

December 1994

To All Employees and Families:

My staff and I wish you and all your loved ones a happy and healthy holiday season and new year.

1994 was a difficult year for Loral Data Systems. Revenues and profit, excluding Telemetry, were down from 1993. Incoming orders were level year to year. Backlog was reduced because shipments exceeded orders. Backlog is at approximately five months of shipments. Headcount was reduced by 10% to adjust for reduced revenues.

Now for some positive news about our traditional product lines. SPS had a very good year with orders more than doubling last year. SPS' market appears to be recovering from the drastic budget cuts over the past few years. Orders for Aviation Recorders have picked up in the last two months and we believe the business will continue to grow. We encountered a reliability problem which could have reduced our market share. Instead, we implemented a solution and maintained our market dominance. We supplied all recorders involved in the last two tragic airline accidents and they all worked as prescribed. Over the holidays we are submitting a proposal for ATARS which will use a large number of rotary recorders. We have an excellent chance of winning.

Our entries into commercial markets continue. Technical progress on the CPS 100 has been very good and we are close to having a product. We have the best designed product but are late bringing it to market. We have not missed the boat because the market is taking more time to mature as users are slow to offer services such as video on demand. We are working with ADC, our marketing partner, to develop a closer relationship. The anesthesiology simulator is doing much better than expected. The market is much larger than originally anticipated and we are winning most of the business.

I believe we will experience a growth in our business next year because our markets are showing signs of recovery and we have the best products and employees. I believe we have bottomed out as demonstrated by orders picking up.

Have a safe and happy holiday season with your loved ones. Rest up and return to make 1995 a turn around year.

*Joel Keller*