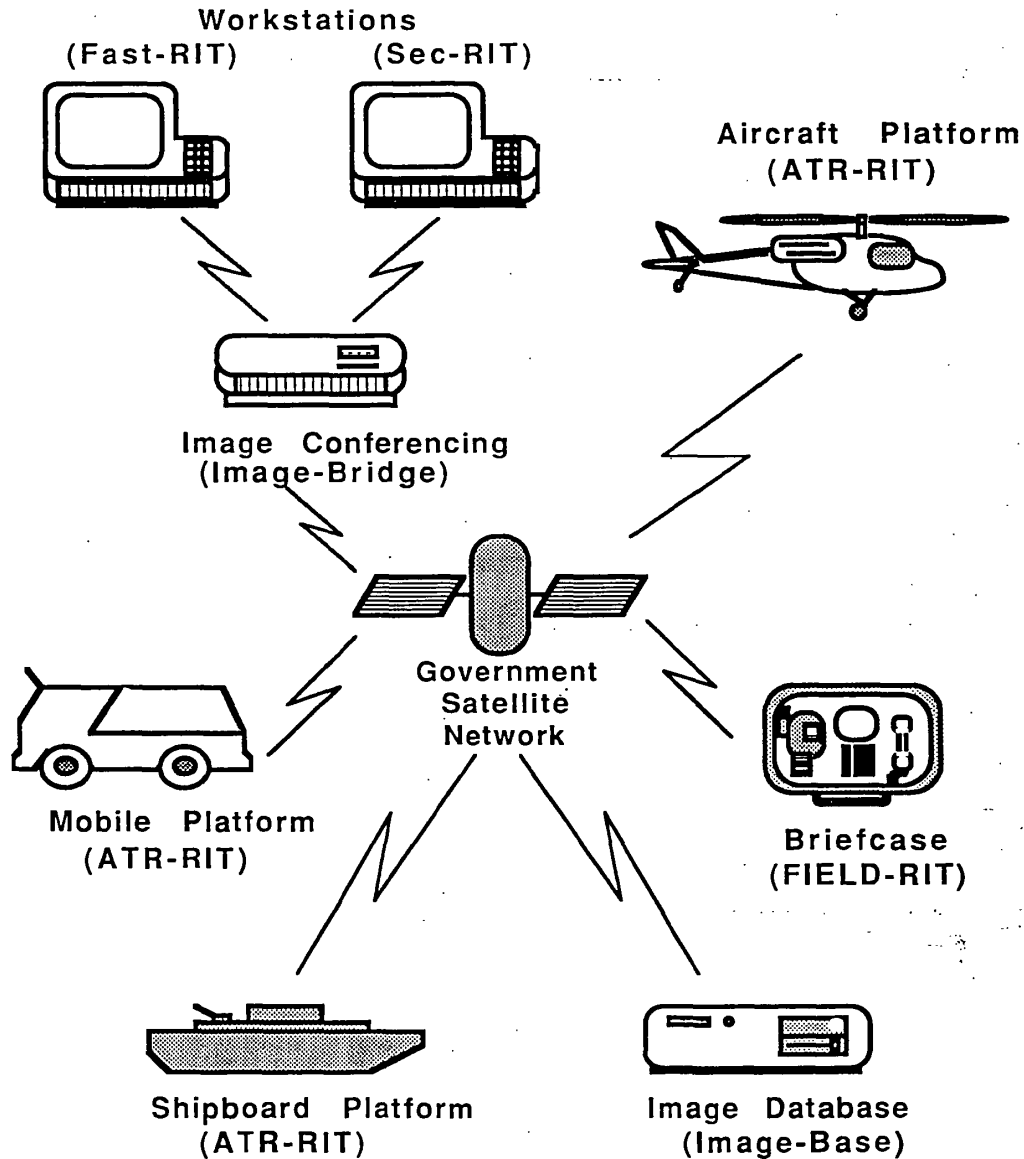

THE MARKET

Test Marketing

This diagram illustrates our products in a typical customer application.



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Sony, Ex. 1002, p.2011

THE MARKET

Test Marketing

success with one group could lead to requirements for new groups to have compatible equipment.

We also concluded that our marketing success depended on working through a triangular relationship of policy makers, user groups, and contracting officers or acquisition groups. Understanding the overall direction of government programs and gaining the support of the policy makers allows us to select key user groups to address. Placing evaluation, or "seed" units in these groups gains us influence in the development of specifications for future volume contracts. Finally, working through the acquisition groups to win major contracts for our products can create substantial barriers to future competition.

In short, we had found a market niche that had immediate requirements, had funds available to spend, and could be successfully penetrated by a small, aggressive company that could be more responsive to user needs than the established government contractors.

During the test marketing project we demonstrated our products to over thirty user groups who have an application which they are interested in pursuing. These groups form the basis for our 1987 forecast, which is detailed in the Marketing section that follows.

Announcement

In May of 1986, PHOTOTELEESIS announced the Sec-RIT and Com-RIT product lines, as well as future directions in portable and TEMPEST qualified units. The products were announced at a major military trade show known as AFCEA (Armed Forces Communications and Electronics Association). There was strong user interest at the show, resulting in over fifty qualified leads for future business. Press releases were published in magazines targeted at both defense and communications audiences which have to date resulted in over 250 leads for Com-RIT and Sec-RIT products. Copies of our press releases may be found in the Appendix.

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Sony, Ex. 1002, p.2012

THE MARKET

Market Statistics

Introduction

During the test marketing campaign, we concluded that additional data should be gathered on the size of the markets we were interested in, and on major policy directions in the Department of Defense that were influencing the market and might be advantageous to us in the future. Since no research reports on image communications equipment in the military was readily available to us, we began to collect statistics through a variety of sources, including books, articles, newspaper stories and personal interviews with highly placed individuals in the military.

Our primary focus remained the C3I market: Command, Control, Communications and Intelligence. Within that umbrella term for all D.O.D. communications programs, we identified three major government programs that were relevant to our market thrust:

- TEMPEST qualified products
- STU-III Secure Telephone Units
- Mobile Subscriber Equipment

Each of these programs is described on the following pages, including forecasts of future market opportunity. Then we will draw conclusions about their importance to our marketing direction.

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Sony, Ex. 1002, p.2013

THE MARKET

Market Statistics

Command, Control, Communications and Intelligence (C3I)

Programs that involve D.O.D secure communications in all branches of the Military are grouped into this classification for administrative control. The Assistant Secretary for C3I reports to the Secretary of Defense, and oversees all policies and budgets regarding agencies, programs, and acquisitions of equipment.

Deployment is accomplished through the Joint Chiefs of Staff to all Military service Command, Control, Communications and Intelligence branches through their world-wide organizational structure composed of CINC's (Commanders in Chief) representing regional and strategic commands. Departments of Army, Navy, Air Force, and Marines may have individual programs, but C3I seeks to ensure inter-service and NATO compatibility.

The growth of budgets for C3I programs provides a broad market opportunity for adding our secure image communications products to D.O.D. secure communications systems.

FY '86 C3I Budgets (\$14.298)



FY '87 C3I Budgets (\$17.406)



1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18

Billions of Dollars

Source: C3I Handbook, P. 262, Defense Electronics, 1986.

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Sony, Ex. 1002, p.2014

THE MARKET

Market Statistics

TEMPEST

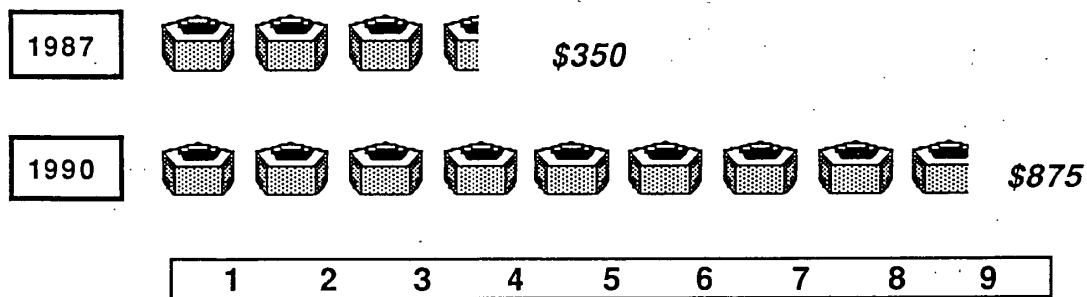
TEMPEST is the Federal government's word for the countermeasures taken on electronic and data processing equipment to prevent them from emitting electronic signals that can be detected by unauthorized persons. TEMPEST requirements are quite common in the Federal government, thus creating an opportunity for TEMPEST qualified image transmission systems.

TEMPEST equipment is required in many office environments in the U.S. Federal government which deal with classified information, and for almost all non-tactical applications outside the U.S. TEMPEST-qualified products command a high price premium in the market compared to comparable commercial versions.

"Government and industry officials are forecasting a steady demand for TEMPEST equipment and services over the next five to ten years.

Current expenditures are \$350 million, a number that might easily double or triple by the end of the decade."

We will provide TEMPEST-compatible desktop and portable Remote Image Transceivers to take advantage of the tremendous growth in this market area.



Millions of Dollars

Source: C3I Handbook, Pp 181-200, Defense Electronics, 1986.

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Sony, Ex. 1002, p.2015

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