

Dear Stockholders,

We are proud to report that Koss Corporation has set a new sales record for Fiscal Year 1996.

Sales for the fiscal year ending June 30, 1996 were \$36,422,377 compared to \$33,432,344 in 1995. Net income for the year was \$2,360,963 compared to \$2,087,994 one year ago. Earnings per share were \$0.67 in 1996 compared to \$0.58 in fiscal year 1995.

We experienced a roller-coaster retail year, opening at a peak, rolling with trepidation through the holidays and climbing to a new sales record at the close of the fourth quarter. A surge in sales and orders during the first quarter was followed by a second quarter sales gain negatively impacted by a decline in gross margins. Requests for credit and sharper prices contributed to this margin decline which continued until the end of the third quarter. The company rebounded with record sales for its fourth quarter increasing earnings more than three times for the same period last year.

In Fiscal Year 1996, the successful licensing arrangement with Hagemeyer was extended to encompass Western Europe. Hagemeyer's line of Koss branded electronics products have received excellent distribution in retail outlets throughout North America.

The new line of telecommunications headsets introduced in January positions the company to move into several new markets. The four models of tele-headsets include two "hands-free" products for use with standard telephones or cellular phones and two models for computer telephony. By expanding stereophone application outside of traditional markets, we believe that Koss' entry into these markets will play a key role in expanding the company's current position as a market leader.

The beginning of Fiscal Year 1997 marked Koss' entry onto the information superhighway with the opening of the Koss Web Site at <http://www.koss.com>. We are very excited about this new mode of communicating with our customers and have already seen an impressive number of "hits" to the site, many involving product inquiries and catalog requests as well as general feedback and questions from consumers. We anticipate that the Web site will move us closer to the individual consumer, opening a new path for us to sell direct and to provide greater consumer accessibility to products with limited retail placement. Within the next few months, we also expect to expand services offered at the site, including a dealer locator service to help consumers find a Koss retailer in their area.

Currently, Koss' line of available credit is very good and our plan to repurchase the company's shares from the market will continue. We look forward to increased sales in FY 1997 through the introduction of a number of new models later this year. We expect these new introductions to expand our presence in existing markets as well as provide us entry to other non-traditional markets. As always, our primary focus continues to be on our base stereophone business and we will continue to concentrate on finding new applications for stereophone use.

We would like to thank our customers, suppliers, stockholders, and the entire Koss team for their dedication and hard work over the past year to ensure the continued success of Koss Corporation.

Sincerely,

John C. Koss
Chairman

Michael J. Koss
President & CEO.

CONSOLIDATED STATEMENTS OF INCOME

KOSS CORPORATION

Year Ended June 30	1996	1995	1994
Net sales	\$36,422,377	\$33,432,344	\$35,561,322
Cost of goods sold	25,241,623	22,810,037	23,686,971
Gross profit	11,180,754	10,622,307	11,874,351
Selling, general and administrative expense	8,528,098	8,376,204	8,191,504
Income from operations	2,652,656	2,246,103	3,682,847
Other income (expense)			
Interest income	116,503	98,090	56,461
Interest expense	(156,698)	(317,922)	(246,911)
Royalty income	1,303,502	1,412,723	1,108,458
Income before income taxes	3,915,963	3,438,994	4,600,855
Provision for income taxes	1,555,000	1,351,000	1,800,000
Net income	\$ 2,360,963	\$ 2,087,994	\$ 2,800,855
Number of common and common equivalent shares used in			
computing earnings per share	3,502,979	3,631,364	3,751,514
Earnings per common and common equivalent share:			
	\$.67	\$.58	\$.75

CONSOLIDATED BALANCE SHEETS KOSS CORPORATION

As of June 30	1996	1995

ASSETS		
Current Assets:		
Cash	\$ 27,001	\$ 49,227
Accounts receivable, less allowances of \$685,107 and \$289,217 respectively	8,965,213	7,242,862
Inventories	8,777,216	9,395,915
Prepaid expenses	382,137	676,874
Income taxes receivable	--	376,147
Prepaid income taxes	517,946	378,946

Total current assets	18,669,513	18,119,971

Equipment and Leasehold improvements, at cost:		
Leasehold improvements	673,382	585,952
Machinery, equipment, furniture and fixtures	4,442,411	4,299,822
Tools, dies, molds and patterns	7,561,969	7,309,609

	12,677,762	12,195,383
Less--accumulated depreciation	10,333,421	9,911,989

	2,344,341	2,283,394
Deferred Tax Asset	422,603	--
Intangible and Other Assets	568,800	569,558

	\$22,005,257	\$20,972,923
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LIABILITIES AND STOCKHOLDERS' INVESTMENT

Current Liabilities:		
Accounts payable	\$ 1,327,915	\$ 1,726,711
Accrued liabilities	786,353	930,660
Income taxes payable	361,855	--

Total current liabilities	2,476,123	2,657,371

Long-Term Debt	470,000	570,000
Deferred Income Taxes	--	6,862
Deferred Compensation and Other Liabilities	1,022,344	907,264
Contingently Redeemable Common Stock	1,490,000	1,490,000

Stockholders' Investment:		
Common stock, \$.01 par value, authorized 8,500,000 shares; issued and outstanding 3,317,920 and 3,486,080 shares, respectively	33,179	34,861
Paid in capital	2,224,628	3,336,431
Contingently redeemable common stock	(1,490,000)	(1,490,000)
Cumulative translation adjustment	(107,230)	(65,116)
Retained earnings	15,886,213	13,525,250

Total stockholders' investment	16,546,790	15,341,426

	\$22,005,257	\$20,972,923
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STOCKHOLDERS' INFORMATION

KOSS CORPORATION

Koss Corporation's 1996 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 1996 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, 1996 and 1995, 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, 1996 (not presented herein); and in our report dated July 19, 1996, 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, 1996 and 1995, and the related condensed consolidated statements of income for each of the three years in the period ended June 30, 1996, 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.

PRICE WATERHOUSE LLP
Milwaukee, Wisconsin
July 19, 1996

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

Richard W. Silverthorn
Secretary
General Counsel

Declan Hanley
Vice President--International Sales

ANNUAL MEETING

October 24, 1996
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

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

Price Waterhouse LLP
Milwaukee, Wisconsin

LEGAL COUNSEL

Whyte Hirschboeck Dudek S.C.