

7/16/84

Dear Shareholder:

Your company is now CompuSonics Corporation as a result of a shareholder vote at the annual meeting last Thursday. The name change from CompuSound, Inc. was necessary to avoid conflict over trademark rights. A "clean" trademark is of ever increasing importance as our products begin penetrating the audio market. And now, the news!

CompuSonics' press conference in New York City on May 11 was attended by over 50 reporters and journalists from the audio trade press. Our equipment scored two "world's firsts" in one day when the DSP-2004 Professional Digital Mixer/Recorder was demonstrated with a live duet, and the DSP-1000 Home Digital Disk Recorder was displayed. The press response was highly favorable to our marriage of micro-computer and audio technologies that opens the door to a new generation of products for home and professional use.

Three weeks later our team was in Chicago's McCormick Place for the June Consumer Electronics Show. We were literally inundated with retailers, distributors, press, Japanese, and other exhibitors. Demonstrations of the DSP-2004 never failed to draw a crowd. CompuSonics' DSP-1000 was selected as one of 1984's "Most Innovative Consumer Electronics Products" by a panel of expert judges and put on display in a special exhibit. This roomfull of high-tech audio/video gear was chosen from thousands of products. Among names like RCA, Panasonic, and GE, CompuSonics was certainly the smallest, and appeared to be the only new company with a new product. To be selected at our first CES was quite an honor.

All of the attention resulted in extensive media coverage. To name a few: "Business Week", "US News & World Report", "USA Today", "InfoWorld", "Consumer Electronics" and "High Fidelity". Many feature magazine stories are in the preparation stage for publication in the coming months. Our target markets for the DSP-1000 will be very aware of the company, its technology and products by the time the first machines are in the stores in 1985. On the assumption that CompuSonics will self-manufacture, a two phase marketing plan has been prepared that projects sales of 10,000 units in the first 12 months. The advertising push to achieve this goal would typically cost in excess of \$1 million. Considering the hot reaction at the CES, it may not take that much to launch the 1000.

With regard to sales of our first DSP-2000s, beta test site deliveries will be as planned, this month. If the units are acceptable, the test sites will probably buy them. Since our first ads for these machines appeared in pro audio magazines this month, the response has been over 1000 inquiries. We anticipate being able to deliver in quantity by November.

Testing of the Telerecording system with CMI Labs began last week. If the system continues to meet its specs, the first AT&T Bell Lab test in New Jersey will happen late this month. A successful test of the digital transmission of high fidelity music over telephone lines will be followed by a joint press conference of CompuSonics, CMI Labs and AT&T, heralding the dawn of a new era in the music industry. In the not too distant future consumers will be able to purchase digital recordings of their favorite artists directly from the production studio's dial-up data base and record them on blank SuperFloppies in a DSP-1000.

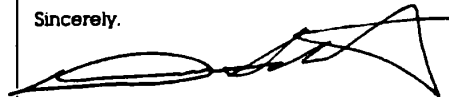
A major breakthrough in our product development program occurred recently, when the United States Patent Office allowed all claims made by myself on behalf of the CompuSonics recording system. A second US patent application has been filed, and the foreign applications are still pending. Copyrights are being applied to every bit of system software. We believe the patent and copyright coverage is strong enough to begin disclosure of the basic engineering in a series of technical papers. The first of these are planned for presentation at the Audio Engineering Society convention in New York City on October 8th.

On the business development front, negotiations are under way on distribution and licensing deals, both foreign and domestic. It appears that the first foreign distribution agreement to go beyond the verbal stage will be for the Italian market through McIntosh Labs of Italy. They are sponsoring a trip to Milano so that we can demonstrate the DSP-1000 at the annual electronics show there in September. A Japanese company has made a similar arrangement, including a trip to Tokyo in October. I must emphasize that these are informal deals at this point and that nothing definitive can be reported, yet.

CompuSonics is also on the warpath for more financial backing. This may take the form of a joint venture, secondary stock offering, limited partnership, or some more creative vehicle. At this point there's not much I can write about, except to say that by the end of September a deal should be firming up. For the time being we'll plan to operate based on revenues from the DSP-2000s.

Those of you who would like detailed information about your company's products may call or drop me a note. We appreciate the interest.

Sincerely,



David M. Schwartz
President

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323 ACOMA STREET • DENVER, COLORADO 80223