1997 and requires presentation of prior period financial statements for comparability purposes. The Company is currently evaluating its required disclosures under SFAS 131 and expects to adopt this standard during the year ended June 30, 1999.

## YEAR 2000

The Company is currently working to resolve the potential impact of the year 2000 on the processing of date sensitive information by the Company's computerized information systems. The year 2000 problem is the result of computer programs being written using 2 digits to define the applicable year (as opposed to 4 digits). Any of the Company's programs that have time sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or systems failure. Based on a review of the Company's software by the Chief Information Officer and outside consultants, the anticipated costs of addressing potential problems are not expected to have an adverse impact on the Company's financial position, results of operations or cash flows in future periods. The Company expects its computer systems will be year 2000 compliant by January 31, 1999.

A year 2000 compliance letter and survey form has been sent to all our customers doing over \$10,000 annually in sales. Responses will be analyzed to see if there are any adverse conditions that the Company may have overlooked in its year 2000 plan. The same procedure is being followed with our suppliers and vendors. The Company's current inventory levels and forecasting technique will insure product is available to support customer requirements. In the event there are any adverse conditions, the Company will devote necessary resources to resolve all significant year 2000 issues in a timely manner.

## Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Consolidated financial statements of the Company at June 30, 1998 and 1997 and for each of the three years in the period ended June 30, 1998 and the notes thereto, and the report of independent accountants thereon are set forth on pages 13 to 25.

Selected unaudited quarterly financial data is as follows:

1998 -----	Quarter -----			
	First -----	Second -----	Third -----	Fourth -----
Net sales	\$11,755,125	\$10,378,151	\$8,089,590	\$10,415,881
Gross profit	4,424,457	3,310,141	2,517,692	5,542,489
Net income	1,401,423	1,084,436	661,608	2,330,162
Earnings per common share:				
Basic	.42	.33	.21	.73
Diluted	.41	.32	.20	.73
1997 -----	Quarter -----			
	First -----	Second -----	Third -----	Fourth -----
Net sales	\$9,862,803	\$13,320,166	\$8,583,303	\$7,788,448
Gross profit	3,287,678	4,544,115	2,922,694	2,877,612
Net income	838,990	1,482,478	531,552	734,668
Earnings per common share:				
Basic	.25	.45	.16	.22
Diluted	.25	.45	.15	.21

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

None.

## 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" and the "ELECTION OF DIRECTORS -- Executive Officers" contained in the Koss Corporation Proxy Statement for its 1998 Annual Meeting of Stockholders (the "1998 Proxy Statement"), which 1998 Proxy Statement is to be 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.

Information relating to executive compensation is incorporated herein by reference from the "ELECTION OF DIRECTORS -- Executive Compensation And Related Matters" section of the 1998 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 1998 Proxy Statement.

## 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 1998 Proxy Statement.

## PART IV

## Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

a. 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 13 to 25:	
	Report of Independent Accountants.....	13
	Consolidated Statements of Income for the Years	
	Ended June 30, 1998, 1997, and 1996.....	14
	Consolidated Balance Sheets as of June 30, 1998 and 1997.....	15
	Consolidated Statements of Cash Flows	
	for the Years Ended June 30, 1998, 1997, and 1996.....	16
	Consolidated Statements of Stockholders' Investment	
	for the Years Ended June 30, 1998, 1997, and 1996.....	17
	Notes to Consolidated Financial Statements.....	18

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
- 3.1 Certificate of Incorporation of Koss Corporation.
  - 3.2 By-Laws of Koss Corporation.
  - 4.1 Certificate of Incorporation of Koss Corporation.
  - 4.2 By-Laws of Koss Corporation.
  - 10.1 Officer Loan Policy.
  - 10.3 Supplemental Medical Care Reimbursement Plan.
  - 10.4 Death Benefit Agreement with John C. Koss.
  - 10.5 Stock Repurchase Agreement with John C. Koss.
  - 10.6 Salary Continuation Resolution for John C. Koss.
  - 10.7 1983 Incentive Stock Option Plan.
  - 10.8 Assignment of Lease to John C. Koss.
  - 10.9 Addendum to Lease.
  - 10.10 1990 Flexible Incentive Plan.
  - 10.12 Loan Agreement, effective as of February 17, 1995.
  - 10.13 Amendment to Loan Agreement dated June 15, 1995, effective as of February 17, 1995.
  - 10.14 License Agreement dated November 15, 1991 between Koss Corporation and Trabelco N.V. (a subsidiary of Hagemeyer N.V.) for North America, Central America and South America (including Amendment to License Agreement dated November 15, 1991; Renewal Letter dated November 18, 1994; and Second Amendment to License Agreement dated September 29, 1995).
  - 10.15 License Agreement dated September 29, 1995 between Koss Corporation and Trabelco N.V. (a subsidiary of Hagemeyer N.V.) for Europe (including First Amendment to License Agreement dated December 26, 1995).
  - 10.16 Third Amendment and Assignment of License Agreement to Jiangsu Electronics Industries Limited dated March 31, 1997.

- 10.17 Fourth Amendment to License Agreement dated as of May 29, 1998.
- 10.18 License Agreement dated June 30, 1998 between Koss Corporation and Logitech Electronics Inc. (including Addendum to License Agreement dated June 30, 1998).
- 10.19 Consent of Directors (Supplemental Executive Retirement Plan for Michael J. Koss dated March 7, 1997).
- 22 List of Subsidiaries of Koss Corporation.
- 27 Financial Data Schedule.

- b. One report on Form 8-K was filed by the Company during the last quarter of the period covered by this report. This Form 8-K referenced a Press Release issued by the Company announcing a decline in forecasted sales revenue of approximately \$4,000,000, or 10%, for the fiscal year ending June 30, 1999, relating to an anticipated reduction in sales of the Company's computer loudspeaker and associated peripheral business.

## REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF KOSS CORPORATION

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 10 present fairly, in all material respects, the financial position of Koss Corporation and its subsidiaries at June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles. 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. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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 audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

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PricewaterhouseCoopers LLP

Milwaukee, Wisconsin

July 15, 1998

## CONSOLIDATED STATEMENTS OF INCOME

Year Ended June 30,	1998	1997	1996
Net sales	\$40,638,747	\$39,554,720	\$36,422,377
Cost of goods sold	24,843,968	25,922,621	25,241,623
Gross profit	15,794,779	13,632,099	11,180,754
Selling, general and administrative expense	7,822,338	8,594,260	8,528,098
Income from operations	7,972,441	5,037,839	2,652,656
Other income (expense)			
Royalty income	1,206,359	1,131,250	1,303,502
Interest expense (net)	(253,171)	(200,401)	(40,195)
Income before income taxes	8,925,629	5,968,688	3,915,963
Provision for income taxes (note 6)	3,448,000	2,381,000	1,555,000
Net income	\$5,477,629	\$ 3,587,688	\$ 2,360,963
Earnings per common share:			
Basic	\$1.68	\$1.09	\$0.69
Diluted	\$1.65	\$1.07	\$0.67
Dividends per common share	None	None	None

See accompanying notes.

## CONSOLIDATED BALANCE SHEETS

As of June 30,	1998	1997
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 14,778	\$ 32,551
Accounts receivable, less allowances of \$556,290 and \$928,605, respectively (note 12)	8,387,839	6,992,513
Inventories	19,486,058	14,547,653
Prepaid expenses	548,892	603,997
Income taxes receivable	--	65,493
Deferred income taxes (note 6)	555,946	756,946
<b>Total current assets</b>	<b>28,993,513</b>	<b>22,999,153</b>
Equipment and Leasehold Improvements, at cost:		
Leasehold improvements	742,289	735,930
Machinery, equipment, furniture and fixtures	4,587,729	4,548,096
Tools, dies, molds and patterns	8,351,591	8,176,023
	13,681,609	13,460,049
Less--accumulated depreciation	11,619,078	10,982,520
	2,062,531	2,477,529
Deferred Income Taxes (note 6)	364,135	258,135
Intangible and Other Assets	608,590	598,106
	\$32,028,769	\$26,332,923
<b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>		
Current Liabilities:		
Accounts payable	\$ 1,956,877	\$ 741,646
Accrued liabilities (note 7)	1,314,701	994,877
Deferred revenue	--	473,482
Income taxes payable	677,527	--
<b>Total current liabilities</b>	<b>3,949,105</b>	<b>2,210,005</b>
Long-Term Debt (note 4)	2,746,000	1,221,000
Deferred Compensation and Other Liabilities (note 11)	1,252,504	1,137,424
Contingently Redeemable Equity Interest (note 5)	1,490,000	1,490,000
Stockholders' Investment (note 5):		
Common stock, \$.01 par value, authorized 8,500,000 shares; issued and outstanding 3,177,269 and 3,323,791 shares, respectively	31,773	33,238
Paid in capital	--	2,328,677
Contingently redeemable common stock	(1,490,000)	(1,490,000)
Accumulated other comprehensive income	(71,322)	(71,322)
Undistributed retained earnings	24,120,709	19,473,901
<b>Total stockholders' investment</b>	<b>22,591,160</b>	<b>20,274,494</b>
	\$32,028,769	\$26,332,923

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended June 30,	1998	1997	1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 5,477,629	\$ 3,587,688	\$ 2,360,963
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	676,673	712,215	777,238
Deferred income taxes	95,000	(74,532)	(568,465)
Deferred compensation	115,080	115,080	115,080
Net changes in operating assets and liabilities (note 8)	(4,524,632)	(4,407,722)	(802,625)
Net cash provided by (used in) operating activities	1,839,750	(67,271)	1,882,191
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of equipment and leasehold improvements	(221,560)	(782,287)	(690,932)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repayments under line of credit agreement	(24,385,400)	(21,029,000)	(13,891,000)
Borrowings under line of credit agreement	25,910,400	21,780,000	13,791,000
Exercise of stock options	3,822,600	456,799	433,835
Purchase and retirement of common stock	(6,983,563)	(352,691)	(1,547,320)
Net cash provided by (used in) financing activities	(1,635,963)	855,108	(1,213,485)
Net increase (decrease) in cash	(17,773)	5,550	(22,226)
Cash at beginning of year	32,551	27,001	49,227
Cash at end of year	\$ 14,778	\$ 32,551	\$ 27,001

See accompanying notes.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT

	Common Stock	Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income
Balance, June 30, 1995	\$ 34,861	\$ 3,336,431	\$13,525,250	\$ (65,116)
Net income	--	--	2,360,963	--
Foreign currency translation adjustment	--	--	--	(42,114)
Purchase and retirement of treasury stock	(2,519)	(1,544,801)	--	--
Exercise of stock options	837	432,998	--	--
Balance, June 30, 1996	33,179	2,224,628	15,886,213	(107,230)
Net income	--	--	3,587,688	--
Foreign currency translation adjustment	--	--	--	35,908
Purchase and retirement of treasury stock	(516)	(352,175)	--	--
Exercise of stock options	575	456,224	--	--
Balance, June 30, 1997	33,238	2,328,677	19,473,901	(71,322)
Net income	--	--	5,477,629	--
Purchase and retirement of treasury stock	(5,478)	(6,147,264)	(830,821)	--
Exercise of stock options	4,013	3,818,587	--	--
Balance, June 30, 1998	\$ 31,773	\$ --	\$24,120,709	\$ (71,322)

See accompanying notes.

## 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, audio/video loudspeakers and related accessory products. The Company's products are sold through audio specialty stores, catalog showrooms, 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 more than 17,000 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 16% and 13% of the Company's accounts receivable at June 30, 1998 and 1997, 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.

**ROYALTY INCOME**--The Company recognizes royalty income when earned under terms of license agreements, which expire in 1998 and 2000. These agreements contain three year renewal options and require minimum calendar year royalty payments.

**INVENTORIES**--At June 30, 1998 and 1997, approximately 83% and 98%, respectively, of the Company's inventories were valued at the lower of last-in, first-out (LIFO) cost or market. All other inventories are valued at the lower of first-in, first-out (FIFO) cost, or market. If the FIFO method of inventory accounting had been used by the Company for inventories valued at LIFO, inventories would have been \$461,143 and \$457,484 higher than reported at June 30, 1998 and 1997, respectively.

The components of inventories at June 30, is as follows:

	1998	1997
-----		
Raw materials and		
Work in process	\$ 6,547,983	\$ 7,242,161
Finished goods	12,938,075	7,305,492
-----		
	\$19,486,058	\$14,547,653
=====		

**PROPERTY AND EQUIPMENT**--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 \$265,000 in 1998, \$245,000 in 1997, and \$225,000 in 1996.

**EARNINGS PER SHARE**--Basic earnings per share are computed based on the weighted average number of common shares outstanding. When dilutive, stock options are included as share equivalents using the treasury stock method.

FAIR VALUE OF FINANCIAL INSTRUMENTS--Cash, accounts receivable, accounts payable and accrued liabilities recorded in the consolidated balance sheets approximate fair value based on the short maturity of these instruments. Amounts recorded for long-term debt, deferred compensation and other liabilities are estimated to approximate fair value based on market conditions and interest rates available to the Company for similar financial instruments.

USE OF ESTIMATES--The preparation of financial statements in conformity with generally accepted accounting principles 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 reported period. Actual results could differ from those estimates.

## 2. EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 128, "Earnings per Share," (SFAS 128). This Statement establishes new standards for computing and presenting earnings per share. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997 and requires restatement of all prior-period earnings per share data. The Company's adoption of the provisions of SFAS 128 resulted in the dual presentation of basic and diluted per share amounts on the Company's income statement.

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, 1998, 1997, and 1996 were 3,263,842, 3,304,194, and 3,443,247, respectively. When dilutive, stock options are included in earnings per share as share equivalents using the treasury stock method. Common stock equivalents of 64,889, 58,648, and 60,201 related to stock option grants were included in the computation of the average number of shares outstanding for diluted earnings per share for the fiscal years ended June 30, 1998, 1997, and 1996, respectively.

## 3. COMPREHENSIVE INCOME

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting of Comprehensive Income," (SFAS 130). This Statement requires that certain items recognized under generally accepted accounting principles as components of comprehensive income be reported in an annual financial statement that is displayed with the same prominence of other financial statements.

Total comprehensive income totaled \$5,477,629 and \$3,623,596 for the fiscal years ended June 30, 1998 and 1997, respectively. Total comprehensive income for the year ended June 30, 1998 and 1997, is comprised of net income of \$5,477,629 and \$3,587,688, respectively, and other comprehensive income of \$-0- and \$35,908, respectively. Other comprehensive income is comprised solely of foreign currency transaction adjustments and are included in the Consolidated Statement of Stockholder's Investment.

## 4. LONG TERM DEBT

The Company has an unsecured working capital line of credit facility with a bank, which expires through November 1, 1999. This credit facility provides for borrowings up to a maximum of \$8,000,000. Borrowings under this credit facility bear interest at the bank's prime rate, or LIBOR plus 2.25%. This credit facility includes certain covenants that require the Company to maintain a minimum tangible net worth and specified current, interest coverage, and leverage ratios. Borrowings under this credit facility as of June 30, 1998 totaled \$2,746,000. There are no commitments for foreign letters of credit at June 30, 1998. Utilization of this credit facility as of June 30, 1997 was \$1,274,386, consisting of \$1,221,000 in borrowings and \$53,386 in foreign letters of credit.

## 5. 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 to the 1990 Plan, which was approved by the stockholders. In 1993, the Board of Directors authorized the reservation of an additional 300,000 shares to the 1990 Plan, which was approved by the stockholders. In 1997, the Board of Directors authorized the reservation of an additional 300,000 shares to the 1990 Plan, which was approved by the stockholders.

The following table identifies options granted, exercised, cancelled or available for exercise pursuant to the above mentioned Plan:

	Number of Shares	Price per Share
-----		
Shares under option at June 30, 1995	536,250	\$1.75-\$10.55
Granted	72,500	\$5.32-\$5.85
Exercised	(56,250)	\$1.75-\$2.75
-----		
Shares under option at June 30, 1996	552,500	\$1.75-\$10.55
Granted	52,500	\$10.20-\$11.22
Exercised	(57,500)	\$2.50-\$7.50
Cancelled	(11,250)	\$5.32-\$7.35
-----		
Shares under option at June 30, 1997	536,250	\$2.50-\$11.22
Granted	55,000	\$10.83-\$11.91
Exercised	(401,250)	\$2.50-\$10.55
-----		
Shares under option at June 30, 1998	190,000	\$5.32-\$11.91
=====		
Options exercisable at June 30, 1998	52,500	\$5.32-\$10.20
=====		

The Company has an agreement with its Chairman to repurchase stock from his estate in the event of his death. The repurchase price is 95% of the fair market value of the common stock on the date that notice to repurchase is provided to the Company. The total number of shares to be repurchased shall be sufficient to provide proceeds which are the lesser of \$2,500,000 or the amount of estate taxes and administrative expenses incurred by his estate. The Company is obligated to pay in cash 25% of the total amount due and to execute a promissory note at a prime rate of interest for the balance. The Company maintains a \$1,150,000 life insurance policy to fund a substantial portion of this obligation.

The Company currently accounts for its stock-based compensation plans using the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). In 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). Under the provisions of SFAS 123, companies can elect to account for stock-based compensation plans using a fair-value-based method or continue measuring compensation expense for those plans using the intrinsic value method prescribed in APB 25. SFAS 123 requires that companies electing to continue using the intrinsic value method must make pro forma disclosures of net income and earnings per share as if the fair-value-based method of accounting had been applied. The Company has adopted the disclosure-only provisions of SFAS 123; accordingly, no compensation cost has been recognized for options granted under the stock-based compensation plan. Had compensation cost been determined based on the fair value at the grant date for awards in 1998, 1997, and 1996 consistent with the provisions of SFAS 123, the Company's pro forma net income and earnings per share would have been as presented below:

	1998	1997	1996
	-----	-----	-----
Net income - as reported	\$5,477,629	\$3,587,688	\$2,360,963
Net income - pro forma	5,318,518	3,511,965	2,349,608
Earnings per common share - as reported			
Basic	1.68	1.09	.69
Diluted	1.65	1.07	.67
Earnings per common share - pro forma			
Basic	1.63	1.06	.68
Diluted	1.60	1.04	.67

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:

	1998	1997	1996
	-----	-----	-----
Expected stock price volatility	69.17%	70.94%	70.53%
Risk free interest rate	5.72%	6.84%	6.45%
Expected life of options	5.91 years	6 years	5.6 years

The weighted average exercise prices per share for options outstanding and exercisable at June 30, 1998 are \$9.02 and \$7.92, respectively. The weighted average exercise prices per share for options outstanding and exercisable at June 30, 1997 are \$7.56 and \$7.67, respectively. The weighted average exercise prices per share for options outstanding and exercisable at June 30, 1996 are \$7.15 and \$7.80, respectively. The weighted average fair value of options granted during 1998, 1997, and 1996 are \$6.95, \$7.02, and \$3.37 per share, respectively.

## 6. INCOME TAXES

The Company follows Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires use of the liability method of accounting for income taxes. The liability method measures the expected tax impact of future taxable income and deductions implicit in the consolidated balance sheet.

The provision for income taxes in 1998, 1997, and 1996 consists of the following:

Year Ended June 30,	1998	1997	1996
Current:			
U.S. federal	\$2,839,000	\$2,061,000	\$1,536,000
State	514,000	394,000	296,000
Foreign	--	--	(44,000)
Deferred	95,000	(74,000)	(233,000)
	\$3,448,000	\$2,381,000	\$1,555,000

The 1998, 1997, and 1996 tax provision results in an effective rate different than the federal statutory rate due to the following:

Year Ended June 30,	1998	1997	1996
Federal income tax at statutory rate	\$3,035,000	\$2,029,000	\$1,331,000
State income taxes, net of federal tax benefit	339,000	260,000	195,000
Other	74,000	92,000	29,000
Total provision for income taxes	\$3,448,000	\$2,381,000	\$1,555,000

Income before taxes for United States operations was \$8,925,629 in 1998, \$6,803,219 in 1997, and \$4,013,970 in 1996. Losses before taxes for foreign operations were \$0, \$834,531, and \$97,322 for the respective years.

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

	1998	1997
-----		
Deferred Tax Assets		
Deferred compensation	\$307,000	\$ 265,000
Accrued expenses and reserves	579,000	530,000
Royalties receivable/deferred	--	179,000
Package design and trademarks	150,000	125,000
Other	9,000	39,000
	-----	-----
	1,045,000	1,138,000
Deferred Tax Liabilities		
Royalties receivable/deferred	(32,000)	--
Equipment and leasehold improvements	(93,000)	(123,000)
	-----	-----
Net deferred tax asset	\$920,000	\$1,015,000
	=====	=====

The net deferred tax asset at June 30, 1998 is comprised of a current asset of \$555,946 and a long term asset of \$364,135. The net deferred tax asset at June 30, 1997 is comprised of a current asset of \$756,946 and a long term asset of \$258,135.

#### 7. ACCRUED LIABILITIES

Accrued liabilities at June 30 consist of the following:

	1998	1997
-----		
Salaries and wages	\$608,288	\$340,498
Cooperative advertising and promotion allowances	282,761	240,612
Payroll taxes and employee benefits	161,075	162,626
Other	262,577	251,141
	-----	-----
	\$1,314,701	\$994,877
	=====	=====

#### 8. ADDITIONAL CASH FLOW INFORMATION

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

	1998	1997	1996
-----			
Accounts receivable	\$(1,395,326)	\$ 1,972,700	\$ (1,722,351)
Inventories	(4,938,405)	(5,734,529)	576,585
Prepaid expenses	55,105	(221,860)	294,737
Net income taxes	743,020	(427,348)	738,002
Other assets	(50,599)	(92,422)	(146,495)
Accounts payable	1,215,231	(586,269)	(398,796)
Deferred revenue	(473,482)	473,482	--
Accrued liabilities	319,824	208,524	(144,307)
	-----	-----	-----
Net change	\$(4,524,632)	\$ (4,407,722)	\$ (802,625)
	=====	=====	=====

	1998 ----	1997 ----	1996 ----
Net cash paid during the year for:			
Interest	\$ 241,687	\$ 297,398	\$ 161,256
Income taxes	\$1,771,313	\$2,849,333	\$1,413,283

#### 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 amounted to \$216,000 in 1998, \$200,000 in 1997, and \$344,000 in 1996.

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 Company's Board of Directors. For calendar years 1998, 1997, and 1996, 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. Contributions for the years ended June 30, 1998, 1997, and 1996 were \$170,600, \$144,000, and \$264,631, respectively.

#### 10. INDUSTRY SEGMENT INFORMATION, FOREIGN OPERATIONS AND SIGNIFICANT CUSTOMERS

The Company has one line of business--the design, manufacture and sale of stereophones and related accessories. The table below summarizes certain information regarding the Company's United States and Canadian operations for the years ended June 30, 1998, 1997, and 1996.

000's Omitted	United States	Canada	Eliminations	Consolidated
-----				
1998:				
-----				
Net sales	\$ 40,638	\$ --	\$ --	\$ 40,638
Intercompany transfers	300	--	(300)	--
-----				
Total	\$ 40,938	\$ --	\$ (300)	\$ 40,638
-----				
Income from operations	\$ 7,964	\$ --	\$ 8	\$ 7,972
-----				
Assets	\$ 32,029	\$ --	\$ --	\$ 32,029
=====				
1997:				
-----				
Net sales	\$ 39,128	\$ 427	\$ --	\$ 39,555
Intercompany transfers	1,111	--	(1,111)	--
-----				
Total	\$ 40,239	\$ 427	\$ (1,111)	\$ 39,555
-----				
Income from operations	\$ 5,840	\$ (742)	\$ (60)	\$ 5,038
-----				
Assets	\$ 26,333	\$ --	\$ --	\$ 26,333
=====				
1996:				
-----				
Net sales	\$ 33,319	\$ 3,103	\$ --	\$ 36,422
Intercompany transfers	2,829	--	(2,829)	--
-----				
Total	\$ 36,148	\$ 3,103	\$ (2,829)	\$ 36,422
-----				
Income from operations	\$ 2,716	\$ (70)	\$ 7	\$ 2,653
-----				
Assets	\$ 20,313	\$ 1,730	\$ (38)	\$ 22,005
=====				

The Company's export sales to customers in foreign countries amounted to \$5,245,982 during 1998, \$4,955,824 during 1997, and \$6,481,135 during 1996.

Sales to one customer, Tandy Corporation, were approximately 19% of total sales for the year ended June 30, 1998, and 17% and 16% for the years ended June 30, 1997, and 1996, respectively.

#### 11. COMMITMENTS AND CONTINGENCIES

The Company leases its main plant and offices in Milwaukee, Wisconsin from its Chairman. On June 25, 1993, the lease was renewed for a period of ten years, and is being accounted for as an operating lease. The lease extension increases the rent from \$280,000 per year (plus Consumer Price Index increase in 1994) to a fixed rate of \$350,000 per year for three years and \$380,000 for the seven years thereafter. 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. Rent expense, which includes this lease, was \$394,000 in 1998, \$432,000 in 1997, and \$450,000 in 1996.

In 1980, the Company entered into an agreement with John C. Koss that if he dies prior to attaining 70 years of age, the Company will pay to his spouse or other designated beneficiary the sum of \$50,000 every six months until the total benefits paid equal \$700,000. The agreement is null and void if he reaches age 70.

In 1991, the Board of Directors agreed to continue John C. Koss' current base salary in the event he becomes disabled prior to age 70. After age 70, Mr. Koss shall receive his current base salary for the remainder of his life, whether he becomes disabled or not. The Company is currently recognizing an annual expense of \$115,080 in connection with this agreement, which represents the present value of the anticipated future payments. At June 30, 1998 and 1997, respectively, the related liabilities in the amounts of \$766,380 and \$651,300 have been included in deferred compensation and other liabilities in the accompanying balance sheets.

#### 12. SUPPLEMENTARY INFORMATION

Changes in the allowance for doubtful accounts for the years ended June 30, 1998, 1997, and 1996 are summarized as follows:

Year ---- Ending -----	Balance at Beginning ----- of Period -----	Charges Against ----- Income -----	Deductions*	Balance at End of ----- Period -----
1998	\$928,605	\$310,000	\$682,315	\$556,290
1997	\$685,107	\$434,000	\$190,502	\$928,605
1996	\$289,217	\$490,097	\$ 94,207	\$685,107

\*Represents charges against the allowance, net of recoveries.

The amounts included for advertising in selling, general and administrative expenses in the accompanying statements of income were \$397,033 in 1998, \$428,428 in 1997, and \$486,723 in 1996.

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 Dated: 9/21/98
-----
Michael J. Koss, President,
Chief Executive Officer
Chief Operating Officer and
Chief Financial Officer

By: /s/ Sujata Sachdeva Dated: 9/21/98
-----
Sujata Sachdeva,
Vice President - Finance
Principal Accounting Officer

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 and on the dates indicated:

/s/ John C. Koss
-----
John C. Koss, Director
Dated: 9/21/98

/s/ Michael J. Koss
-----
Michael J. Koss, Director
Dated: 9/21/98

/s/ Martin F. Stein
-----
Martin F. Stein, Director
Dated: 9/21/98

/s/ Victor L. Hunter
-----
Victor L. Hunter, Director
Dated: 9/21/98

/s/ John J. Stollenwerk
-----
John J. Stollenwerk, Director
Dated: 9/21/98

-----
Lawrence S. Mattson, Director
Dated:
-----

/s/ Thomas L. Doerr
-----
Thomas L. Doerr, Director
Dated: 9/21/98

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

OFFICERS AND  
SENIOR MANAGEMENT

John C. Koss  
Chairman of the Board

Michael J. Koss  
President  
Chief Executive Officer  
Chief Operating Officer  
Chief Financial Officer

John C. Koss, Jr.  
Vice President-Sales

Daniel Esposito  
Vice President-Corporate Systems

Sujata Sachdeva  
Vice President-Finance

Jill McCurdy  
Vice President-Product Development

Lenore Lillie  
Vice President-Operations

Richard W. Silverthorn  
Secretary  
General Counsel

Declan Hanley  
Vice President-International Sales

## ANNUAL MEETING

October 22, 1998  
Performance Center  
Koss Corporation  
4129 N. Port Washington Avenue  
Milwaukee, WI 53212

## TRANSFER AGENT

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

Firststar Trust Company  
Box 2077  
Milwaukee, WI 53201  
Attn: Nikhat Quryski

## DIRECTORS

John C. Koss  
Chairman of the Board  
Koss Corporation

Thomas L. Doerr  
President  
Doerr Corporation

Victor L. Hunter  
President  
Hunter Business Direct

Michael J. Koss  
President, C.E.O.,  
C.O.O., C.F.O.

Lawrence S. Mattson  
Retired President  
Oster Company

Martin F. Stein  
Chairman  
Eyecare One Inc.

John J. Stollenwerk  
President  
Allen-Edmonds Shoe Corporation

## INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP  
Milwaukee, Wisconsin

## LEGAL COUNSEL

Whyte Hirschboeck Dudek S.C.

## EXHIBIT INDEX

The Company will furnish a copy of any exhibit described below upon request and upon reimbursement to the Company of its reasonable expenses of furnishing such exhibit, which shall be limited to a photocopying charge of \$0.25 per page and, if mailed to the requesting party, the cost of first-class postage.

Designation of Exhibit -----	Exhibit Title -----	Incorporation by Reference -----
3.1	Certificate of Incorporation of Koss Corporation, as in effect on September 25, 1996.....	(1)
3.2	By-Laws of Koss Corporation, as in effect on September 25, 1996.....	(2)
4.1	Certificate of Incorporation of Koss Corporation, as in effect on September 25, 1996.....	(1)
4.2	By-Laws of Koss Corporation, as in effect on September 25, 1996.....	(2)
10.1	Officer Loan Policy.....	(3)
10.3	Supplemental Medical Care Reimbursement Plan.....	(4)
10.4	Death Benefit Agreement with John C. Koss.....	(5)
10.5	Stock Purchase Agreement with John C. Koss.....	(6)
10.6	Salary Continuation Resolution for John C. Koss.....	(7)
10.7	1983 Incentive Stock Option Plan .....	(8)
10.8	Assignment of Lease to John C. Koss .....	(9)
10.9	Addendum to Lease .....	(10)
10.10	1990 Flexible Incentive Plan .....	(11)
10.12	Loan Agreement, effective as of February 17, 1995 .....	(12)
10.13	Amendment to Loan Agreement dated June 15, 1995, effective as of February 17, 1995.....	(13)
10.14	License Agreement dated November 15, 1991 between Koss Corporation and Trabelco N.V. (a subsidiary of Hagemeyer N.V.) for North America, Central America and South America (including Amendment to License Agreement dated November 15, 1991; Renewal Letter dated November 18, 1994; and Second Amendment to License Agreement dated September 29, 1995)...	(14)

10.15	License Agreement dated September 29, 1995 between Koss Corporation and Trabelco N.V. (a subsidiary of Hagemeyer N.V.) for Europe (including First Amendment to License Agreement dated December 26, 1995) .....	(15)
10.16	Third Amendment and Assignment of License Agreement to Jiangsu Electronics Industries Limited dated as of March 31, 1997 .....	(16)
10.17	Fourth Amendment to License Agreement dated as of May 29, 1998 filed herewith.....	filed herewith
10.18	License Agreement dated June 30, 1998 between Koss Corporation and Logitech Electronics Inc. (including Addendum to License Agreement dated June 30, 1998).....	filed herewith
10.19	Consent of Directors (Supplemental Executive Retirement Plan for Michael J. Koss dated March 7, 1997).....	(17)
22	List of Subsidiaries of Koss Corporation .....	(18)
27	Financial Data Schedule.....	filed herewith
(1)	Incorporated by reference from Exhibit 3.1 to the Company's Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)	
(2)	Incorporated by reference from Exhibit 3.2 to the Company's Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)	
(3)	Incorporated by reference from Exhibit 10.1 to the Company's Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)	
(4)	Incorporated by reference from Exhibit 10.3 to the Company's Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)	
(5)	Incorporated by reference from Exhibit 10.4 to the Company's Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)	
(6)	Incorporated by reference from Exhibit 10.5 to the Company's Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)	
(7)	Incorporated by reference from Exhibit 10.6 to the Company's Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)	
(8)	Incorporated by reference from Exhibit 10.7 to the Company's Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)	
(9)	Incorporated by reference from Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended June 30, 1988 (Commission File No. 0-3295)	

- (10) Incorporated by reference from Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended June 30, 1988 (Commission File No. 0-3295)
- (11) Incorporated by reference from Exhibit 25 to the Company's Annual Report on Form 10-K for the year ended June 30, 1990 (Commission File No. 0-3295)
- (12) Incorporated by reference from Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995 (Commission File No. 0-3295)
- (13) Incorporated by reference from Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended June 30, 1995 (Commission File No. 0-3295)
- (14) Incorporated by reference from Exhibit 10.14 to the Company's Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)
- (15) Incorporated by reference from Exhibit 10.15 to the Company's Form 10-K for the year ended June 30, 1996 (Commission File No. 0-3295)
- (16) Incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 (Commission File No. 0-3295)
- (17) Incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 (Commission File No. 0-3295)
- (18) Incorporated by reference from Exhibit 22 to the Company's Annual Report on Form 10-K for the year ended June 30, 1988 (Commission File No. 0-3295)

Dear Stockholders,

We are pleased to report a third year of consecutive record sales for fiscal year 1998.

Sales for the fiscal year ending June 30, 1998 were \$40,638,747 compared with \$39,554,720 in fiscal year 1997. Net income for the year was \$5,477,629 compared with \$3,587,688 for the same period in 1997, an increase of 53%. Diluted earnings per share for the year were \$1.65 compared with \$1.07 for the same period a year ago, an increase of 54%.

Contributing to the success of this record year was an exceptionally strong fourth quarter. The capability of meeting customer demand came on the heels of the Company's decision to smooth production through a multi million dollar commitment to raising our finished goods inventory. Increasing finished goods inventory has helped reduce our seasonal labor demand and variances in cost and quality. We have also instituted an aggressive program to outsource all non-critical sub-assembly operations to lower our cost of sales and increase our gross margin contribution.

In the fourth quarter, the Company also finalized an agreement with Jiangsu Electronics Industries Limited of Hong Kong to expand the license of the Koss name to include mobile electronics for the car stereo market. A second agreement was also reached with Logitech Electronics, Inc. of Ontario, Canada for Koss branded multimedia/computer speakers. These two agreements are expected to contribute increases in royalty minimums of 27% and 55% over the course of the next two fiscal years.

The stock market has not reflected a multiple of earnings that is consistent with historical norms for the Company. We have therefore continued to re-purchase shares of the Company's stock from the open market or in privately negotiated transactions. We believe that fundamental changes in the nature of the stock market itself, coupled with general market concerns, have temporarily orphaned many small cap stocks. In fact, we plan to re-purchase approximately \$3.5 million dollars in stock during the coming fiscal year to take advantage of the market's lower than average EPS multiple on Koss stock.

1998 marks the 40th Anniversary of the SP/3 Stereophone. The Company is focusing on the base stereophone business as it looks to new and expanded applications in the computer and telephony segments of the marketplace. This strategic focus has allowed the company to continue its earnings growth reflecting solid ROE and ROI performance. Management remains committed to the long range, profitable return on its prudentially deployed capital in support of the stereo headphone industry we created 40 years ago.

We would like to take this opportunity to thank our customers, suppliers, stockholders, as well as the entire Koss team for their efforts during this record setting year. We look to each of you for continued support and dedication in the year ahead.

Sincerely,

John C. Koss  
Chairman

Michael J. Koss  
President and CEO

## CONSOLIDATED STATEMENTS OF INCOME

## KOSS CORPORATION

Year Ended June 30,	1998	1997	1996
Net sales	\$40,638,747	\$39,554,720	\$36,422,377
Cost of goods sold	24,843,968	25,922,621	25,241,623
Gross profit	15,794,779	13,632,099	11,180,754
Selling, general and administrative expense	7,822,338	8,594,260	8,528,098
Income from operations	7,972,441	5,037,839	2,652,656
Other income (expense)			
Royalty income	1,206,359	1,131,250	1,303,502
Interest expense, net	(253,171)	(200,401)	(40,195)
Income before income taxes	8,925,629	5,968,688	3,915,963
Provision for income taxes	3,448,000	2,381,000	1,555,000
Net income	\$5,477,629	\$ 3,587,688	\$2,360,963
Earnings per common share:			
Basic	\$1.68	\$1.09	\$ .69
Diluted	\$1.65	\$1.07	\$ .67
Dividends per common share	None	None	None

As of June 30,	1998	1997
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 14,778	\$ 32,551
Accounts receivable, less allowances of \$556,290 and \$928,605, respectively	8,387,839	6,992,513
Inventories	19,486,058	14,547,653
Prepaid expenses	548,892	603,997
Income taxes receivable	--	65,493
Deferred income taxes	555,946	756,946
Total current assets	28,993,513	22,999,153
Equipment and Leasehold improvements, at cost:		
Leasehold improvements	742,289	735,930
Machinery, equipment, furniture and fixtures	4,587,729	4,548,096
Tools, dies, molds and patterns	8,351,591	8,176,023
	13,681,609	13,460,049
Less--accumulated depreciation	11,619,078	10,982,520
	2,062,531	2,477,529
Deferred Income Taxes	364,135	258,135
Intangible and Other Assets	608,590	598,106
	\$32,028,769	\$ 26,332,923
<b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>		
Current Liabilities:		
Accounts payable	\$ 1,956,877	\$ 741,646
Accrued liabilities	1,314,701	994,877
Deferred revenue	--	473,482
Income taxes payable	677,527	--
Total current liabilities	3,949,105	2,210,005
Long-Term Debt	2,746,000	1,221,000
Deferred Compensation and Other Liabilities	1,252,504	1,137,424
Contingently Redeemable Equity Interest	1,490,000	1,490,000
Stockholders' Investment:		
Common stock, \$.01 par value, authorized 8,500,000 shares; issued and outstanding 3,177,269 and 3,323,791 shares, respectively	31,773	33,238
Paid in capital	--	2,328,677
Contingently redeemable common stock	(1,490,000)	(1,490,000)
Cumulative translation adjustment	(71,322)	(71,322)
Retained earnings	24,120,709	19,473,901
Total stockholders' investment	22,591,160	20,274,494
	\$32,028,769	\$ 26,332,923

## STOCKHOLDERS' INFORMATION

## KOSS CORPORATION

Koss Corporation's 1998 Annual Report is presented in a simple, readable and functional style. This Annual Report contains condensed financial statements only. The detailed financial statements including footnotes are included in the Form 10-K which has been provided to all stockholders along with the 1998 Annual Report. The Company believes this manner of presentation provides a concise summary for those who want to be kept informed while at the same time allowing those who feel it necessary the opportunity to investigate further.

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

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

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

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Koss Corporation

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheets of Koss Corporation and its subsidiaries as of June 30, 1998 and 1997, and the related consolidated statements of income, of stockholders' investment and of cash flows for each of the three years in the period ended June 30, 1998 (not presented herein); and in our report dated July 15, 1998, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of June 30, 1998 and 1997, and the related condensed consolidated statements of income for each of the three years in the period ended June 30, 1998, when read in conjunction with the consolidated financial statements from which it has been derived, is fairly stated in all material respects in relation thereto.

PricewaterhouseCoopers LLP  
Milwaukee, Wisconsin  
July 15, 1998

## MANAGEMENT INFORMATION

## KOSS CORPORATION

OFFICERS AND  
SENIOR MANAGEMENT

John C. Koss  
Chairman of the Board

Michael J. Koss  
President  
Chief Executive Officer  
Chief Operating Officer  
Chief Financial Officer

John C. Koss, Jr.  
Vice President-Sales

Daniel Esposito  
Vice President-Corporate Systems

Sujata Sachdeva  
Vice President-Finance

Jill McCurdy  
Vice President-Product Development

Lenore Lillie  
Vice President-Operations

Richard W. Silverthorn  
Secretary  
General Counsel

Declan Hanley  
Vice President-International Sales

## INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP  
Milwaukee, Wisconsin

## LEGAL COUNSEL

Whyte Hirschboeck Dudek S.C.

## DIRECTORS

John C. Koss  
Chairman of the Board

Thomas L. Doerr  
President  
Doerr Corporation

Victor L. Hunter  
President  
Hunter Business Direct

Michael J. Koss  
President, C.E.O.,  
C.O.O., C.F.O.

Lawrence S. Mattson  
Retired President  
Oster Company

Martin F. Stein  
Chairman  
Eyecare One Inc.

John J. Stollenwerk  
President  
Allen-Edmonds Shoe Corporation

## ANNUAL MEETING

October 22, 1998  
Performance Center  
Koss Corporation  
4129 N. Port Washington Avenue  
Milwaukee, WI 53212

## TRANSFER AGENT

Questions regarding change  
of address, stock transfer,  
lost certificate, or  
information on a particular  
account should be directed in  
writing to: Firststar Trust Company  
Box 2077  
Milwaukee, WI 53201  
Attn: Mr. Eugene R. Lee

## FOURTH AMENDMENT TO LICENSE AGREEMENT

THIS FOURTH AMENDMENT TO LICENSE AGREEMENT ("Fourth Amendment") made and entered into this 29 day of May, 1998, by and between KOSS CORPORATION, a Delaware corporation ("LICENSOR"), and JIANGSU ELECTRONICS INDUSTRIES LIMITED, a British Virgin Islands company ("LICENSEE").

WITNESSETH:

WHEREAS, LICENSOR and LICENSEE (by way of assignment) are parties to a certain License Agreement dated November 15, 1991, as amended by Amendment to License Agreement dated November 15, 1991, a Second Amendment to License Agreement dated September 29, 1995 and a Third Amendment and Assignment of License Agreement dated March 31, 1997 (as amended, the "License Agreement"); and

WHEREAS, the parties now desire to further amend certain terms and provisions of the License Agreement as hereinafter provided.

NOW, THEREFORE, the parties hereby agree as follows:

1. Section 10 of the Third Amendment and Assignment of License Agreement dated March 31, 1997, is hereby amended to provide that LICENSEE shall pay to LICENSOR the following Minimum Royalties for the Contract Years set forth below:

Year ----	Minimum Royalties -----
1998	\$750,000
1999	\$800,000
2000	\$850,000

2. Section 1.2 of the License Agreement dated November 15, 1991, is hereby deleted in its entirety and the following inserted in its place:

1.2 "Products" mean the consumer electronic products of LICENSEE set forth on Exhibit B attached hereto; provided, however, that, except as provided in the immediately following sentence, any such consumer electronic products set forth on Exhibit B which have not been sold by LICENSEE in the Territory (as defined in the first sentence of Section 1.4, as amended pursuant to this Fourth Amendment), bearing any of the Licensed Trademarks, by December 31, 1998, shall be deleted from Exhibit B as of January 1, 1999, and as of that date, such products shall not be considered to be part of the Products. Notwithstanding the immediately preceding sentence, such products, which otherwise would be so deleted if not for the following exception ("otherwise-deleted products"), shall not

be deleted with respect to only the United States, Canada and Mexico until January 1, 2000, and then only with respect to those otherwise-deleted products which have not been sold by LICENSEE in the United States, Canada or Mexico, bearing any of the Licensed Trademarks, by December 31, 1999. A sale for the purpose of this Section 1.2 shall be a sale in the normal course of business, and not merely to preserve any rights under the License Agreement. Minimum Royalties shall not be affected by the deletion of any products from the Products. Notwithstanding any other provisions of, and without diminishing LICENSEE's obligations under, the License Agreement, LICENSOR, after December 31, 1998, shall have no obligations to LICENSEE with respect to either products deleted from the Products as of January 1, 1999, or otherwise-deleted products whether or not eventually deleted, including without limitation, the indemnification obligations under Section 11.1, the royalty-reimbursement obligations under Section 10.1, the minimum-royalty-reduction obligations under Section 10.1, and the obligations to obtain or maintain trademark applications or registrations.

3. Section 1.4 of the License Agreement dated November 15, 1991, is hereby deleted in its entirety and the following inserted in its place:

1.4 Without limiting Seller's rights under Section 6 of the Third Amendment and Assignment of License Agreement dated March 31, 1997, "Territory" means the United States of America, Puerto Rico, Canada, Mexico, Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, Trinidad & Tobago, Uruguay and Venezuela. With the written consent of LICENSOR, which consent shall not be unreasonably withheld or delayed, the Territory may be expanded to include the jurisdictions of Aruba, Bermuda, Cuba, French Guiana, Grenada, Guyana, Haiti, Surinam and/or other jurisdictions in the Territory as defined prior to this Fourth Amendment. Except as otherwise indicated in the License Agreement, all licensed use of the Licensed Trademarks in such expanded jurisdictions shall be subject to the same terms and conditions as if such expanded jurisdictions were included in the Territory as defined in the first sentence of this Section 1.4. Except as otherwise provided in the License Agreement, after providing written consent, LICENSOR shall promptly cause the appropriate trademark applications to be filed in any such expanded jurisdictions, and all costs associated with the preparation, filing, prosecution, registration and maintenance of such applications and resulting registrations shall be paid by LICENSOR; provided, however that LICENSEE shall reimburse LICENSOR for a portion of such costs in any such expanded jurisdiction in which Royalties paid by LICENSEE to LICENSOR for sales of the Licensed Products in such expanded jurisdiction either prior to termination of this License Agreement or within the first three full calendar years following such consent, whichever comes first, do not exceed U.S. \$12,000 in the same such expanded jurisdiction. The portion to be reimbursed by LICENSEE in each such expanded jurisdiction shall be the

difference between U.S. \$12,000 and the amount of Royalties paid by LICENSEE to LICENSOR for sales of the Licensed Products in each such expanded jurisdiction either prior to termination of the License Agreement or within the first three full calendar years following consent, whichever comes first.

4. Section 8.5 of the License Agreement dated November 15, 1991, and Sections 16(r) and 21 of the Third Amendment and Assignment of License Agreement dated March 31, 1997, are hereby deleted in their entirety, and the following inserted in their place:

21. This License Agreement shall be 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 License Agreement, whether based on contract, tort, common law, equity, statute, regulation, order or otherwise, shall be governed by and settled in accordance with binding arbitration; provided, however, that the three arbitrators selected shall 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, each of which shall have extensive knowledge in the area of federal trademark law, shall resolve the dispute as provided herein. The arbitrators' findings and decisions shall be limited to the subject matter of the dispute, and such findings and decisions shall be in writing and shall be final and binding on the parties hereto, and shall specify the reasons for and facts on which such findings and decisions were reached. The parties 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 shall be conducted in Milwaukee, Wisconsin. To the extent that the parties hereto need to enforce the arbitration provisions in this License Agreement or need to enforce or otherwise give effect to any arbitration finding, decision or award, the parties hereby agree that any such action or proceeding shall be adjudicated before a federal or state court located in Milwaukee, Wisconsin, and they 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, and 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 License Agreement.

5. Section 10.1 of the License Agreement dated November 15, 1991, is hereby deleted in its entirety and the following inserted in its place:

10.1 LICENSOR shall be required to file trademark applications and to seek trademark registrations for the Licensed Trademarks in the Territory in order to encompass Licensed Products added pursuant to this Fourth Amendment, but only if specifically requested by LICENSEE and all costs associated with the preparation, filing, prosecution, registration and maintenance of such applications and registrations shall be paid in advance by LICENSEE. LICENSOR shall not be required to pursue or maintain any such application or registration for which such costs have not been paid in advance by LICENSEE at LICENSOR's request. LICENSEE shall cooperate by providing necessary samples, invoices or other documents necessary to support all applicable applications and registrations for the Licensed Trademarks in connection with the Licensed Products.

In the event LICENSOR is unable to register or to maintain its registrations for one or more of the Licensed Trademarks in connection with the Licensed Products in any jurisdiction in the Territory, the parties agree to negotiate in good faith a mutually acceptable resolution with respect to such jurisdictions, with the understanding that neither LICENSOR nor LICENSEE shall have any liability to the other for such inability to register or to maintain such registrations for any such trademarks; provided, however, that in the event any trademark application is successfully opposed in the United States or Canada, and as a result of such successful opposition LICENSEE is prohibited from selling Licensed Products in either the United States or Canada, LICENSOR shall reimburse to LICENSEE the amount of Royalties theretofore received by LICENSOR under the License Agreement relating to the sale of the prohibited Licensed Products only, in the prohibited jurisdiction of the United States and/or Canada only, during the three (3) year period immediately preceding such prohibition; provided, however, that (i) all such reimbursements shall not exceed a total of Three Million Dollars (\$3,000,000) for all prohibited Licensed Products in both jurisdictions, (ii) LICENSOR shall not be required to make any such reimbursement to LICENSEE if any such successful opposition or prohibition would not have occurred if LICENSOR had not lost any trademark rights due to LICENSEE's non-use or misuse of any of the Licensed Trademarks and (iii) LICENSOR shall not be required to make any such reimbursement to LICENSEE relating to prohibited Licensed Products consisting of consumer electronic products added to Exhibit B pursuant to this Fourth Amendment. LICENSEE shall be permitted to terminate this License Agreement if, as a result of any successful opposition, cancellation or infringement action relating to any of the Licensed Trademarks in the Territory resulting in any prohibition as to use of any of the Licensed Trademarks in the Territory, LICENSEE's total net sales in the Territory decrease by ten percent (10%) or more; provided, however, that (i) prohibited Licensed Products consisting of consumer electronic products added to Exhibit B pursuant to this

Fourth Amendment shall not be taken into consideration for this purpose and (ii) LICENSEE shall not be able to so terminate this License Agreement if any such opposition or cancellation action resulting in any such prohibition as to use would not have occurred if LICENSOR had not lost any trademark rights due to LICENSEE's non-use or misuse of the Licensed Trademarks.

In the event that LICENSEE is prohibited, by LICENSOR, or by either a court or an administrative agency, or both, having legal authority in the jurisdiction at issue, from selling any or all of the Licensed Products in any jurisdiction in the Territory as a result of any actual or potential trademark infringement action against LICENSOR, LICENSEE's Minimum Royalties shall be reduced, for no longer than such prohibition remains in effect, by the sum of Royalties paid by LICENSEE to LICENSOR for sales of the prohibited Licensed Products in the prohibited jurisdiction in the Contract Year immediately preceding the year such prohibition went into effect, relative to the sum of all Royalties paid by LICENSEE to LICENSOR for sales of all Licensed Products in the Territory in that same Contract Year; provided, however, that any such reduction of the Minimum Royalties shall only apply to the Contract Period consisting of the years 1998, 1999 and 2000 and shall not be taken into consideration (i) to in any way reduce all future Minimum Royalties calculated in accordance with Section 7.3 of the License Agreement, or (ii) to reduce by fifty percent (50%) the amount of Royalties that LICENSEE shall be required to pay LICENSOR pursuant to Section 7.1 of the License Agreement.

6. The heading for Section 11 of the License Agreement dated November, 15, 1991, Section 11.1 of the License Agreement dated November 15, 1991, and Section 16(g) of the Third Amendment and Assignment of License Agreement dated March 31, 1997, are hereby deleted in their entirety and the following inserted in their place:

11. REPRESENTATIONS AND INDEMNITIES

11.1 LICENSOR represents that, as of the date of this Fourth Amendment, LICENSOR owns at least one application or registration for at least one of the Licensed Trademarks in each jurisdiction in the Territory (as defined in the first sentence of Section 1.4, as amended pursuant to this Fourth Amendment). Listed in Exhibit E to the License Agreement are LICENSOR's pending trademark applications and issued trademark registrations relating to the License Agreement for the Licensed Trademarks in the Territory as of the date of this Fourth Amendment. If LICENSEE complies with the notice, cooperation and assistance requirements of this Section 11.1 herein, LICENSOR agrees to indemnify LICENSEE, its parent, subsidiaries and affiliates, and all officers, directors, agents and employees thereof, and any of them, from any and all expenses, damages, claims, suits, actions, judgments and costs whatsoever (including reasonable attorneys' fees) (collectively, "Damages") which LICENSEE may hereinafter

incur, suffer or be required to pay arising out of or in connection with any third-party claim, suit or action resulting from the use by LICENSEE of the Licensed Trademarks in the Territory pursuant to this License Agreement (collectively, "Third-Party Claim"); provided, however, that LICENSOR's liability to indemnify LICENSEE (i) shall not apply in any situation in which any Damages would not have occurred if LICENSOR had not lost any trademark rights due to LICENSEE's non-use or misuse of any of the Licensed Trademarks, (ii) shall not include any Damages to the extent to which Damages are attributable to LICENSEE's failure to cease use of the Licensed Trademarks pursuant to LICENSOR's oral or written instructions as a result of any actual or potential Third-Party Claim, (iii) shall not exceed the sum of the amount of Royalties theretofore received by LICENSOR under this License Agreement, relating to sales of only the Licensed Products at issue in those countries affected by a final settlement, or a final non-appealable judgment against LICENSEE, arising out of the Third-Party Claim, during the three (3) year period immediately preceding initiation of the Third-Party Claim to which the indemnification relates and (iv) shall not include any Damages to the extent to which such Damages are attributable to any consumer electronic products added to Exhibit B pursuant to this Fourth Amendment. The indemnification provided by LICENSOR shall only cover Damages incurred by LICENSEE in connection with a final settlement, or a final, non-appealable judgment against LICENSEE, arising out of a Third-Party Claim; provided, however, that in no event shall such indemnification include any loss of profits or consequential or indirect damages incurred by LICENSEE. LICENSEE shall give LICENSOR prompt written notice, cooperation and assistance in connection with any Third-Party Claim, and LICENSOR shall have complete control over the defense and settlement thereof.

7. Exhibit A to the License Agreement dated November 15, 1991, is hereby deleted in its entirety and the Exhibit A attached hereto shall be inserted in its place.

8. Exhibit B to the License Agreement dated November 15, 1991, is hereby deleted in its entirety and the Exhibit B attached hereto shall be inserted in its place.

9. Exhibit D to the License Agreement dated November 15, 1991, is hereby deleted in its entirety and the Exhibit D attached hereto shall be inserted in its place.

10. Except as hereby amended, the License Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment on the day and year first above written.

KOSS CORPORATION

JIANGSU ELECTRONICS INDUSTRIES LIMITED

By: /s/ Michael Koss

By: /s/ Patrick Lam

-----  
Michael Koss, President

-----  
Name: PATRICK LAM

-----  
Title: VICE PRESIDENT

CONSENT OF GUARANTOR

The undersigned, Orient Power Holdings Limited, a Bermuda company ("Orient Power"), for good and valuable consideration, the receipt of which is hereby acknowledged, hereby consents to the foregoing Fourth Amendment to License Agreement ("Fourth Amendment") and reaffirms its guarantee of the performance by Jiangsu Electronics Industries Limited ("Jiangsu Electronics") or any sublicensee of Jiangsu Electronics (Jiangsu Electronics and any sublicensee are hereinafter collectively referred to as "Jiangsu") of all of Jiangsu's obligations under (a) the Fourth Amendment and (b) that certain License Agreement between Koss Corporation, as Licensor, and Trabelco N.V., as Licensee, dated November 15, 1991, as amended by an Amendment to License Agreement dated November 15, 1991, and a Second Amendment to License Agreement dated September 29, 1995, and a Third Amendment and Assignment of License Agreement dated as of March 31, 1997 between Trabelco N.V., Jiangsu Electronics, Hagemeyer Electronics (N.A.), Inc., Hagemeyer Consumer Products, Inc. d/b/a/ Koss Electronics Products, KCP Limited and Koss Corporation (collectively, that certain License Agreement and the amendments thereto are hereinafter referred to as the "License Agreement"). Orient Power also guarantees the payment to Koss Corporation of any and all amounts owed to Koss Corporation by Jiangsu under the Fourth Amendment and the License Agreement, including but not limited to, the indemnity obligations of Jiangsu thereunder.

Dated: May 29, 1998

ORIENT POWER HOLDINGS LIMITED

By: /s/ Simon Poon

-----  
Name: SIMON POON

-----  
Title: 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

Product - - - - -	Royalty - - - - -
Clock Radios	2.0%
Radios (including mobile*) without a cassette or compact disc player	3.0%
Audio systems of any nature (including mobile*) with a cassette player but without a compact disc player	2.0%
Audio systems of any nature (including mobile*) with a compact disc player and/or CD changer	1.5%
Power Amplifiers	1.5%
Telephones and telephone answering devices	2.0%
Televisions	1.5%
Video cassette recorders	1.5%

\*All products which include the word "mobile" in their description in this Exhibit B shall mean that such products so described shall include products which are designed for use in automobiles or as battery-operated portable units.

## EXHIBIT D

## Calculation of Quarterly Royalties Payment

	Total Sales	Returns	Net Sales	Royalty Rate	Subtotal
	-----	-----	-----	-----	-----
Clock Radios	\$	\$		2.0%	
Radios (including mobile) without a cassette or compact disc player				3.0%	
Audio systems of any nature (including mobile) with a cassette player but without a compact disc player				2.0%	
Audio systems of any nature (including mobile) with a compact disc player and/or CD changer				1.5%	
Power Amplifiers				1.5%	
Telephones and telephone answering devices				2.0%	
Televisions				1.5%	
Video cassette recorders				1.5%	
				Subtotal	\$ x
Subtotal		\$ x			-----
Less 2% of itemized discounts, rebates and shipping costs		( )			-----
ROYALTIES PAYMENT		\$			-----

## Exhibit E

	UNITED STATES	
KOSS (Plain Block Letters)		Registered
KOSS (Stylized)		Registered
KOSS & Design		Registered
	PUERTO RICO	
KOSS (Plain Block Letters)		Registered
KOSS (Stylized)		Registered
KOSS & Design		Registered
	CANADA	
KOSS (Plain Block Letters)		Registered
KOSS (Stylized)		Registered
KOSS & Design		Registered
	MEXICO	
KOSS (Plain Block Letters)		Registered
KOSS (Stylized)		Registered
KOSS & Design		Registered
	ARGENTINA	
KOSS (Plain Block Letters)		Registered
KOSS (Stylized)		Registered
KOSS & Design		Registered
	BOLIVIA	
KOSS (Plain Block Letters)		Pending Application
KOSS (Stylized)		Pending Application
KOSS (Plain Block Letters)		Pending Application

## Exhibit E

## BRAZIL

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Pending Application
KOSS & Design	Registered

## CHILE

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Pending Application
KOSS & Design	Pending Application

## COLOMBIA

KOSS & Design	Pending Application
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## COSTA RICA

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Registered
KOSS & Design	Registered

## DOMINICAN REPUBLIC

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Registered
KOSS & Design	Registered

## ECUADOR

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Registered
KOSS & Design	Registered

## Exhibit E

## EL SALVADOR

KOSS (Plain Block Letters)	Pending Application
KOSS (Stylized)	Registered
KOSS & Design	Pending Application

## GUATEMALA

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Pending Application
KOSS & Design	Registered

## HONDURAS

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Registered
KOSS & Design	Registered

## JAMAICA

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Registered
KOSS & Design	Registered

## NICARAGUA

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Registered
KOSS & Design	Registered

## PANAMA

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Registered
KOSS & Design	Registered

## Exhibit E

## PARAGUAY

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Registered
KOSS & Design	Registered

## PERU

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Registered
KOSS & Design	Registered

## TRINIDAD &amp; TOBAGO

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Registered
KOSS & Design	Registered

## URUGUAY

KOSS (Plain Block Letters)	Registered
KOSS (Stylized)	Registered
KOSS & Design	Registered

## VENEZUELA

KOSS (Plain Block Letters)	Pending Application
KOSS (Stylized)	Pending Application
KOSS & Design	Pending Application

## ADDENDUM TO LICENSE AGREEMENT

THIS ADDENDUM TO LICENSE AGREEMENT ("Addendum") is made and entered into this 30 day of June, 1998, by and between KOSS CORPORATION, a Delaware corporation ("LICENSOR"), and LOGITECH ELECTRONICS INC., an Ontario company ("LICENSEE").

## WITNESSETH:

WHEREAS, LICENSOR and LICENSEE are parties to a certain License Agreement dated June 30, 1998 (the "License Agreement"); and

WHEREAS, the parties now desire to add certain terms and provisions to the License Agreement as hereinafter provided.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

## 1. DEFINITIONS.

- 1.1 All defined terms used in this Addendum shall have the same meaning as set forth in the License Agreement unless otherwise defined in this Addendum.
- 1.2 "Licensed Trademarks" shall mean the "Koss" trademarks listed on Exhibit A to this Addendum.
- 1.3 "Accessories" shall mean the consumer electronic accessory products of LICENSEE set forth on Exhibit B to this Addendum.
- 1.4 "Licensed Accessories" shall mean all Accessories of LICENSEE which have the Licensed Trademarks affixed or attached thereto in any manner.

2. GRANT OF LICENSE. Subject to all of the terms and conditions of this Addendum, LICENSOR hereby grants to LICENSEE the exclusive right and license to use the Licensed Trademarks in Canada only, during the Contract Period, in connection with, and only with, the manufacturer, promotion, distribution and sale of Accessories.

## 3. INCORPORATION OF PROVISIONS OF LICENSE AGREEMENT.

- 3.1 The following provisions of the License Agreement (the "Incorporated Provisions") are hereby incorporated into this Addendum as covenants and agreements between LICENSOR and LICENSEE, with the same force and effect as if fully set forth herein:

Sections 2.2, 2.3, 2.4, 3.1, 3.2, 3.3, 3.4, 4.1, 4.2, 5.1, 5.2, 5.3, 5.4, 6.1, 6.4, 6.5, 7.1, 7.2, 7.3, 7.4, 8.1, 8.2, 8.3, 8.4, 9, 10.1, 10.2 (with no change in the amount of products liability insurance), 11.1, 11.2, 11.3, 11.4, 12.1, 12.2, 13, 14, and 15.

- 3.2 All section references set forth in any of the Incorporated Provisions herein shall continue to be references to the applicable section of the License Agreement.
- 3.3 For all Incorporated Provisions herein, the term "Territory" as used in the License Agreement shall be replaced in this Addendum with the term "Canada," the term "Products" as used in the License Agreement shall be replaced in this Addendum with the term "Accessories," and the term "Licensed Products" as used in the License Agreement shall be replaced in this Addendum with the term "Licensed Accessories."
- 3.4 With respect to the Incorporated Provisions in this Addendum, any reference to an Exhibit to the License Agreement shall instead be deemed to be a reference to the corresponding Exhibit to this Addendum. For example, a reference in an Incorporated Provision to Exhibit C of the License Agreement shall be deemed instead to be a reference to Exhibit C to this Addendum.

#### 4. MISCELLANEOUS.

- 4.1 Section headings contained herein are solely for the purpose of aiding in speedy location of subject matter and are not in any sense to be given weight in the construction of this Addendum. Accordingly, in case of any question with respect to the construction of this Addendum, it is to be construed as though such section headings had been omitted.
- 4.2 This Addendum constitutes the entire agreement between the parties hereto and may not be changed or modified except by a writing signed by the parties hereto.
- 4.3 If and to the extent that any provisions of this Addendum 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.
- 4.4 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.

- 4.5 This Addendum shall be 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 Addendum, whether based on contract, tort, common law, equity, statute, regulation, order or otherwise, shall be governed by and settled in accordance with binding arbitration by three (3) arbitrators; provided, however, that the three arbitrators selected shall 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, each of which shall have extensive knowledge in the area of federal trademark law, shall resolve the dispute as provided herein. The arbitrators' findings and decisions shall be limited to the subject matter of the dispute, and such findings and decisions shall be in writing and shall be final and binding on the parties hereto, and shall 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 shall be conducted in Milwaukee, Wisconsin. To the extent that the parties hereto need to enforce the arbitration provisions in this Addendum or need to enforce or otherwise give effect to any arbitration finding, decision or award, the parties hereto hereby agree that any such action or proceeding shall be adjudicated before a federal or state court located in Milwaukee, Wisconsin, and they 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 Addendum.

IN WITNESS WHEREOF, the parties hereto have caused this Addendum to be executed as of the date set forth above. The effective date of this Addendum is July 1, 1998.

KOSS CORPORATION

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

LOGITECH ELECTRONICS INC.

By:/s/ Greg Bell  
-----  
Print Name: Greg Bell  
-----  
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 Accessory Products to be sold under the Licensed Trademarks.

Those accessory products of Licensee suitable for use with any audio, video, communication, or computer products and peripherals, but specifically excluding any type of headphone, stereophones or any type of security product or device.

## EXHIBIT C

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 Accessories, as defined in the Addendum to License Agreement between Logitech Electronics Inc. and Koss Corporation dated \_\_\_\_\_, 1998 ("Addendum"), bearing the "Koss" brandname and trademarks only for the account of Logitech Electronics Inc. and only as a subcontract manufacturer pursuant to Sections 2.2 and 2.3 of the License Agreement between Logitech Electronics Inc. and Koss Corporation dated \_\_\_\_\_, 1998 and for no other purpose. We agree that we will not use the "Koss" name on any products other than those manufactured for Logitech Electronics Inc.'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 which is confusingly similar thereto, anywhere in the word 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 Accessories or otherwise.

## EXHIBIT D

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

Accessory Products	Total Sales	Returns	Net Sales	Royalty Rate
	\$ -----	\$ -----	\$ -----	----- 10%

ROYALTIES PAYMENT      U.S.      \$ -----

## LICENSE AGREEMENT

THIS AGREEMENT is made this 30 day of June, 1998 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 LOGITECH ELECTRONICS INC., an Ontario company, with its principal place of business at 60 Bell Farm Road, Barrie, Ontario L4M5G6 (the "LICENSEE").

WITNESSETH:

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 attached hereto.

1.2 "Products" mean the consumer electronic products of LICENSEE set forth on Exhibit B attached hereto.

1.3 "Licensed Products" mean all Products of LICENSEE which have the Licensed Trademarks affixed or attached thereto in any manner.

1.4 "Territory" means the United States of America, Canada, Mexico, Australia, Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, Venezuela, French Guiana, Guyana, Suriname, Austria, Belgium, Czechoslovakia, Greece, Hungary, Ireland, Israel, Luxembourg, The Netherlands, Poland, Portugal, Romania, Spain, Benelux, France, Germany, England, Italy, Switzerland, Norway, Sweden, Denmark, and Finland.

1.5 "Contract Period" means the period beginning on July 1, 1998 and ending on June 30, 2003, and any applicable renewal period.

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

2. GRANT OF LICENSE; LICENSOR'S SALES.

2.1 Subject to all 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 Products.

2.2 LICENSEE agrees that it 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 shall have the right to have the Licensed Products manufactured outside the Territory solely for sale by LICENSEE inside the Territory.

2.3 LICENSEE shall have 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%), 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 shall continue to have the right, without any restrictions whatsoever and on terms acceptable to LICENSOR in its sole discretion, to sell Products or Licensed Products within the Territory or outside of the Territory (i) to the U.S. military or U.S. government or any other military or governmental agency until July 1, 2000, (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 agrees that no Licensed Products will be manufactured, advertised, promoted, distributed or sold:

- (a) in violation of any law or regulatory restriction; or
- (b) in any manner which damages the image, reputation or goodwill of the Licensed Trademarks or of LICENSOR.

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

3.4 LICENSEE agrees that all translation costs, filing fees and all other fees, costs and expenses associated with "registered user" filings within the Territory shall be paid in advance by LICENSEE to LICENSOR at the request of LICENSOR.

#### 4. APPROVAL OF LICENSED PRODUCTS.

4.1 LICENSEE agrees that LICENSOR shall have 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 which 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. LICENSOR agrees that it shall, within twenty (20) business days after receipt of each of the renderings and/or mock-ups, 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 LICENSEE shall be deemed to have approved them. LICENSEE shall also provide to LICENSOR, at no cost to LICENSOR, two (2) working samples of each Product within thirty (30) days of the commencement of production of such Product. LICENSEE agrees that Licensed Products which are sold or distributed hereunder shall be of no lesser quality than the corresponding samples approved by LICENSOR. LICENSOR agrees that any approval required by LICENSOR under this Section 4.1 shall not be unreasonably withheld.

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

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

5.1 LICENSEE agrees that LICENSOR shall have 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 which incorporate the Licensed Trademarks or which make reference in any way to the Licensed Trademarks. 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 agrees that it shall, 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 agrees that any approval required by LICENSOR under this Section 5.1 shall not be unreasonably withheld.

5.2 LICENSEE agrees to protect, indemnify and save harmless LICENSOR, its 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 relating to the contents of LICENSEE's advertising or use of the Licensed Products, whether or not approved by LICENSOR hereunder.

5.3 LICENSEE agrees that LICENSOR shall have 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. LICENSEE further agrees that LICENSOR shall have 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 agrees to 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 the term of this Agreement, LICENSEE will pay to LICENSOR as royalties ("Royalties") an amount equal to ten percent (10%) of net sales of the Licensed Products. The term "net sales" with respect to the Licensed Products shall be defined as the total amount invoiced by LICENSEE for sales of the Licensed Products less the total amount of returns of the Licensed Products, as exemplified on Exhibit D attached hereto. LICENSOR and LICENSEE agree that no Royalties shall be paid on sales of products from LICENSEE to LICENSOR.

6.2 Notwithstanding the provisions of Section 6.1, LICENSEE hereby agrees to pay to LICENSOR during the Contract Period annual minimum Royalties ("Minimum Royalties") as follows:

Contract Year -----	Minimum Royalties -----
July 1, 1998 - June 30, 1999	U.S. \$125,000
July 1, 1999 - June 30, 2000	U.S. \$325,000
July 1, 2000 - June 30, 2001	U.S. \$425,000
July 1, 2001 - June 30, 2002	U.S. \$525,000
July 1, 2002 - June 30, 2003	U.S. \$600,000

If the sum of the total Royalties paid with respect to a Contract Year do not equal or exceed the Minimum Royalties for such Contract Year, the difference between the Minimum Royalties and the Royalties for such Contract Year shall be due and payable thirty (30) days following the end of such Contract Year.

6.3 If upon the expiration of the initial Contract Period, LICENSOR in its sole and absolute discretion elects to renew this Agreement as hereinafter provided for an additional five (5) year term, the Minimum Royalties for the first renewal period shall be the greater of the following:

Contract Year -----	Minimum Royalties -----
July 1, 2003 - June 30, 2004	Actual Royalties for the Contract Year ending on June 30, 2003 plus 15%, or U.S. \$660,000
July 1, 2004 - June 30, 2005	Minimum Royalties for the Contract Year ending on June 30, 2004 plus 10%, or U.S. \$725,000
July 1, 2005 - June 30, 2006	Minimum Royalties for the Contract Year ending on June 30, 2005 plus 10%, or U.S. \$790,000

July 1, 2006 - June 30, 2007	Minimum Royalties for the Contract Year ending on June 30, 2006 plus 10%, or U.S. \$875,000
July 1, 2007 - June 30, 2008	Minimum Royalties for the Contract Year ending on June 30, 2007 plus 10%, or U.S. \$970,000

6.4 Payment of Royalties shall be made quarterly by LICENSEE to LICENSOR 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 Payment of all Royalties shall be in United States funds. The late payment of any Royalties shall 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 which 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 customer's 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 shall be in sufficient detail to be audited from the books of LICENSEE maintained pursuant to Section 7.1 hereof. By the 15th day of each month during the Contract Period, 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 Annually, 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, shall have 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 which pertain to the manufacture, distribution and sale of the

Licensed Products and the amount of credit for returns, trade discounts and customer's shipping costs with respect thereto, and other books and records as they may be reasonably required by LICENSOR's accountants in order to verify the figures reported in any statements furnished to LICENSOR pursuant to this Section 7. Such books of account and records shall be made available to LICENSOR and its accountants at LICENSEE's office located as herein stated or such other place as the parties shall 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 shall cause to be imprinted 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 shall be designated in writing in advance by LICENSOR. LICENSEE agrees to 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 agrees that it will not, during the Contract Period 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 agrees that it 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 shall inure to the benefit of LICENSOR, and LICENSEE shall acquire no 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 become known to LICENSEE and shall provide LICENSOR with any available evidence of such infringement. Only LICENSOR shall have the right to commence legal proceedings against such infringer, and the expense of such legal proceedings shall be shared equally by LICENSOR and LICENSEE. 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 the LICENSEE's employees to be deposed or to testify, whenever requested to do so by LICENSOR. Any damage award or recovery resulting from such legal proceedings shall be divided equally between LICENSOR and LICENSEE.

10. INDEMNIFICATION AND INSURANCE.

10.1 LICENSEE agrees to protect, indemnify and save harmless LICENSOR, its 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.

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 Five Million (\$5,000,000) U.S. dollars per occurrence in order 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 or sold by LICENSEE or by LICENSEE's contractor. LICENSEE agrees to cause LICENSOR's name to be entered in such policy as an additional named insured and an additional loss payee, and to 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 thirty (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 the respective time period, the non-defaulting party shall have the right to terminate this Agreement upon the expiration of the respective period. The right to remedy a default shall not apply to a violation of Sections 4, 5, 6 or 7 of this Agreement, which shall give LICENSOR the right, in its sole discretion, to treat as such violation a non-curable default and to terminate this Agreement.

11.2 Either party shall have 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 shall become insolvent or shall make an assignment for the benefit of creditors or become the subject of receivership, bankruptcy or other insolvency or debtor relief proceedings, or any similar proceedings;
- (b) If the other party shall cease to do business; or
- (c) Except as permitted under Section 14 hereof, if the other party shall attempt 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 shall be 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 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, shall have any right to continue performance of this Agreement, and this Agreement may not be assigned by operation of law.

11.4 Failure to terminate this Agreement pursuant to this Section 11 shall not effect or constitute a waiver of any remedies the non-defaulting party would have been entitled to demand, whether by way of damages, termination or otherwise. Termination of this Agreement shall be 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 hereof, 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 shall, except as hereinafter expressly provided, cease absolutely, and LICENSEE shall not thereafter manufacture, advertise, promote, distribute or sell any item whatsoever in connection with the Licensed Trademarks. It is further agreed that following expiration of the Contract Period, LICENSEE shall not manufacture, advertise, promote, distribute or sell any item whatsoever 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 Any Licensed Products for which as of the date of termination LICENSEE has non-cancelable open orders or which are in transit to the United States may be sold by LICENSEE on a non-exclusive basis during the twelve (12) month period following the date of termination. Any Licensed Products which are warehoused in the United States on the date of termination and any Licensed Products which were returned to LICENSEE by a customer may be sold by LICENSEE on a non-exclusive basis during the nine (9) month period following the date of termination. LICENSEE shall continue to pay to LICENSOR with respect to such sales Royalties at the rate and in the manner specified in this Agreement. Within sixty (60) days of the date of termination, LICENSEE shall provide to LICENSOR a complete listing of the inventory in transit and the warehoused inventory. Notwithstanding anything herein to the contrary, LICENSEE shall have no right to manufacture any additional Licensed Products after the date of termination.

## 13. NOTICE.

All notices required or provided for in this Agreement shall be in writing and shall 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 shall be deemed to have been given on the seventh (7th) 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:

Logitech Electronics Inc.  
60 Bell Farm Road  
Barrie, Ontario  
L4M5G6  
Attn: President  
Fax No.: (705) 734-1342

14. ASSIGNMENT.

This Agreement shall bind and inure to the benefit of LICENSOR, and the successors and assigns of LICENSOR. The rights granted LICENSEE hereunder shall be exclusive to it and shall 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 shall have 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. JOINT VENTURE.

This Agreement does not constitute and shall not be construed as constituting a partnership or joint venture between LICENSOR and LICENSEE. Neither party shall have any right to obligate or bind the other party in any manner whatsoever, and nothing herein contained shall give, or is intended to give, any rights of any kind to any third person.

16. MISCELLANEOUS.

16.1 Section headings contained herein are solely for the purpose of aiding in speedy location of subject matter and are not in any sense to be given weight in the construction of this Agreement. Accordingly, in case of any question with respect to the construction of this Agreement, it is to be construed as though such section headings had been omitted.

16.2 This writing constitutes the entire Agreement between the parties hereto and may not be changed or modified except by a writing signed by the parties hereto.

16.3 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.

16.4 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.

16.5 This Agreement shall be 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, shall be governed by and settled in accordance with binding arbitration by three (3) arbitrators; provided, however, that the three arbitrators selected shall 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, each of which shall have extensive knowledge in the area of federal trademark law, shall resolve the dispute as provided herein. The arbitrators' findings and decisions shall be limited to the subject matter of the dispute, and such findings and decisions shall be in writing and shall be final and binding on the parties hereto, and shall 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 shall 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, the parties hereto hereby agree that any such action or proceeding shall be adjudicated before a federal or state court located in Milwaukee, Wisconsin, and they 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.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date set forth above. The effective date of this Agreement is July 1, 1998.

KOSS CORPORATION

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

LOGITECH ELECTRONICS INC.

By:/s/ Greg Bell  
-----  
Print Name: Greg Bell  
-----  
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.

All powered and passive speaker products suitable for use with any audio, video, communication, or computer products. Speaker construction will primarily be made of injection molded plastic with the possible exception of some subwoofer products that may be made of wood or wood composites. Also included will be any AC or DC adaptors, connecting cables (including speaker wire), as well as mounting brackets and assemblies.

## EXHIBIT C

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 Logitech Electronics Inc. and Koss Corporation dated \_\_\_\_\_, 1998 ("License Agreement"), bearing the "Koss" brandname and trademarks only for the account of Logitech Electronics Inc. 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 Logitech Electronics Inc.'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 which is confusingly similar thereto, anywhere in the word 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
	\$ -----	\$ -----	\$ -----	10% -----

ROYALTIES PAYMENT U.S. \$ -----

YEAR  
JUN-30-1998  
JUL-01-1997  
JUN-30-1998  
14,778  
0  
8,387,839  
0  
19,486,058  
28,935,513  
13,681,609  
11,619,078  
32,028,769  
3,949,105  
0  
0  
31,773  
31,996,996  
32,028,769  
40,638,747  
40,638,747  
24,843,968  
24,843,968  
7,822,338  
0  
253,171  
8,925,629  
3,448,000  
0  
0  
0  
0  
5,477,629  
1.68  
1.65