

Dear Kaleidescape Stakeholder,

On August 19, Kaleidescape temporarily ceased operations because we ran out of money. As the news spread, we were overwhelmed by the outpouring of support from our shareholders, employees, suppliers, other luxury A/V component manufacturers, the major motion picture studios, distributors, dealers, and (most importantly) our customers. Our customers passionately communicated their desire for us to continue providing the very best platform for movie playback.

Our team at Kaleidescape became energized and inspired to continue this journey. We spent the past 16 years carefully building a valuable technology, excellent products, and a highly respected brand in the worldwide custom channel. Our customers and dealers told us that Kaleidescape is the only luxury movie experience for the home, and they do not want to go back to watching movies from discs and streaming services.

We are delighted to announce that we have restarted operations. We restructured the company, slashed expenses, and obtained the investment needed (with no change of control). We are manufacturing and shipping a significant backlog of products that were ordered during the past two weeks. We are confident that our restructuring combined with this new investment will enable Kaleidescape to quickly return to growth and profitability.

Kaleidescape's stumble began last October when we launched the Kaleidescape Strato movie player. We made the mistake of pre-announcing software features that were not finished. One of those features – Blu-ray disc support for the Strato player – was a monstrous project that required certain critical software components from third-party suppliers. When third-party schedules slipped, we applied more of our own engineering resources to compensate, but we simply did not have enough engineering resources to remove schedule uncertainty and finish Strato's Blu-ray disc support in a reasonable period of time. Because almost all of our engineering resources were focused on this Blu-ray project, other features we had promised for Strato were delayed, including HDR, Terra support for large numbers of players, DVD playback, and playback from a Premiere system. Strato is an amazing award-winning product, even without these additional software features. Unfortunately, we created the perception that Strato was an unfinished product, and our sales suffered accordingly.

The "new Kaleidescape" will take on fewer projects, and we will not pre-announce a product or feature until it is completed – especially if completion depends on a third party.

Kaleidescape will continue to sell and support both Premiere and Encore products. We expect to release kOS 7.3 in the near future, without Blu-ray disc support for Strato. It will include HDR playback, Terra support for large numbers of players, and Strato playback of DVD discs from a Disc Server. A number of HDR movies will become available in the movie store at that time.

We have decided to focus our precious development efforts on forward-looking technologies that will enable our movie store to offer even more titles, with even higher quality, in earlier release windows. To enable our engineers to focus on these exciting new technologies, we have re-prioritized Blu-ray disc support for Strato, which we hope to introduce in a 2017 release of kOS.

We wish to thank all those who have shown us their support, and helped us to achieve this positive outcome.

Please email me directly if you have any questions relating to the "new Kaleidescape."

Sincerely,

Cheena Srinivasan, CEO
Kaleidescape, Inc.