

CompuSonics

7315 E. Peakview Englewood, Colorado 80111 Phone 303-793-0060

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Dear Shareholder:

The four months since our last shareholder letter have been busier than ever for your company. Among the highlights:

- * The first digital audio recording and live radio broadcast from a CompuSonics DSP-1000 pilot production floppy disk recorder/player was accomplished last month in Colorado Springs, Colorado on a local AM station.
- * We have signed the Memorandum of Understanding for Co-Marketing with AT&T Communications. This is the direct result of a series of successful telerecording tests and demonstrations which culminated in August with New York City to Chicago and back digital audio communications between two CompuSonics DSP-2002s with AT&T ACCUNET Switched 56 service providing the channel.
- * Negotiations in Tokyo with Sansui Electric Company and Nissho Electronics have, in our opinion, yielded firm and cost effective price/delivery quotations for manufacture of our DSP-1000 floppy disk recorder/player printed circuit board assemblies. Stuffed and tested boards will be air-freighted to our US subcontractor who completes the units by adding disk drives, firmware and power supplies to the boards, installs the works in finished cases, audio tests, then ships them to our distributors and OEM customers.
- * The new Eastman Kodak disk drives with custom Helix Technologies heads have tested well and are being used in pilot production units.
- * Congratulations to John Stautner on his recent move up to the position of president of CompuSonics Video Corporation, an affiliated company. More on this in my next shareholder letter.

AT&T's agreement to promote our telerecording system with their ACCUNET service should help us in terms of market penetration for our DSP-2002 professional audio computer. Audio recording and production facilities will be able to digitally transmit and receive music using special telephone lines. At present, high priority audio material is either physically transferred by courier, or encoded onto high bandwidth satellite channels. The cost of those methods is much higher than telerecording for most applications. AT&T's commitment to telerecording may hasten the arrival of that day, in the not too distant future, when the technology will filter down to the consumer level, allowing all-electronic purchases, transfers and digital recording of high fidelity audio from any music dealer's DSP-2000 to the DSP-1000 in your living room.

Acceptance of the DSP-2002 continues to mount. One of the entertainment industry's most talented audio engineers, Bob Lifton, has installed one in his New York recording studio. Bob is the current president of the Society of Professional Recording Studios. Among his numerous credits is the audio engineering for the "Live Aid" concert's US portion. According to Lifton, the DSP-2002 solves his toughest audio for video editing jobs in a fraction of the time he previously needed using conventional recording equipment, razor blade and splicing tape.

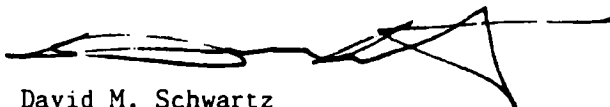
The first group of DSP-1000 pilot production units have been used extensively for trade show demonstrations, field testing, and laboratory evaluation. As a result of all this, we discovered that performance and reliability could be improved with a few modifications to the circuit design. These revisions have been accomplished, and a second pilot production run is underway. After verification of the revised circuit, the next step will be to begin mass production of the boards in Japan.

As I mentioned in my previous letter, all early production floppy disk recorders will be directed towards the broadcast industry market, presently dominated by cartridge tape equipment. This strategy has a number of advantages over proceeding directly towards the consumer DSP-1000. Most importantly, success in the broadcast equipment market will buy us breathing room to finalize the consumer version of the DSP-1000. Showroom demonstrator level consumer units utilizing more advanced disk drives will be featured in our booth at the Winter Consumer Electronics Show in Las Vegas.

CompuSonics' PR campaign continues to make waves with stories in "High Technology", "Venture", "Broadcast Management and Engineering", "Billboard" and many other industry publications. I expect the media to continue its close coverage of our progress as consumer interest in digital audio products grows. A new twist to the media campaign will begin this fall as DSP-1000s begin arriving in larger numbers in radio stations. Listen for your favorite radio show on-air personality to mention his use of CompuSonics digital audio gear.

As always, thanks for your calls and letters!

Sincerely,



David M. Schwartz
President