

1993

ANNUAL REPORT

FlightSafety
international

FlightSafety International offers high technology training to operators of aircraft, ships, electrical utilities and steam generating and processing plants. Much of the training is conducted on simulators that enable trainees to practice and perfect normal and emergency procedures under controlled conditions. The Company is also engaged in the manufacture of simulators and other high-technology training equipment. The Company's clients include corporations, commercial airlines, ship operators, the military and other government agencies.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the fiscal year
ended December 31, 1993

Commission file number: 1-6222

FLIGHTSAFETY INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

11-1671001
(I.R.S. employer identification no.)

Marine Air Terminal, La Guardia Airport
Flushing, New York
(Address of principal executive offices)

11371
(Zip Code)

Company's telephone number, including area code (718) 565-4100

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
<u>Common Stock (par value \$.10 per share)</u>	<u>New York Stock Exchange, Inc.</u>

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by **check mark** if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

Exhibit Index on page 27

The aggregate market value of the voting stock held by non-affiliates of the Company, based on the closing price of such stock on the New York Stock Exchange on March 14, 1994, was \$879,278,000.

As of March 14, 1994, the Company had 31,927,260 shares of its Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Certain information contained in the Company's Annual Report to Shareholders for the Fiscal Year Ended December 31, 1993 is incorporated by reference in Part II of this Form 10-K.

- (2) Certain information contained in the Company's Proxy Statement dated March 31, 1994 relating to its Annual Meeting of Shareholders scheduled to be held on April 27, 1994 is incorporated by reference in Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS

FlightSafety International, Inc., a New York corporation (the "Company"), was organized in 1951. The Company is engaged in the business of providing high technology training to operators of aircraft, ships and power plants. The Company owns and operates the largest civil aviation simulator fleet in the world, consisting of more than 165 simulators and training devices.

The Company operates primarily in one industry segment which is training. The Company is also engaged in the design, manufacture and sale of full-motion flight simulators and other training equipment through its Simulation Systems Division (the "Simulation Division") and visual displays and systems for flight simulators through its Visual Simulation Systems Division (the "Visual Division") which was acquired in January, 1993. The Company's Instructional Systems Division (the "Instructional Division") develops classroom presentation systems, interactive computer-based software, courseware and manuals primarily for the Company's educational and training activities and is not considered an industry segment.

Training revenues amounted to 82% of operating revenues in 1993, 86% in 1992 and 1991, while product sales by the Simulation Division and Visual Division to unaffiliated customers were 18% of operating revenues in 1993 and 14% in 1992 and 1991 by the Simulation Division. Sales of products to unaffiliated customers developed by the Instructional Division were not material for these periods and were included in the Company's training revenues. Further financial information regarding the Company's industry segments (including identifiable assets by segment) can be found in the Company's consolidated financial statements (and notes thereto) which are incorporated by reference in Part II of this Form 10-K.

The Company's activities include (a) advanced pilot training in the operation of aircraft and air traffic control procedures, (b) air crew training for military and other governmental personnel, (c) aircraft maintenance technician training, (d) ab-initio (primary) pilot training to qualify individuals for private or commercial pilot licenses, (e) ship handling and related training through the Company's wholly-owned subsidiary, MarineSafety International, Inc. ("MarineSafety"), (f) the design and manufacture of full-motion flight simulators and other training equipment through the Company's Simulation Division.

(g) the design and manufacture of visual displays and systems used for flight simulators through the Company's Visual Division and (h) the development of instructional methods and materials through its Instructional Division. The Company is also a 50% owner of PowerSafety International, Inc. ("PowerSafety"), which provides training to operators and maintenance personnel of electric power and industrial plants.

Much of the Company's training is conducted on simulators, which incorporate advanced computer-based technology to replicate, with a high degree of accuracy, certain sights, sounds, movements and control responses in order to reproduce the total environment experienced by the operator of a particular aircraft, ocean going vessel or power plant. Such simulators are used in the Company's aviation, marine and power plant training programs. Through the Simulation Division, the Company manufactures training equipment, including flight simulators, and is complemented by the Visual Division which produces visual systems for flight simulators, both of which are primarily for use in the Company's training operations and for sale to unaffiliated parties.

Advanced pilot training accounted for 61% of the Company's operating revenues in 1993 and 1992 and 59% in 1991; government crew training accounted for 16% of the Company's operating revenues in 1993, 17% in 1992 and 18% in 1991.

The Company's training activities are conducted primarily in the United States. The Company also maintains two learning centers in Canada and one learning center in Paris, France. Many foreign aircraft operators use the Company's U.S. learning centers to train their crews. Export product sales, consisting of simulators and visuals, were 12% of operating revenues in 1993, 10% in 1992 and 8% in 1991. Further information regarding the Company's export sales can be found in the Company's consolidated financial statements (and notes thereto) which are incorporated by reference in Part II of this Form 10-K.

1. Advanced Pilot Training

The Company's advanced pilot training consists of initial and recurrent courses in the operation and performance of various aircraft. A majority of this training is provided to pilots employed by corporations and in general business aviation. Such training includes ground school instruction in air traffic control and international flight procedures, navigation, meteorology, crew resource management, Federal Aviation Administration ("FAA") regulations and aircraft performance and systems. Training is also conducted on full-motion simulators, which replicate the in-flight performance and characteristics of a particular aircraft, and on training devices, including cockpit systems simulators and cockpit procedures trainers, which familiarize the student with general flight procedures and cockpit instruments. In-flight instruction is normally provided in the customer's own aircraft, although the Company occasionally leases aircraft for this purpose. The Company uses its own aircraft when providing primary pilot training.

The most significant aspect of the Company's advanced pilot training program is the training conducted on sophisticated simulators. Such simulators recreate the pilot's total cockpit environment, including all flight instrumentation. The cockpit section of the simulator is connected to computers which reproduce the conditions and movements of actual flight for the trainee who sits at the controls within the cockpit. A large hydraulically powered platform, together with the instruments within the cockpit, is connected to elaborate digital computer systems which move the cockpit and adjust the instrument readings in response to either the actions of the trainee or those of the instructor at a separate control station. The instructor may program the computers to change flight conditions, aircraft performance and airport approaches as desired. Training in a simulator enables a pilot to practice and perfect procedures and techniques (including emergency maneuvers which would be hazardous to attempt in actual flight) in a controlled environment, eliminating the danger of using the aircraft itself and at a substantial cost reduction. In addition, Federal Aviation Administration ("FAA") regulations related to certain sophisticated simulators (Level "C") have expanded the permissible use of such simulators in pilot evaluation and certification such that many certifications can be achieved without flying the actual aircraft.

The Company maintains agreements with more than 20 aircraft manufacturers pursuant to which the manufacturer has designated the Company as its authorized training organization. Under these agreements, the Company provides initial training to crews of aircraft purchased from the manufacturer at a fixed fee per aircraft paid by the manufacturer. Many of the Company's learning centers are located near a manufacturer's factory or service center which facilitates access to technical information provided during training. This decentralized system is also designed to locate learning centers near actual and potential customers.

Advanced pilot training is offered to flight crews (pilots, co-pilots and engineers) in order to (i) instruct such crews in the operation of new or different types of aircraft thereby enabling them to obtain "type ratings", where applicable, on their pilots' licenses and (ii) keep such crews proficient by providing recurrent training courses in the latest safety and flight procedures relating to such aircraft. Pursuant to certain FAA regulations for pilot checking, testing and certification, no person may act as a pilot-in-command of an aircraft unless such person has accomplished a flight review within the preceding 24 months and, if the aircraft is type certificated for more than one required pilot, such person must have satisfactorily completed prescribed proficiency checks within the preceding 12 months. At the pilot's option, both the 12-month and 24-month proficiency checks can be accomplished in an FAA Level "C" approved simulator. In addition, depending on the type of operation, the flight crewmember may be required to complete periodic recurrent training. All of this recurrent training can also be accomplished in an FAA-approved Level "C" simulator.

In addition to training provided pursuant to agreements with aircraft manufacturers, the Company provides training for type-ratings and recurrent training courses pursuant to agreements with the air crew member's employer. Under such agreements, the customer pays an annual course fee which provides for training to proficiency on as many as two different types of aircraft and incorporates training in simulators. Alternatively, the customer may elect to pay for each course or training as taken rather than enter into such agreements.

The Company also expanded its training of pilots employed by some domestic and foreign commercial air carriers (both regional and major carriers) with the addition of new concept air carriers

and continues to provide access to its training equipment to pilots employed by other air carriers in which they provide their own instruction. FAA regulations require all pilots employed by domestic commercial carriers flying aircraft above a certain weight to pass examinations with respect to their proficiency in handling the type of aircraft which they fly and to undergo recurrent training every six months. While the majority of air carriers, particularly the major airlines, provide all training (including simulator-based training) necessary to enable their pilots to comply with FAA requirements, certain major airlines have used the Company's Airbus A-310, Fokker 100, McDonnell Douglas ("MD") DC-9, MD-80 and MD-88/87 and Boeing 727, 737, 757 and 767-300ER simulators for this purpose. Foreign air carriers, while not subject to the same FAA regulations, also engage the Company to provide their pilots with initial training and recurrent courses in various types of aircraft. In addition, regional airlines utilize the Company's Piper Navajo, Fairchild Metro II and III, de Havilland Twin Otter, Dash 7 and Dash 8, Embraer 120, Saab-340, ATR 42/72, Beech 1900, Shorts 360 and BAe Jetstream 31/32 simulators to provide required training for their pilots. The Company maintains 24 major and 27 regional airline flight simulators for these purposes.

In 1993, the Company began construction of a new 40,000 square foot Learjet learning center in Tucson, Arizona which will have more than double the capacity of the center it replaces. The Company also added six business and one regional airline simulator to its other learning centers.

2. Government Pilot and Crew Training

The Company provides training for pilots and other crew members operating aircraft for agencies of the United States government at substantially all of its learning centers. In addition, the Company has several learning centers, including its Dothan and Daleville learning centers, which are primarily dedicated to military training. The Company's customers include the U.S. Air Force, Army, Navy, Marine Corps and Coast Guard, and pilots employed by the National Aeronautics and Space Administration, the FAA, the U.S. Customs Service, the Drug Enforcement Administration and various other government agencies.

The Dothan, Alabama learning center is located near the United States Army Aviation Center at Fort Rucker. Hangars are located at this facility to house classroom and repair facilities for a fleet of

fixed-wing aircraft which are used to train Army helicopter pilots to become fixed-wing pilots. The Company's Daleville, Alabama learning center houses five simulators for training military personnel on versions of the King Air 200 business aircraft.

FlightSafety Services Corporation, a subsidiary of the Company ("Services Corporation"), has a contract, renewable annually at the government's option through 1999, to provide training for U.S. Air Force C-5A/B transport crews. Services Corporation operates seven government-owned C-5A/B simulators and provides instructors and technicians at four U.S. Air Force bases. The seven simulators are used in training for aerial refueling and low level flight training and permit many flight training maneuvers currently performed in the aircraft to be more economically accomplished in the simulator. In addition, the Company provides computer-based training at three U.S. Air Force Reserve bases.

In 1993, Services Corporation was awarded a contract, renewable annually by the government at its option for 14 years, to train U.S. Air Force C-135 cargo aircraft pilots and flight engineers. This contract will utilize many of the instructional systems developed by the Company for its 15-year 1992 contract, which commenced in January 1993, for Air Force KC-135 aerial refueling aircraft flight crew training. In addition, the Company's Simulation Division also produced and installed hydraulic motion bases that converted two training devices to flight simulators, one at the KC-135 Combat Crew Training Center, located at Castle Air Force Base, California, and the other at Altus Air Force Base in Oklahoma.

The U.S. Customs Service awarded a five-year contract in 1993 for aircraft pilot and maintenance training. Four aircraft types are involved, including the Citation II, Cheyenne III, C-12 (King Air) and Nomad Searchmaster. Training will be provided at various learning centers. Additionally, contracts were awarded by the U.S. Air Force to train crews for the C-20 (Gulfstream) aircraft and by the FAA to train pilots for the **Sabreliner 80** and S-76B helicopter.

As noted earlier, 16% of the Company's 1993 operating revenues (17% in 1992 and 18% in 1991) were attributed to U.S. Government pilot and crew training. In general, contracts with agencies of the U.S. Government are subject to renewal, renegotiation and termination at the election of the U.S. Government.

3. Maintenance Technician Training

The Company provides maintenance training to aircraft technicians for a wide range of aircraft at most of its learning centers and at customer locations around the world. In addition, the Company maintains four learning centers dedicated to maintenance technician training. Two of these centers are located in Wichita, Kansas and provide training for Beech and Cessna aircraft technicians; a third center is located in Savannah, Georgia and provides training for Gulfstream aircraft technicians; and a fourth center is located in Little Rock, Arkansas and provides Falcon Jet technician training. In addition, the Company continues to add additional maintenance courses and programs at its other learning centers. The Company now offers more than 150 maintenance training courses. Maintenance technicians can choose from a type-specific core curriculum, supplemented by additional courses, including troubleshooting.

4. Primary Pilot Training

The Company provides primary pilot training necessary to enable qualified individuals to obtain private, commercial or airline transport licenses with single-engine, multi-engine and instrument fixed-wing and rotary-wing ratings. Such training is conducted in the classroom, in electronic trainers and in aircraft owned by the Company, but does not involve the use of sophisticated simulators. The Company currently conducts most of its primary training operations, except helicopter training, at the FlightSafety Academy in Vero Beach, Florida. The FlightSafety Academy currently provides training programs for several international and domestic airlines, including Air France, Olympic Airways, Swissair, Asiana Airlines, Royal Air Maroc, Chicago Express and other airlines. The Company maintains facilities at Vero Beach, Florida for fueling, maintenance and storage of its own light fixed-wing aircraft as well as dormitories for its students. The Company has developed the FlightSafety Academy into a training facility where only students planning a career in professional flying are enrolled. It provides an environment where airline-sponsored "ab-initio" (primary) and self-funded students are given instruction devoted solely to preparing them for a career in flying.

The Company established a new primary learning center at Alliance Airport in Fort Worth, Texas. The new learning center will provide full service flight training for rotary and fixed-wing student pilots on aircraft relocated from the Company's Dothan, Alabama Learning Center. The helicopter training will complement training services provided at the Company's nearby simulator-equipped Bell Helicopter Learning Center.

5. Maritime Training and Research

Through MarineSafety, the Company provides training in ship and cargo handling and engine room procedures to crews of large ocean going vessels owned by business concerns, as well as the United States Navy, Coast Guard and Merchant Marine Academy. Simulation research studies are also performed by MarineSafety, including studies to assist in determining channel dredging requirements and waterway and port improvements.

In 1987, the U.S. Department of Transportation (the "DOT") assigned the management and operations of its Computer Aided Operations Research Facility (CAORF) at Kings Point, New York to MarineSafety under a ten year cooperative agreement as part of DOT's privatization program. A full-mission ship simulator at Kings Point simulates the control bridge of large ocean going vessels and, through advanced engineering techniques, simulates the actual operating conditions experienced by the crews of such vessels. The shiphandling training simulator thus provides training in a controlled environment without the potential hazard and expense of using an actual ship. At Kings Point, MarineSafety also operates two restricted visibility bridge simulators, devoted exclusively to training deck officers in vessel maneuvers and navigation, which use automated collision avoidance systems during conditions of **restricted visibility**.

MarineSafety also provides ship-handling simulator training for the U.S. Navy at MarineSafety's facility in Newport, Rhode Island. Four ship-handling simulators at this facility are used to train approximately 1,000 Naval officers each year, many from the Navy's nearby Surface Warfare Officers' School, in handling combat or support ships under many operating and environmental conditions. The U.S. Navy may renew this contract each year through 1996. Commercial ship handling training is also

conducted at this facility. In 1993, MarineSafety worked jointly with Sea River Maritime (formerly Exxon Shipping) and developed a training course for captains and mates of Sea River's gulf and inland fleets.

A third MarineSafety training center, located at the Company's headquarters at La Guardia Airport, is used for the training of steam-powered ship engineering officers. In addition, MarineSafety maintains at this facility a liquified natural gas ("LNG") cargo handling simulator which simulates the cargo operations of an LNG ship.

In January 1994, MarineSafety opened its fourth U.S. training center in San Diego, California to provide training to U.S. Navy deck officers for approximately 50 surface ships operated by the U.S. Navy under a contract awarded in June 1993. The contract is renewable annually at the U.S. Navy's option through 1998. The center has a full-mission bridge simulator and a bridge wing simulator, and is used to perform commercial training when not in use by the Navy.

In 1991, MarineSafety entered into an agreement with the City of Rotterdam, the Netherlands, to establish a new maritime research and training center. This center is scheduled to open in the spring of 1994 and will house six simulators for the training of ship's officers, harbor pilots, cadets and vessel traffic controllers and will also conduct maritime research projects. MarineSafety is the majority shareholder of MarineSafety International Rotterdam B.V., the new company established to operate this venture.

6. Manufacture of Training Equipment

The Simulation Division manufactures flight simulators and other advanced training devices, including cockpit systems simulators and cockpit procedures trainers, for installation at the Company's learning centers and for sale by the Company to unaffiliated parties. The Simulation Division delivered 12 simulators in 1993. Seven simulators were installed at the Company's learning centers and five simulators were shipped to overseas airlines. The Simulation Division also produced two motion bases for the conversion of KC-135 Operational Flight Trainers to full-flight simulators. Substantially all of the simulators required to meet the Company's current training needs are manufactured by the Simulation

Division. The Simulation Division also provides maintenance support for the Company's simulators and other training equipment.

In 1994, the Simulation Division plans to deliver eight flight simulators, of which five are for Company use, two for the U.S. Government and one for an overseas customer. Eight helicopter training devices for the U.S. Army are also currently being manufactured. The Company requires cash deposits, progress payments and/or letters of credit for the simulators which the Simulation Division manufactures for export in order to ensure that it receives timely collection of the related accounts receivable.

On January 29, 1993, the Company acquired the Visual Simulation Systems business unit of McDonnell Douglas Corporation. The new Visual Simulation Systems Division (the "Visual Division") designs, develops and manufactures, under the trade name VITAL, computer-generated visual systems and display equipment that are installed on flight simulators. Approximately 360 VITAL visual systems have been delivered to customers around the world. The Division recently received orders for three of the recently introduced VITAL VIII Systems from an overseas customer. The new generation VITAL VIII visual system creates more realistic scenes through a photo-imagery-based technology.

7. Design and Development of Training Systems

The Instructional Division provides the initial analysis of system training and performance requirements and designs and develops classroom presentation systems, courseware, interactive computer-based software and manuals primarily for use in the Company's educational and training activities. The Instructional Division also produces training manuals and other instructional materials for the U.S. military and the FAA. Many of the Instructional Division's training systems use high technology applications and task performance requirements.

8. Power Plant Training

The Company is engaged in the training of operators and maintenance personnel of power and industrial steam generating plants through PowerSafety, 50% of which is owned by the Company. PowerSafety's learning centers are located in Lynchburg, Virginia and Homer City, Pennsylvania.

9. Competition

The Company faces competition in each of its training services. There are numerous training organizations located throughout the United States which provide primary flight training to the public. In the area of advanced pilot training, the customers served by the Company are also served by the larger airlines (which often train their own pilots and provide training to pilots of other airlines), by government agencies (which often train their own flight personnel) and by other commercial training organizations. The Company also faces competition from numerous training organizations that do not use simulators in their training programs. In addition, there are many organizations that provide training and may operate simulators for aircraft for which the Company also provides simulator-based flight training. The Company is also aware of a number of domestic and foreign-based organizations and corporations which provide shiphandling training and design and produce instructional systems.

The Company competes principally by attempting to provide the best, most accessible and reasonably priced training service available. The Company is continually improving the quality of its services for business and commercial aviation and developing new and innovative products for its customers. In 1993, seven new simulators were added to the Company's fleet. Technically, the products manufactured by the Simulation Division and Visual Division are at the leading edge of aircraft simulation, employing such features as digital control loading and weather radar; digitized sound and automated voice systems; automatic testing features and advanced hydrostatic motion systems and touch-screen instructor stations. The Company also attempts to conveniently locate its training facilities near existing and potential customers.

In addition, the Company has designed new programs to support a renewed emphasis on total quality in all areas of training development and delivery. All of the Company's instructors participate in programs designed to maintain and upgrade their teaching skills on a continuing basis. Other programs have been designed to better meet the specific requirements of individual customers and to deliver a broader range of services and support.

The Company believes that the growing complexity and operating cost of the new generation of aircraft make training with simulators highly desirable. Moreover, the substantial capital costs and long lead time involved in obtaining appropriate simulators suggest that certain commercial airlines might prefer to use flight training programs utilizing simulators offered by independent contractors rather than maintain and operate the training equipment themselves. There can be no assurance, however, that these commercial airlines will continue to use training programs offered by independent contractors such as the Company.

The sale of products, including simulators and visual systems, is a competitive industry both domestically and internationally. There are several manufacturing companies worldwide that have the same ability as the Company to design and manufacture a complete flight simulator, including a visual system. There are also a number of companies that can manufacture either a simulator or a visual system, but do not have the capability to do both.

The Company competes in the sale of products primarily by offering training devices and visual systems that are reasonably priced, easily maintained and delivered on a timely basis. The 1993 acquisition of the Visual Division enhanced the Company's ability to manufacture and sell a complete simulator or training system.

10. Number of Persons Employed

As of December 31, 1993, the Company and its subsidiaries had 2,226 full-time employees. Of these, 849 were instructors in ground school, simulator or in-flight training, 795 were administrative, clerical and maintenance personnel, 426 were employees of the Simulation Division, 98 were employees of the Visual Division and 58 were employees of the Instructional Division.

11. Executive Officers

Each executive officer of the Company serves at the pleasure of the Company's Board of Directors and, subject to removal, holds office until the regular meeting of the Board of Directors which follows the annual meeting of shareholders and until his successor has been appointed and qualified. The following table sets forth certain information with respect to the executive officers of the Company.

<u>Name</u>	<u>Age</u>	<u>Position with Company</u>	<u>Years Position Held</u>
Albert L. Ueltschi	76	President and Chairman of the Board	43 years
Bruce N. Whitman	60	Executive Vice President and Director	32 years
Elmer G. Gleske	63	Vice President - Governmental Affairs	17 years
Dennis Gulasy(1)	51	Vice President - Simulation Systems	2 years
Kenneth W. Motschwiller(2)	37	Vice President - Treasurer	3 years
James S. Waugh	46	Vice President - Marketing	14 years
Mario D'Angelo(3)	41	Controller	3 years

-
- (1) Mr. Gulasy was elected Vice President-Simulation Systems of the Company on September 17, 1992. Mr. Gulasy has also been General Manager of the Company's Simulation Division since 1985. Prior thereto, Mr. Gulasy held various positions with the Company.
 - (2) Prior to becoming Vice President-Treasurer, Mr. Motschwiller was Controller of the Company from December 1983 until July 1991.
 - (3) Prior to becoming Controller, Mr. D'Angelo was Assistant Controller of the Company from September 1988 until July 1991. Prior thereto, Mr. D'Angelo held various positions with the Company.

ITEM 2. PROPERTIES

The Company's corporate offices are located at Marine Air Terminal, La Guardia Airport, Flushing, New York 11371. In addition, there are flight, LNG cargo handling and ship engine room simulators and related training facilities located at the La Guardia Airport facility. Including this facility, the Company currently operates 33 advanced and maintenance technician learning centers and two primary learning centers in various cities throughout the United States, one advanced learning center in France and two advanced learning centers in Canada. FlightSafety Services Corporation provides training at U.S. Air Force bases in facilities furnished by the U.S. government and maintains its administrative office in Littleton, Colorado. The Simulation Division maintains its offices and plant in Broken Arrow, Oklahoma. The Visual Division maintains its offices and plant in St. Charles, Missouri. The Instructional Division maintains its general offices in Hurst, Texas.

In the aggregate, the Company occupies approximately 1,250,000 square feet of building space which is devoted to office and administrative purposes, classrooms, repair service, maintenance facilities, the housing of simulators and aircraft, the design and manufacturing of simulators, visual displays and systems and other training equipment, the development of classroom presentation systems, manuals, interactive computer-based programs and the design and production of instructional systems. Approximately 93% of the facilities owned or leased by the Company are presently utilized for these purposes. The remaining space is being put to various temporary uses and is potentially available for expansion of the Company's operations. The Company considers its facilities well maintained, in good operating condition, adequately insured and satisfactory for their various uses.

In 1993, the Company opened a new primary aircraft learning center at Alliance Airport in Fort Worth, Texas.

The following table sets forth more detailed information related to the facilities of the Company:

<u>Location</u>	<u>Approximate Square Feet</u>	<u>Lease Expiration Date</u>	<u>Principal Activities</u>
La Guardia Airport Flushing, New York	36,000	2000	Corporate offices, advanced pilot learning center and marine learning center
4619 Le Bourget Drive Berkeley, Missouri	25,700	(1)	Advanced learning center
Wiley Post Airport 7310 N.W. 50th Street Bethany, Oklahoma	10,100	1996(2)	Advanced learning center
1804 Hyannis Court College Park, Georgia	27,300	1997(3)	Advanced learning center
24 Industrial Boulevard Daleville, Alabama	16,500	(4)	Advanced learning center
Dothan/Houston County Airport 600 FlightSafety Drive Dothan, Alabama	30,300	2001(5)	Advanced learning center
1600 Dolwick Drive Erlanger, Kentucky	7,700	1997(6)	Advanced learning center
2250 Alliance Blvd. Fort Worth, Texas	10,700	1994(7)	Primary learning center
9601 Trinity Boulevard Fort Worth, Texas	16,500	2004(8)	Advanced learning center
8900 Trinity Boulevard Hurst, Texas	23,000	(9)	Offices of the Instructional Division
Lakeland Airport 2949 Medulla Road Lakeland, Florida	17,700	2009(10)	Advanced and primary learning center
Lambert-St. Louis International Airport 6161 Aviation Drive St. Louis, Missouri	10,000	1994(11)	Advanced learning center
Lambert-St. Louis International Airport 6185 Aviation Drive St. Louis, Missouri	12,100	1996(12)	Advanced learning center

Le Bourget Airport BP25 Zone d'Aviation d'Affaires Building 404 Aeroport Le Bourget, France	36,900	2001(13)	Advanced learning center
Adams Field Little Rock, Arkansas	725	1994(14)	Maintenance learning center
4900 E. Conant Street Long Beach, California	11,700	1995(15)	Advanced learning center
Long Beach Municipal Airport 4330 Donald Douglas Drive Long Beach, California	27,100	1997(16)	Advanced learning center
4800 NW 36th Street Miami, Florida	62,000	1998(17)	Advanced learning center
Dorval International Airport 9555 Ryan Avenue Dorval, Montreal Quebec, Canada	19,100	1999(18)	Advanced learning center
Salt Lake City International Airport 201 N. 2200 W. Salt Lake City, Utah	23,600	2016(19)	Advanced learning center
San Antonio International Airport 9027 Airport Boulevard San Antonio, Texas	18,000	2000(20)	Advanced learning center
1505 South 192nd Street Seattle, Washington	68,600	(21)	Advanced learning center
Teterboro Airport 100 Moonachie Avenue Moonachie, New Jersey	25,400	(22)	Advanced learning center
Toledo Express Airport 11600 West Airport Road Swanton, Ohio	16,500	2000(23)	Advanced learning center
95 Garratt Boulevard Downsview, Toronto Ontario, Canada	18,000	2005(24)	Advanced learning center
Travis Field Savannah, Georgia	43,900	2004(25)	Advanced and maintenance learning centers

Tucson International Airport 6870 South Plumer Avenue Tucson, Arizona	13,300	1995(26)	Advanced learning center
Vero Beach Municipal Airport 2805 Airport Drive Vero Beach, Florida	50,900	2006(27)	Primary learning center
Palm Beach International Airport 3887 Southern Boulevard West Palm Beach, Florida	38,000	2004(28)	Advanced learning center
Wichita Mid-Continent Airport 8217 West Harry Street Wichita, Kansas	18,000	2006(29)	Advanced learning center
Wichita Mid-Continent Airport 1951 Airport Road Wichita, Kansas	25,700	2006(30)	Advanced learning center
Wichita Mid-Continent Airport 1851 Airport Road Wichita, Kansas	30,300	2006(31)	Advanced learning center
9720 East Central Avenue Wichita, Kansas	63,000	2015(32)	Advanced learning center
9525 East Central Avenue Wichita, Kansas	17,900	(33)	Maintenance learning center
1962 Midfield Road Wichita, Kansas	17,000	2020(34)	Maintenance learning center
William B. Hobby Airport 7525 Fauna Street Houston, Texas	36,600	(35)	Advanced learning center
New Castle County Airport 155 N. duPont Highway New Castle, Delaware	39,500	2010(36)	Advanced learning center
2700 North Hemlock Circle Broken Arrow, Oklahoma	101,200	(37)	Offices and plant of the Simulation Division, manufacturing facility for training equipment
2590 North Highway 94 St. Charles, Missouri	67,000	1995(38)	Offices and plant of the Visual Division, manufacturing facility for visual systems

7700 East 38th Street Tulsa, Oklahoma	25,000	(39)	Former manufacturing facilities now used for Company storage
U.S. Merchant Marine Academy Computer Aided Operations Research Facility Steamboat Road Kings Point, New York	22,000	(40)	MarineSafety Research and marine learning center
344 Aquidneck Avenue Middletown, Rhode Island	17,400	(41)	MarineSafety Marine learning center
32nd Street Naval Station Building 3149 San Diego, California	4,800	(42)	MarineSafety Marine learning center
Wilhelminakade 701 3007 GG Rotterdam Netherlands	34,000	(43)	MarineSafety Research and Marine learning center
10184 West Bellview Avenue Littleton, Colorado	11,700	1997	Services Corporation Administrative offices

-
- (1) This building was constructed by the Company on land owned by the Company and currently houses McDonnell Douglas MD-80 and DC-9 simulators, Boeing 727 simulators and a SAAB-340 simulator.
 - (2) This building was constructed by the Company on land leased from the Oklahoma County Industrial Authority to house the Company's Commander aircraft learning center.
 - (3) The Company leases space to house its JetStar, King Air, Jetstream 31/32 and Embraer 120 simulators.
 - (4) This building, constructed on land owned by the Company, houses C-12 and U-21 simulators.
 - (5) The Company constructed hangars on land leased from the Dothan/Houston County Airport Authority. A fleet of fixed-wing aircraft is maintained at this facility.
 - (6) The Company leases space to house its Boeing 727-200 and Embraer 120 simulators.
 - (7) The Company leases space to house fixed-wing and rotary wing aircraft and provides primary flight training.
 - (8) This building was constructed by the Company on land leased from Bell Helicopter Textron to house the Company's Bell Helicopter learning center.
 - (9) This building was purchased to house the offices of the Company's Instructional Systems Division.
 - (10) This building was constructed by the Company on land leased from the City of Lakeland, Florida to house the Company's Piper Aircraft learning center and also provides non-career primary aviation training.
 - (11) These premises, leased from Sabreliner Corporation, house the Company's Sabreliner learning center.
 - (12) This facility is on land leased from the City of St. Louis and houses Jetstream 31/32, Metro II and Metro III simulators.
 - (13) The Company constructed a building on land leased from Aeroport de Paris. This building houses Falcon 10, 20, 50 and 900, King Air, Citation V, Embraer 120 and Dash-8 simulators.

- (14) The Company leases space to house its Falcon Maintenance learning center.
- (15) These premises, leased from McDonnell Douglas Corporation, house an MD-80 learning center.
- (16) This building was constructed by the Company on land leased from the City of Long Beach to house the Company's Boeing 737-300, McDonnell Douglas MD 88/87, Cessna 300/400 series, Citation, King Air, and Gulfstream II simulators.
- (17) The Company leases space from the Dade County Airport to house simulators for the Airbus A-310, Boeing 727 and 757 and McDonnell Douglas DC-9 and MD-88.
- (18) This building was constructed by the Company to house its Challenger learning center. It is located on premises leased from the City of Dorval for a term expiring in May 1999, renewable at the Company's option for up to four additional five-year terms.
- (19) This building was constructed by the Company on property leased from Salt Lake City and houses a Boeing 737 simulator.
- (20) This building was constructed on land leased from the San Antonio Airport Authority and houses regional airline simulators.
- (21) The Company purchased this land and building which houses nine major and regional airline simulators. The Company is using 34,000 square feet and leasing the remaining space to third parties.
- (22) This building was constructed on land owned by the Company, is adjacent to Teterboro Airport and houses the Company's Falcon Jet learning center.
- (23) This building, which houses Citation and King Air simulators, was constructed by the Company on property leased from the Toledo Express Airport Authority.
- (24) The Company constructed a building on land leased from de Havilland Inc. and houses simulators for such manufacturer's aircraft.
- (25) Two buildings were constructed by the Company on property leased from Gulfstream American Corporation to house the Company's Gulfstream pilot and maintenance learning centers.
- (26) The Company leases space from the Tucson Airport Authority for the purpose of housing the Company's Tucson Learjet learning center.
- (27) Three buildings, containing a total of 28,500 square feet of space and the land on which they are situated, are owned by the Company. The remaining property is held under a lease expiring in 2006. A fleet of light-fixed wing aircraft is maintained here to provide primary pilot training.
- (28) This building was constructed by the Company on land leased from Palm Beach County to house Sikorsky helicopter and Learjet simulators.
- (29) This building was constructed by the Company on land leased from the Wichita Airport Authority to house the Company's Wichita Learjet learning center.
- (30) This building, which houses the Company's Cessna learning center, is located on approximately one acre of land leased from the Wichita Airport Authority.
- (31) This building was constructed by the Company on land leased from the Wichita Airport Authority to house the Company's Cessna Citation learning center.
- (32) The Company leases space from the Beech Aircraft Corporation to house its Beech learning center.
- (33) This building was constructed by the Company on land owned by the Company to house the Company's Beech Maintenance learning center.
- (34) This building was constructed by the Company on land leased from the Wichita Airport Authority to house the Company's Cessna Maintenance learning center.
- (35) This building is located on two acres of land owned by the Company and houses the Company's Houston learning center at which simulator training for several types of aircraft is conducted.
- (36) This building is located on land leased from the New Castle County Airport and houses both business and regional aircraft simulators.

- (37) Seven acres of land and a building are owned by the Company in Broken Arrow. This building has been expanded to house the Company's Simulation Division which manufactures training equipment.
- (38) The Company leases space to house its Visual Division which manufactures visual systems.
- (39) This building and land is owned by the Company and is used primarily for storage.
- (40) This facility is leased under a cooperative agreement with the U.S. Maritime Administration to provide marine simulation research and training.
- (41) This building, constructed on five acres of land owned by the Company, houses four marine simulators.
- (42) The Company houses two marine simulators at this facility in space provided by the U.S. Navy.
- (43) This building is leased from the Municipality of Rotterdam and houses six marine simulators.

The Company's rent expense for 1993 was \$1,790,000.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in litigation relating to claims arising out of its operations in the normal course of business. Such claims against the Company are generally covered by insurance. It is the opinion of management that uninsured liability, if any, resulting from existing litigation and claims will not have a material adverse effect on the Company's business or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The information set forth under the caption "Common Stock Price Range and Dividend Information" on page 1 of the Company's Annual Report to Shareholders for the Fiscal Year Ended December 31, 1993 (the "1993 Annual Report") is incorporated herein by reference (For Securities and Exchange Commission (the "Commission") electronic filing purposes, see Exhibit 27(a) of this Form 10-K). No other information contained in the 1993 Annual Report shall be deemed to be filed with the Commission, except as expressly stated herein.

On February 19, 1993, the Board of Directors authorized a stock repurchase program for up to three million shares of the Company's common stock. On December 3, 1993, the Board of Directors authorized an increase in the stock repurchase program to four million shares. As of March 14, 1994, 2,614,000 shares of the Company's Common Stock had been repurchased pursuant to this program.

ITEM 6. SELECTED FINANCIAL DATA

The information set forth under the caption "Five Year Financial Highlights" on page 1 of the 1993 Annual Report is incorporated herein by reference (For Commission electronic filing purposes, see Exhibit 27(b) of this Form 10-K).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The information set forth under the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition" on page 12 of the 1993 Annual Report is incorporated herein by reference (For Commission electronic filing purposes, see Exhibit 27(c) of this Form 10-K).

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and notes thereto, together with the report thereon of Price Waterhouse, independent accountants, dated February 1, 1994, appearing on pages 13 to 22 of the 1993 Annual Report are incorporated herein by reference (For Commission electronic filing purposes, see Exhibit 27(d) of this Form 10-K). With the exception of the information incorporated by reference in Items 5, 6 and 7 and this Item 8 of this Form 10-K, the 1993 Annual Report is not to be deemed filed as part of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The information concerning the directors of the Company set forth on page 2 of the Proxy Statement dated March 31, 1994 relating to the Company's Annual Meeting of Shareholders scheduled to be held on April 27, 1994 (the "1994 Proxy Statement") under the caption "Election of Directors," and the information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended set forth on page 15 of the 1994 Proxy Statement under the caption "Compliance With Section 16(a) of the Exchange Act" are incorporated herein by reference (For Commission electronic filing purposes, see Exhibit 99(a) of this Form 10-K). No other information contained in the 1994 Proxy Statement shall be deemed to be filed with the Commission, except as expressly stated herein.

Information relating to the executive officers of the Company is set forth in Item 1, section 11, of this Form 10-K under the caption "Executive Officers".

ITEM 11. DIRECTORS' AND EXECUTIVE OFFICERS' COMPENSATION

The information regarding directors' compensation set forth on pages 3 through 4 of the 1994 Proxy Statement under the caption "Committees, Meetings and Compensation of the Board of Directors," and the information regarding executive officers' compensation set forth on pages 5 through 10 of the 1994 Proxy Statement under the caption "Executive Compensation" other than the information set forth on pages 5 through 7 and page 10 under the captions "Report of the Compensation Committee on Executive Compensation" and "Five-Year Stock Performance Graph," respectively, are incorporated herein by reference (For Commission electronic filing purposes, see Exhibit 99(b) of this Form 10-K).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Set forth below is certain information relating to each person known to the Company to be the beneficial holder of more than five percent of the Company's Common Stock as of March 14, 1994.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percentage of Outstanding Common Stock Owned as of March 14, 1994</u>
Albert L. Ueltschi Marine Air Terminal La Guardia Airport Flushing, NY 11371	9,718,355 (1)	30.4%
FMR Corp. 82 Devonshire Street Boston, MA 02109	2,320,100	7.3%

- (1) Includes 9,717,855 shares held pursuant to a revocable trust for which Mr. Ueltschi is the sole beneficiary during his lifetime and 500 shares held pursuant to a partnership. Does not include approximately 1,744,500 shares beneficially owned by various members of Mr. Ueltschi's family, in respect of which Mr. Ueltschi disclaims beneficial ownership.
- (2) FMR Corp. is a holding company and its subsidiary, Fidelity Management & Research Company, is an investment advisor to several investment companies. The number of shares represent those shares owned as of December 31, 1993, as indicated in the Schedule 13(g) filed by FMR with the Securities and Exchange Commission on February 11, 1994. FMR has neither sole nor shared voting power with respect to such shares and has sole power to dispose of such shares.

(b) The information regarding beneficial ownership of shares of the Company's Common Stock as of March 14, 1994 by the directors and named executive officers of the Company (those named in the Summary Compensation Table on page 8 of the 1994 Proxy Statement), and by all directors and executive officers of the Company as a group, set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" on page 4 of the 1994 Proxy Statement, is incorporated herein by reference (For Commission electronic filing purposes, see Exhibit 99(c) of this Form 10-K).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a. List of documents filed as part of this Form 10-K:

	<u>Page In 1993 Annual Report to Shareholders</u>
1. <u>Financial Statements</u>	
Report of Independent Accountants	22
Consolidated Statements of Income for each of the three years in the period ending December 31, 1993	13
Consolidated Balance Sheets at December 31, 1993 and 1992	14
Consolidated Statements of Cash Flows for each of the three years in the period ending December 31, 1993	15
Notes to Consolidated Financial Statements	16-22
2. <u>Financial Statement Schedules - 1993, 1992 and 1991</u>	<u>Page In This Form 10-K</u>
Report of Independent Accountants on Financial Statement Schedules	29
I. Marketable Securities	33-38
V. Property, Plant and Equipment	39
VI. Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment	40
VIII. Valuation and Qualifying Accounts	41
X. Supplementary Income Statement Information	42

Financial statement schedules not included in this Form 10-K have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

ITEM 14(a) 3. EXHIBITS

- 3) (a) Certificate of Incorporation of the Company.
- (b) The By-Laws of the Company.
- 10) (a) Company's 1979 Stock Option Plan, with first and second amendments thereto, filed as Exhibit 10(i) to the 1991 Form 10-K, is incorporated herein by reference.
- (b) Company's Employee Stock Purchase Plan, as amended April 29, 1992, filed as Exhibit 10(j) to the 1992 Form 10-K, is incorporated herein by reference.
- (c) Company's 1982 Incentive Stock Option Plan with first and second amendments thereto, filed as Exhibit 10(k) to the 1991 Form 10-K, is incorporated herein by reference.
- (d) Company's 1984 Restricted Stock Compensation Plan, and first amendment thereto, filed as Exhibit 10(l) to the 1991 Form 10-K, is incorporated herein by reference.
- (e) Company's Retirement Plan for Non-Employee Directors, filed as Exhibit 10(m) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, is incorporated herein by reference.
- (f) Company's 1992 Stock Option Plan, filed as Exhibit 10(n) to the 1992 Form 10-K, is incorporated herein by reference.
- 13) Company's Annual Report to Shareholders for the Fiscal Year Ended December 31, 1993.
- 21) Subsidiaries of the Company.
- 23) Consent of Independent Accountants.
- 27) Financial Data Schedules (for Commission electronic filing purposes only)
 - (a) Common Stock Price Range and Dividend Information.
 - (b) Five Year Financial Highlights.
 - (c) Management's Discussion and Analysis of Results of Operations and Financial Condition.
 - (d) Consolidated Financial Statements and notes thereto, together with the report thereon of independent accountants.

99) 1994 Proxy Statement Exhibits (For Commission electronic filing purposes only)

- (a) Election of Directors and Compliance with Section 16(a) of the Exchange Act.
- (b) Directors' and Executive Officers' Compensation.
- (c) Security Ownership of Certain Beneficial Owners and Management.

ITEM 14 (b). No reports on Form 8-K were filed with the Commission by the Company during the fiscal year ended December 31, 1993.

ITEM 14 (c). See Item 14 (a)(3) above.

ITEM 14 (d). See Item 14 (a)(2) above.

Report of Independent Accountants on Financial Statement Schedules

To the Board of Directors of FlightSafety International, Inc.

Our audits of the consolidated financial statements referred to in our report dated February 1, 1994 appearing on page 22 of the 1993 Annual Report to Shareholders of FlightSafety International, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedules listed in Item 14(a) (2) of this Form 10-K. In our opinion, such Financial Statement Schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICE WATERHOUSE

New York, New York
February 1, 1994

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

FLIGHTSAFETY INTERNATIONAL, INC.
(Company)

Date: March 31, 1994

By: /s/ Albert L. Ueltschi
Albert L. Ueltschi
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Date: March 31, 1994

By: /s/ Albert L. Ueltschi
Albert L. Ueltschi
Chairman of the Board,
Director and President
(Principal Executive Officer)

Date: March 31, 1994

/s/ George B. Beitzel
George B. Beitzel
Director

Date: March 31, 1994

/s/ Charles R. Longworth
Charles R. Longworth
Director

Date: March 31, 1994

/s/ Edward E. Hood, Jr.
Edward E. Hood, Jr.
Director

Date: March 31, 1994

/s/ John A. Morgan
John A. Morgan
Director

Date: March 31, 1994

/s/ Bruce N. Whitman
Bruce N. Whitman
Director and Executive Vice President

Date: March 31, 1994

/s/ Kenneth W. Motschwiller
Kenneth W. Motschwiller
Vice President - Treasurer
(Principal Financial Officer)

Date: March 31, 1994

/s/ Mario D'Angelo
Mario D'Angelo
Controller
(Principal Accounting Officer)

Subsidiaries of FlightSafety International, Inc.

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage owned by Company (Directly or Indirectly)</u>
FlightSafety Capital Corporation	Delaware	100%
MarineSafety International, Inc.	New York	100%
MarineSafety International Rotterdam B.V.	Netherlands	51%
FlightSafety Canada, Ltd/Ltee	Canada	100%
FlightSafety International, S.A.R.L.	France	100%
FlightSafety New York, Inc.	New York	100%
FlightSafety Properties, Inc.	Delaware	100%
FlightSafety Services Corporation	Delaware	100%
FlightSafety Texas, Inc.	Delaware	100%
FlightSafety China, Inc.	Delaware	100%

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Prospectuses constituting part of the Registration Statements on Form S-8 (Reg. No. 2-67335, Reg. No. 2-79846, Reg. No. 2-92050 and Reg. No. 33-52998) of FlightSafety International, Inc. of our report dated February 1, 1994, appearing on page 22 of the 1993 Annual Report to Shareholders which is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedules, which appears on page 29 of this Form 10-K.

PRICE WATERHOUSE

New York, New York
March 31, 1994

	1993	1992	1991	1990	1989
Operating Revenues	\$297,096,000	\$278,435,000	\$267,641,000	\$272,882,000	\$222,256,000
Operating Costs and Expenses	151,575,000	132,362,000	131,101,000	125,409,000	100,268,000
Depreciation and Amortization	44,337,000	39,951,000	36,337,000	30,937,000	26,548,000
Income from Operations	101,184,000	106,122,000	100,203,000	116,536,000	95,440,000
Income Taxes	43,135,000 ⁽¹⁾	45,706,000	38,152,000	44,064,000	38,084,000
Net Income	66,414,000 ⁽¹⁾	82,309,000 ⁽³⁾	72,442,000	84,732,000 ⁽⁴⁾⁽⁵⁾	65,607,000
Net Income per Share	\$2.01 ⁽¹⁾	\$2.39 ⁽³⁾	\$2.11	\$2.48 ⁽⁴⁾⁽⁵⁾	\$1.93
Cash Dividends Declared per Share	\$.38	\$.32	\$.26	\$.22	\$.18
Total Assets	753,934,000	814,486,000	690,594,000	620,998,000	524,584,000
Long-term Debt	41,572,000	44,630,000	29,653,000	35,086,000	33,760,000
Shareholders' Equity	526,433,000 ⁽²⁾	564,409,000	490,433,000	423,234,000	336,560,000
Purchase of Equipment and Facilities	64,004,000	68,290,000	49,458,000	78,932,000	70,666,000
Working Capital	178,125,000	231,503,000	184,458,000	126,737,000	85,644,000

(1) Due to an increase in the federal income tax rate in 1993, additional deferred income tax liabilities of \$3.4 million, or 10 cents per share, were recorded in 1993 related to temporary differences that arose in prior years.

(2) In 1993, shareholders' equity was reduced by \$91.2 million to reflect the repurchase of approximately 2.5 million shares of the Company's common stock.

(3) In 1992, the Company sold its minority financial interest in a European venture to the majority shareholder for a pre-tax gain of \$12.6 million which increased net income by \$7.7 million, or 22 cents per share.

(4) In 1990, the Company realized a pre-tax loss of \$5.9 million on sales of marketable securities which decreased net income by \$3.7 million, or 11 cents per share.

(5) In 1990, the Company implemented Statement of Financial Accounting Standards No. 96—"Accounting for Income Taxes," which increased net income by \$9.0 million, or 26 cents per share.

Common Stock Price Range and Dividend Information

1993				1992			
Quarter	High	Low	Dividends Paid	Quarter	High	Low	Dividends Paid
First	43 ³ / ₈	34 ¹ / ₄	\$.09	First	54 ³ / ₈	45 ³ / ₈	\$.07
Second	42 ⁷ / ₈	34 ¹ / ₄	\$.09	Second	54 ¹ / ₄	43 ¹ / ₄	\$.07
Third	40 ¹ / ₂	32 ³ / ₈	\$.09	Third	46 ¹ / ₂	40 ¹ / ₄	\$.07
Fourth	36 ⁷ / ₈	33 ¹ / ₈	\$.10	Fourth	45 ¹ / ₂	40 ¹ / ₄	\$.09

FlightSafety International, Inc. common stock is listed on the New York Stock Exchange and is traded under the symbol FSI.

There were approximately 13,000 shareholders on January 13, 1994, including individual participants in security position listings. Dividends have been paid each quarter since the start of the cash dividend program in the third quarter of 1976.

The best safety device in any aircraft is a well-trained pilot.

To Our Shareholders:

Revenues for 1993 increased to \$297.1 million compared with \$278.4 million in 1992. Net income was \$66.4 million equal to \$2.01 per share, compared with last year's \$82.3 million, or \$2.39 per share. There were two non-recurring items impacting the comparison of 1993 net income with 1992 net income. Due to an increase in the federal income tax rate in 1993, deferred income tax expenses of \$3.4 million, or 10 cents per share, were recorded in 1993 to reflect an increase in deferred tax liabilities that arose in years prior to 1993. In 1992, the Company sold its minority interest in a European venture to the majority shareholder which increased net income by approximately \$7.7 million, or 22 cents per share. Without these non-recurring items, 1993 net income per share would have been \$2.11 versus \$2.17 in 1992.

Revenues for 1993 were higher than the previous year due to the strength of busi-

ness aviation and airline training demand in the 1993 fourth quarter and increased product sales resulting from the acquisition of the Visual Simulation Systems (VSS) Division in January 1993. Net income for 1993 was lower than 1992 due to higher depreciation expenses, reductions in profit margins on government contracts and product sales and higher income taxes.

Depreciation and amortization charges increased to \$44.3 million from \$40 million in 1992. Capital expenditures were \$64 million in 1993. The capital expenditures for 1994 are expected to be \$50 million.

Product sales increased to \$52.3 million from \$39 million in 1992, primarily from the additional sales generated by the VSS Division. In 1993, five simulators were delivered by the Simulation Systems Division (SSD) to overseas customers while seven were completed for the Company's learning centers. For 1994, SSD plans to deliver eight flight simulators, of which five are for

Company use, two for the U.S. Government and one for an overseas customer. A variety of sophisticated, computer-driven cockpit training devices will also be delivered to domestic and international customers.

In February 1993, the Board of Directors authorized the purchase of three million shares of the Company's common stock with funds from existing cash and operations. At December 31, 1993, approximately 2.5 million shares had been repurchased at a cost of \$94.2 million. The Board of Directors authorized an increase in the stock repurchase program to four million shares, reinforcing its optimism in the Company's long-term prospects and strong financial position. Due to the stock repurchase program, working capital at year's end decreased to \$178 million from \$232 million at the end of 1992 and shareholders' equity declined to \$526 million in 1993 from \$564 million in 1992.

Expansion continues

with the acquisition of our new Visual Simulation Systems Division, establishment of a new primary training operation in Fort Worth, Texas, to complement our existing advanced Bell Helicopter Learning Center, and a new shiphandling training facility for the U.S. Navy at the San Diego Naval Station. Construction of a new marine research and training center at the Port of Rotterdam, with the most advanced maritime simulators in the world, is nearing completion. The Company is also expanding and consolidating learning centers in Tucson, Arizona; San Antonio, Texas; Atlanta, Georgia; and St. Louis, Missouri. Seven advanced flight simulators were added in 1993 to the Company's simulator fleet, the largest in the world.

Asian and South American airlines made significant use of our training facilities during the year. The U.S. Air Force and the FAA also remained important sources of new and continuing training business. There was an increase of 70 percent in turbojet business aircraft deliv-

eries in the fourth quarter of 1993 as compared to the same period in 1992 which caused an increase in 1993 fourth quarter revenues as a result of the Company's factory-authorized training status for over 20 aircraft manufacturers.

The acquisition of the Visual Simulation Systems business unit of McDonnell Douglas Corporation provided added stimulus to our product sales. The VSS Division designs and manufactures advanced simulator visual systems under the trade name VITAL. The Division's latest product, a VITAL VIII visual system, was introduced in 1993. This new generation visual system creates more realistic scenes through a photo-imagery-based technology.

The Company's broadening technological foundation is reinforced by the addition of the design and engineering resources of the VSS Division. Our strong leadership position in the training industry is based on a clear understanding of tech-

nology's application to our activities. This is demonstrated by the Company's investment in advanced daylight visual systems on all new simulators produced by SSD.

The Company is also installing a new classroom presentation system which enables instructors to increase the effectiveness of the training through digitized technologies including animation and 3-D graphics.

The regionals and new-concept carriers are creating more opportunity for the Company. According to the FAA, 18 new airlines entered the market last year and 20 more are pending. The FAA is drafting new pilot-training rules that will require regional airlines to implement the same pilot training standards as larger airlines. These new guidelines will result in increased utilization of our equipment and facilities. The Company is well positioned to fulfill these carriers' new training requirements with a network of FAA-certified flight simulators and training systems.

Resources already in place are being used by more than 25 airlines and are contributing to safety and efficiency for our customers.

There appears to be general economic improvement in the industries our Company serves and we look forward to the future with optimism and confidence. All of us with FlightSafety are grateful for the continuing dedication of our employees, customer loyalty and the support of our shareholders.



A. L. Ueltschi
President

February 25, 1994



The people of FlightSafety consistently demonstrate a dedication that extends beyond the Company's goals, reflecting their personal integrity as aviation experts and active participants in an industry that enjoys a special culture of enthusiasm and personal participation. Each Center has developed a culture for the aircraft pro-



gram in which it specializes, providing the customers with a superior environment for the transfer of skills and knowledge. The Simulation Systems Division expanded its airline customer base in 1993 with the delivery of two full flight simulators (above) to the training center of Spain's SENASA. The Boeing 757 simulator at the Madrid



facility, certificated to the advanced Level "D" standards, will be used by the pilots of Iberia Airlines the national carrier. The Company provides training for all branches of the U.S. military community. The wide range of aircraft and simulators include the KC-135 airborne refuelling aircraft (above) and all military variants of business aircraft such as the C-20 (Gulfstream) used for the nation's VIPs.

THE YEAR IN REVIEW

Business Aircraft Simulators Added; New Training Center Established, Another Under Construction

As has been the case since the Company began in 1951, training for business aircraft continued to be our "core" business, accounting for over one-half of revenues. Business aviation training capabilities increased in 1993 with additional new simulators and expanded training centers.

The Simulation Systems Division (SSD) in Tulsa, Oklahoma, delivered seven simulators to FlightSafety facilities in the U.S., Canada and France; including a second Bell 212 helicopter to Fort Worth, Texas; a Saab 340 to San Antonio, Texas; a third Gulfstream IV to Savannah, Georgia; a third Citation V/II to Toledo, Ohio; a CitationJet to Wichita, Kansas; a Challenger 601-3A to Montreal, Canada and a second Citation V/II to Paris, France.

A second simulator control loading system for Boeing Aircraft Company's new B777 engineering simulator was installed at their Flight Systems Laboratory in Seattle. The system is now part of the engineering cockpit simulator used in the development of pilot controls for the new aircraft.

The Tulsa division has a backlog of 5 simulators scheduled for shipment in 1994 to FlightSafety locations.

The Texas Flight Academy, the Company's newest flight training operation, was established at Fort Worth as a



Alliance Airport, Fort Worth, Tex. is the Company's newest location offering flight academy-style training for helicopter and fixed-wing aircraft. The new school draws on the equipment and personnel resources of the FlightSafety Dothan facility and benefits from the airport's accessibility and its proximity to the long-established Bell Helicopter Center.

full-service flight school for rotary and fixed wing training from "ab initio" (primary) to advanced ratings.

Helicopter training was relocated from Dothan, Alabama, providing easier access for student pilots and a wider range of expansion opportunities. Training services will be coordinated with the Company's nearby simulator-equipped Bell Helicopter Learning Center.

A new 40,000 square foot Tucson Learjet Learning Center is under construction in Arizona. When it opens in June, 1994, it will have more than double the capacity of the center it replaces. Advanced Level "D" simulators for new Learjet models, the 31A and the 60, will be installed along with simulators for current programs, the Learjet 20 Series, two Learjet 35's and a Learjet 55. The completion and maintenance facility for Learjet aircraft is located nearby.

FlightSafety also provides Learjet training at centers in Wichita, Kansas and West Palm Beach, Florida. The Company is the factory-authorized training organization for all Learjet models.

New Contracts, Equipment Expand Government Training

New training contracts and delivery of additional training equipment expanded the Company's services to government agencies, including the military.

The U.S. Customs Service awarded a five-year contract for aircraft pilot and maintenance training. Four aircraft types are involved, including Citation II, Cheyenne III, C-12 (King Air) and Nomad (Search-Master). Initial and recurrent training will be provided at Company Learning Centers at Lakeland, Florida; Daleville, Alabama; Long Beach, California and Toledo, Ohio.

New initial and recurrent training contracts were awarded by the Federal Aviation Administration (FAA) for Sabreliner 80 and S-76B helicopter aircraft. Sabreliner training



A number of FlightSafety's 38 training locations are devoted entirely to airline pilot and technician training. One of these is the Cincinnati center (above) where principal customers are regional airline Comair and cargo aircarrier DHL using the facility's



Embraer 120 and Boeing 727 simulators. Another carrier using the nationwide network of airline training services is Business Express (above) which centers its pilot training at the LaGuardia facility.



Pilots of European airlines, such as Swiss operator, Air Engiadina (above: Jetstream 31 on short approach for Zurich Airport) use FlightSafety simulators at the Company's U.S. centers or at Paris/Le Bourget.



Eight of FlightSafety's U.S. centers now serve 12 of China's major airlines (above: Airbus A300-600) with simulator-based pilot training specifically tailored to each carrier's needs.



U.S. Air Force four-engine Boeing aircraft pilots, such as the members of the Utah Air National Guard (above) train at one of the 17 FlightSafety-operated locations in the KC-135 Training System. An additional contract for the training of Boeing C-135 aircrews was awarded to the Company in 1993. The Company's Simulation Systems



Division has updated some of the KC-135 training devices as part of the new contract. The two programs (above: a KC-135 refuels a C-135) are together one of the largest in USAF training.



The long-term Air Force C-5 training contract with FSI has trained over 5,000 aircrew members for the mammoth transport aircraft. The program employs seven advanced C-5 flight simulators (above) at Air Force bases in California, Oklahoma, Delaware and Massachusetts.

is accomplished at our St. Louis Learning Center, while the S-76B helicopter training takes place at the West Palm Beach Learning Center. During the year, West Palm Beach received an FAA exemption for the S-76B simulator to be used for Helicopter Instrument Rating and CFI (Certified Flight Instructor) all-simulator check rides.

FAA Boeing 737-300 pilots are now receiving initial and recurrent training at the Seattle Learning Center. Company instructors use the FAA-approved B737-300 Advanced Training Plan in the classroom and Seattle's two 737-300 EFIS (Electronic Flight Instrument Systems) simulators.

A 15-year contract was received from the U.S. Air Force for C-135 cargo aircraft pilots and flight engineers. Approximately 300 Air Force personnel will be trained annually at McClellan Air Force Base, California. This contract will utilize many of the instructional systems developed by the Company for its 15-year 1992 contract for Air Force KC-135 Boeing aerial refueling aircraft flight crew training. KC-135 training began in January, 1993.

The Simulation Systems Division initiated the conversion of KC-135 Operational Flight Trainers to full-flight simulators. One motion base was installed at the Castle Air Force Base training location in California and one at the Altus Air Force Base in Oklahoma. The motion bases were produced by the Simulation Systems Division, which is also scheduled to ship two C-17 full-flight simulators and a Cockpit Systems simulator to the Altus base in 1994.

USAF C-20 flight crews of the 89th Airlift Wing will receive initial and recurrent training under a five-year U.S. Air Force contract at the Savannah Learning Center. The Andrews AFB-based pilots and flight engineers operate Gulfstream III aircraft for transporting high-level government officials in the U.S. and overseas. Several C-20s are also located at Air Force headquarters in Ramstein, Germany, for special missions in Europe and the Middle East.



Consistently updated with more advanced simulators, the Company's learning centers are technologically in the forefront of the training world. The Company is devoted to maintaining a high degree of interpersonal exchange between instructor and pilot or maintenance technician. (above: a Wilmington Center classroom)

The pilots of German Air Rescue's three-



aircraft Learjet 35A air ambulance fleet, based in Stuttgart (above), travel to the Learjet Center/Tucson for the FlightSafety training combination of advanced simulation and expert instruction. Like pilots at other dedicated centers their interaction



with staff and other professionals is a valuable component of the training experience. Additional Level "C" simulators were installed at seven business aircraft centers in 1993, including Gulfstream, Challenger, Falcon, King Air, two Citations and the CitationJet (above) at the Wichita Citation Learning Center. Most FSI centers enjoy direct ties to the factory or major center for their aircraft, ensuring up-to-the-minute official information and technical data.

Airlines, Cadet Training, Added Simulators Mark Overseas Expansion

The Asia-Pacific region is proving to be an especially important market for the Company's services. Pilots from twelve Chinese airlines now receive training at the Company's learning centers in the United States and Canada.

Pilot cadets from China's Civil Aviation Flying College are receiving "ab initio" instruction at the Flight Academy in Vero Beach, Florida. They are the first students from that institution to use an American school for primary training. The Academy is the only establishment in this country approved by the Civil Aviation Administration of China.



Keeping pace with the advancing technology of aircraft systems, engines and avionics, the Company provides functioning training aids of great sophistication. Several centers are devoted solely to aircraft technician training. At the Savannah Center, a Gulfstream IV flightdeck mock-up is used for technician training.



Simulation Systems Division delivered simulators to a number of international carriers in 1993. The ATR 42/72 simulator (above) is now operating at the Olympic Aviation training center in Thessalonica, Greece. It includes a panoramic MultiView visual presentation system produced by the Company's Visual Simulation Systems Division.



Advancing simulator technology has resulted in significant progress in the FAA-approved replacement of in-flight training with simulator-based training. The two Bell 412/212 helicopter simulators (above: the Bell 212) delivered in 1992 and 93 to the Company's Forth Worth training center, have demonstrated this. The FAA's approval now allows customer pilots to achieve certain qualifications for the first time without an in-flight aircraft check ride.



The US Army's new OH-58D armed reconnaissance helicopter program will incorporate 10 training devices (above) being produced at FSI's Tulsa-based Simulator Systems Division. The cockpit trainers will be delivered during 1994.

The Visual Simulation Systems Division delivered six visual and projector systems to overseas customers in 1993. The visuals were installed on simulators manufactured by SSD and other companies for aircraft ranging from helicopters to commercial airliners such as the Boeing 747-400. Japan's All Nippon Airways has ordered three of the recently introduced VITAL VIII systems for its Boeing 777 and 737-500 flight simulators.

The Simulation Systems Division's (SSD) other Asia-Pacific deliveries during the year were a Learjet 31 flight simulator to Singapore Airlines and a Citation II simulator to Korean Airlines. Scheduled for 1994 delivery are a Cockpit Systems Simulator for the Japanese Civil Air College and a Lockheed C-130 Cockpit Procedures Trainer for the Royal Thai Air Force.

SSD delivered two flight simulators to the flight training center of SENASA (Sociedad Estatal para las Ensenanza Aeronauticas) in Madrid, Spain—a Boeing 757 simulator, primarily for Iberia Airlines' use and a Citation III/VII.

SSD also shipped an ATR 42/72 flight simulator to Olympic Aviation in Greece. In 1994, the division is scheduled to supply Crossair, a Swissair subsidiary, a simulator for the new generation Saab 2000 airliner.

European airlines continued to send their cadets for training to the Company's Vero Beach Flight Academy. Greece's Olympic Airways sent its second group to Florida for training to become first officer candidates. Austria's Tyrolean Airways' third ab initio group joined other cadets from Swissair, Royal Air Maroc and Korea's Asiana Airlines.



Certificated at Level "D", the highest of FAA-defined simulation standards, this Boeing 757 flight simulator serves the pilots of Spain's Iberia Airlines at SENASA's Madrid training center.



A new MarineSafety facility at San Diego Naval Station opened in 1993 to serve U.S. Navy personnel, providing ship maneuvering and docking practice with its two state-of-the-art simulators. The center is the first ship-handling training facility west of the Mississippi and will provide new levels of convincing ship bridge training environment for commercial operators when not in Navy use.



Overlooking one of Europe's busiest waterways, the new building of MarineSafety Rotterdam is physically positioned, and extensively equipped, to establish the highest levels yet achieved in the training of nautical personnel, ranging from ship's crewmembers, tugboat captains up to port traffic control operators and port officers. A joint venture with the Municipality of Rotterdam, the MarineSafety center accommodates five bridge simulators and one vessel traffic services simulator. The full mission bridge simulator features a wheelhouse on a motion-base surrounded by a 360 degree computer generated visual system. With its realistic sound and vibration simulations and depth of software, it is the most advanced maritime training device in the world.

Regional Airlines Turn To Company As Pilot Source

The Company's Career Path program is proving a reliable source of new pilots for the rapidly maturing regional airline segment of the aviation industry. Trainees are only accepted when they qualify to meet the high standards required to become a professional pilot.

More than 25 regional airlines are using FSI services to assist in selecting and qualifying new pilots for their operations.

Chicago Express, a regional carrier, has taken on a second group of graduates from the Company's Vero Beach, Florida Academy.

Twelve of Chicago Express's current pilots came from the Flight Academy Career Path program. The Academy is building an outstanding record of pilot placement with regional airlines. The Chicago Express' operations director cites FSI's crewmember training as both thorough and professional, adding that "FlightSafety has played a major role in building the carrier."



FlightSafety's career-oriented training for new pilots now extends beyond the well-established "ab initio" instruction centered at the Company's Vero Beach Flight Academy. The Pilot New Hire Program and the Career Path Program are now successfully introducing well-qualified young pilots to



commercial flying opportunities. More than 25 regional airlines use FSI services to assist in selecting and qualifying new pilots for their operations. New regional airline Chicago Express has 12 Vero Beach-trained pilots recruited and trained through these innovative programs. Vero Beach graduates (above; with their instructor) transitioned to the carrier's Jetstream 31 aircraft



in the simulator at the St. Louis Airline Center. The Academy enrollment is a balance of airline sponsored cadets and individually funded career-oriented students. (above) The Vero Beach training fleet of over 70 aircraft (including the Piper Seneca in center photo) is meticulously maintained by Academy personnel.

Atlanta-based Valujet Airlines became the first Part 121 carrier to award the Company full-service training of its DC-9 crews at the Company's Miami Learning Center. Other regional airlines already receiving FSI full-service training are Northwest Airlin's Express 1 and Express 2 carriers and Air Vantage.

MarineSafety Opens New Center In San Diego; Simulators Also Installed In Rotterdam



operations began in early January 1994 at a new MarineSafety International (MSI) shiphandling training center in San Diego, California, for the U.S. Navy. Equipped with two state-of-the-art simulators, it is the first of its kind west of the Mississippi.

Primarily for the training of deck officers of U.S. Navy vessels based in San Diego, it has a full-mission bridge simulator, a bridge wing simulator, classrooms and support areas. Commercial ship training is performed when the Center is not being used by the Navy. MSI also has a simulator-equipped shiphandling training center at Newport, Rhode Island where more than 1,000 officers from the nearby Surface Warfare Officers School receive training annually.

Installation has been completed for the five simulators



"Ab initio" training programs are configured to comply with each airline's training concept and prepare the cadets for entry into the airline-flying environment of the sponsoring airline. Within the Academy's FAA-standard oriented training the preparation of Royal Air Maroc cadets will differ from the course for Asiana Airlines of Korea, or Swissair. Two cadets from China's Civil Aviation Flying College prepare for a cross-country flight with their Academy instructor.



The steady expansion of the corporate fleet is accommodated with additional simulators at existing centers and for some programs, such as the Gulfstream (above) new training locations are established. The Long Beach Center added a Gulfstream simulator in 1993 and the spacious new Tucson Center will accommodate training for existing models as well as provide simulators for two new types of Learjet business aircraft.

at the marine training and research facility joint venture with the Municipality of Rotterdam. Research projects have begun that include harbor studies for India's Port of Madras and the island of Curacao in the Netherlands West Indies.

MSI worked jointly with Sea River Maritime (formerly Exxon Shipping) and developed a training course for captains and mates of Sea River's gulf and inland fleets.

Maintenance Training Launched at Little Rock Center, Troubleshooting Course Proves Valuable

The Company's new Falcon Jet maintenance training facility became fully-operational at Little Rock, Arkansas, during the year. Fully-equipped with training aids and hands-on instructional equipment, the new center functions in parallel with training services available at the Company's Teterboro, New Jersey, Learning Center.

A scientifically conducted academic study by Embry-Riddle Aeronautical University found maintenance technicians trained with FSI troubleshooting courses to be significantly faster and more accurate in problem diagnosis than those trained by more traditional methods. More than 3,000 technicians have taken the "Principles of Troubleshooting" course. An aircraft-specific version is now incorporated by American Airlines in their technical training at their MD-80 maintenance center in Tulsa.



The Federal Aviation Administration defines the highest level of simulation as Level "D". This is an accuracy of aircraft flight emulation that allows the substitution of the simulator for virtually all flight training purposes. FlightSafety Simulation Systems Division has recently delivered simulators of this standard to its customers and FSI facilities. The Learjet 31 for Singapore Airlines (above) is one of them. The new



Learjet Learning Center in Tucson will install an advanced Learjet 31A simulator in time for its opening in the second quarter of this year. Introduced in 1993, the VITAL VIII simulator visual system (above) makes possible a new level of scene-content and accuracy. This development of the Visual Simulation Systems Division creates photo-imagery-based visuals which add to the system's significant contribution to the quality of the pilot training. Three VITAL VIII systems have since been ordered by All Nippon Airways. They will provide cross-cockpit viewing on scenes filled with realistic detail, enhanced by the system's topographic and weather realism.

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations 1993 Compared with 1992

Training revenues increased by \$5.4 million, or two percent, in 1993 as compared to 1992. Business aviation training revenues increased by \$6.3 million primarily because of new business aircraft simulators that were added and increases in initial training related to new aircraft deliveries in the fourth quarter of 1993. Commercial airline training revenues increased by \$3.9 million as demand from South American and Asian customers increased and as a result of the continued success of the Company's Airline Training Program. There was also an increase in training revenues of \$10.2 million from a contract with the U.S. Air Force to train KC-135 tanker aircraft crews. These increases were offset by lower revenues of \$8.9 million from the U.S. Air Force C-5 contract and \$2.9 million in primary flight training.

Product sales in 1993 increased \$13.3 million, or 34 percent, from 1992. The increase in product sales was primarily attributable to sales of visual systems by the Visual Simulation Systems Division which was acquired in January 1993.

Total expenses increased \$23.6 million, or 14 percent, in 1993 as compared to 1992. Salary expense increased \$6.7 million principally due to additional personnel hired for the U.S. Air Force KC-135 contract. Depreciation and amortization increased by \$4.4 million due to a full year of depreciation on simulators added in 1992 and a partial year of depreciation for simulators added in 1993. General and administrative expenses increased primarily because of costs associated with the KC-135 contract with the U.S. Air Force. These increases were offset by a net decrease in operating expenses of \$0.5 million primarily due to a \$3.6 million reduction of effort for the U.S. Air Force C-5 contract offset by increases in operating expenses from the KC-135 contract. Cost of product sales increased by \$11.8 million principally due to sales of visual systems. Research and development expenditures incurred by the Visual Simulation Systems Division amounted to \$3.2 million and are included in cost of product sales. The decrease in gross profit margin to 24.6% in 1993 from 29.1% in 1992 was principally due to the research and development expenditures in cost of product sales.

Interest and other income decreased by \$1.7 million in 1993 as compared to 1992 principally due to lower investment balances in 1993 resulting from funds used for the Company's stock repurchase program. Interest expense decreased primarily from lower interest rates in 1993 on the Company's borrowings against the cash surrender value of corporate-owned life insurance policies.

Income taxes decreased by \$2.6 million, or six percent, in 1993 as compared to 1992 due principally to lower income before income taxes offset by the result of the increase in the federal income tax rate, including the additional deferred income tax liability recorded in 1993 related to temporary differences that arose in prior years. The effective income tax rate increased to 39.4% in 1993 from 35.7% in 1992 primarily due to the previously mentioned increase in the federal income tax rate in 1993.

Inflation continued to increase operating costs and costs of equipment and facilities during 1993. The Company expects to recover its additional costs due to inflation with increases in volume and prices.

Financial Condition

In 1993, \$105.4 million of cash was provided by operations and \$97.4 million was provided by a reduction in short-term investments. Cash was principally used to repurchase common stock (\$94.2 million), purchase equipment and facilities (\$64.0 million), repay long-term debt and short-term borrowings (\$29.9 million) and pay dividends (\$12.4 million).

Accounts receivable at December 31, 1993 increased by \$7.6 million, or 18 percent, from December 31, 1992 due to an increase in amounts billed in the 1993 fourth quarter as compared to the 1992 fourth quarter. Intangibles and inventories increased by \$6.9 million and \$4.7 million

respectively, principally due to the 1993 acquisition of the Visual Simulation Systems Division.

Cash provided by operations funded the purchase of equipment and facilities (primarily revenue generating assets). In 1994, the Company expects to spend in excess of \$50 million for additional equipment and facilities. The Company also expects to continue to purchase shares of its common stock. The Board of Directors increased the shares authorized for the stock repurchase program from 3,000,000 shares to 4,000,000 shares on December 3, 1993. The Company expects to fund these items with cash provided by operations and existing cash.

Results of Operations 1992 Compared with 1991

Training revenues increased by \$9.7 million, or four percent, in 1992 as compared to 1991. Business aviation training revenues increased by \$8.5 million primarily because of new business aircraft simulators that were added. Regional airline training revenue increased by \$2.1 million due to continued demand for services and additional full service training provided to airlines and individual candidates in the Company's Airline Training Program. Major airline training revenues increased by \$0.8 million primarily due to the addition of the Miami Learning Center in June, 1992 and the addition of Airbus Industrie A-310 and McDonnell Douglas MD-88 simulators. There was also an increase in training revenues of \$2.3 million from a new contract with the U.S. Air Force to train KC-135 tanker aircraft crews. These increases were offset by lower revenues of \$2.4 million from the U.S. Air Force C-5 contract and \$1.1 million from a contract with the U.S. Space Command.

Product sales in 1992 increased \$1.1 million, or three percent, from 1991. There were 27 training devices in the process of being manufactured for unaffiliated customers in 1992 as compared to 16 in 1991. The additional devices in process resulted in increased sales of \$2.9 million offset by lower sales of \$1.7 million from the U.S. Air Force C-17 contract as the first two simulators for this transport plane were delivered in 1992. Manufacture of additional simulators for the C-17 transport also began in 1992 and are in their early stages of production.

Total expenses increased \$4.9 million, or three percent, in 1992 as compared to 1991. Salary expense increased \$4.2 million principally due to merit increases and additional personnel related to the new U.S. Air Force KC-135 contract. Depreciation and amortization increased by \$3.6 million due to a full year of depreciation on simulators added in 1991 and a partial year of depreciation for simulators added in 1992. General and administrative expenses increased primarily because of continued expansion and higher insurance costs. These increases were offset by a decrease in operating expenses of \$3.9 million primarily due to a reduction of effort for the U.S. Air Force C-5 contract. Cost of product sales decreased principally from reduced costs associated with the C-17 contract. The increase in gross profit margin to 29.1% in 1992 from 24.9% in 1991 is due to additional commercial contracts in 1992 which generally have a higher gross profit margin.

In 1992, the Company realized a gain of \$12.6 million on the sale of its minority financial interest in a European venture to the majority shareholders. Interest and other income decreased by \$0.5 million in 1992 as compared to 1991 due to lower interest rates in 1992. Interest expense increased primarily from the Company's increased borrowings against the cash surrender value of corporate-owned life insurance policies during 1991 and \$25.2 million of new industrial development obligations for the purchase of new simulators for the Company's Wichita Learning Centers.

Income taxes increased 20 percent in 1992 as compared to 1991 due to an increase in income before income taxes. The effective income tax rate increased to 35.7% in 1992 from 34.5% in 1991 due to higher state income taxes, a decrease in tax advantaged income as a percentage of pre-tax income, and 1991 foreign tax credits from a distribution of accumulated earnings of a foreign subsidiary.

Consolidated Statements of Income

	<i>Year ended December 31,</i>		
	1993	1992	1991
Revenues:			
Training revenues	\$244,784,000	\$239,434,000	\$229,777,000
Product sales	52,312,000	39,001,000	37,864,000
	297,096,000	278,435,000	267,641,000
Costs and Expenses:			
Salaries and wages	64,923,000	58,268,000	54,094,000
Depreciation and amortization	44,337,000	39,951,000	36,337,000
General and administrative	23,868,000	22,612,000	20,899,000
Operating expenses	23,317,000	23,817,000	27,682,000
Cost of product sales	39,467,000	27,665,000	28,426,000
	195,912,000	172,313,000	167,438,000
Income from operations	101,184,000	106,122,000	100,203,000
Other income (expense):			
Gain on sale of interest in European venture		12,600,000	
Interest and other income	10,539,000	12,259,000	12,734,000
Interest expense	(2,174,000)	(2,966,000)	(2,343,000)
Income before income taxes	109,549,000	128,015,000	110,594,000
Income taxes	43,135,000	45,706,000	38,152,000
Net income for the year	\$ 66,414,000	\$ 82,309,000	\$ 72,442,000
Net income per share	\$2.01	\$2.39	\$2.11
Average shares outstanding	33,089,261	34,409,501	34,306,676

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Consolidated Balance Sheets

Assets	<i>December 31,</i>	
	1993	1992*
Current Assets:		
Cash	\$ 2,100,000	\$ 2,311,000
Short-term investments	178,949,000	276,365,000
Accounts receivable, less allowance for doubtful accounts of \$1,442,000 (\$1,146,000 in 1992)	48,963,000	41,358,000
Inventories	14,605,000	9,858,000
Prepaid expenses and other current assets	8,586,000	8,457,000
Total Current Assets	253,203,000	338,349,000
Equipment and facilities, at cost	744,408,000	680,903,000
Less-accumulated depreciation and amortization	(291,030,000)	(247,219,000)
	453,378,000	433,684,000
Construction funds held by trustee	1,971,000	10,187,000
Intangible and other assets	45,382,000	32,266,000
	\$753,934,000	\$814,486,000

Liabilities and Shareholders' Equity	<i>December 31,</i>	
	1993	1992
Current Liabilities:		
Short-term borrowings and current portion of long-term debt	\$ 1,819,000	\$ 28,693,000
Accounts payable and accrued expenses	36,964,000	40,844,000
Income taxes payable	5,299,000	7,184,000
Unearned income for contract training	30,996,000	30,125,000
Total Current Liabilities	75,078,000	106,846,000
Long-term debt	41,572,000	44,630,000
Deferred income taxes	103,515,000	92,334,000
Other liabilities	7,336,000	6,267,000
Total Liabilities	227,501,000	250,077,000
Shareholders' Equity:		
Common stock—par value \$.10 per share		
Authorized—100,000,000 shares		
Issued and outstanding—32,007,558 shares (34,456,608 in 1992)	3,201,000	3,446,000
Capital in excess of par value	30,778,000	28,525,000
Retained earnings	494,161,000	534,116,000
	528,140,000	566,087,000
Restricted stock compensation	(1,707,000)	(1,678,000)
Total Shareholders' Equity	526,433,000	564,409,000
Commitments and contingencies		
	\$753,934,000	\$814,486,000

* Reclassified to conform to 1993 presentation.

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Consolidated Statements of Cash Flows

	<i>Year ended December 31,</i>		
	1993	1992*	1991*
Increase (decrease) in cash			
Cash flows from operating activities:			
Net income	\$ 66,414,000	\$ 82,309,000	\$ 72,442,000
Items in net income not using cash:			
Depreciation and amortization	44,337,000	39,951,000	36,337,000
Provision for losses on accounts receivable	519,000	534,000	931,000
Deferred income taxes	12,593,000	4,234,000	11,143,000
Increase in cash surrender value of corporate-owned life insurance, net of premiums	(1,396,000)	(600,000)	
Other, net	833,000	488,000	882,000
Changes in working capital other than cash:			
(Increase) decrease in inventory	(4,747,000)	(8,575,000)	871,000
(Increase) decrease in accounts receivable	(8,124,000)	4,137,000	(8,966,000)
(Increase) in prepaid expenses and other current assets	(129,000)	(747,000)	(2,313,000)
(Decrease) increase in accounts payable and accrued expenses	(3,880,000)	8,417,000	(3,716,000)
(Decrease) increase in income taxes payable	(1,885,000)	1,335,000	(3,318,000)
Increase in unearned income	871,000	2,044,000	3,783,000
Net cash provided by operating activities	105,406,000	133,527,000	108,076,000
Cash flows from investing activities:			
Capital expenditures	(64,004,000)	(68,290,000)	(49,458,000)
Corporate-owned life insurance	(7,450,000)	(7,310,000)	(7,286,000)
Intangible assets arising from acquisition	(6,916,000)		
Decrease (increase) in short-term investments	97,416,000	(74,943,000)	(43,733,000)
Other	2,785,000	766,000	136,000
Net cash provided by (used in) investing activities	21,831,000	(149,777,000)	(100,341,000)
Cash flows from financing activities:			
Repurchase of common stock	(94,190,000)		
Long-term borrowings		25,170,000	
Portion of long-term borrowings withdrawn from (placed in) construction funds held by trustee, net	8,216,000	(10,187,000)	
Proceeds from short-term borrowings		18,500,000	5,800,000
Repayment of short-term borrowings and long-term debt	(29,932,000)	(9,010,000)	(10,205,000)
Increase in long-term borrowings against cash surrender value of corporate-owned life insurance			5,145,000
Cash dividends	(12,431,000)	(11,018,000)	(8,926,000)
Exercise of stock options	2,027,000	2,558,000	3,501,000
Effect of tax leases	(1,138,000)	(833,000)	(762,000)
Net cash (used in) provided by financing activities	(127,448,000)	15,180,000	(5,447,000)
Net (decrease) increase in cash	(211,000)	(1,070,000)	2,288,000
Cash at beginning of year	2,311,000	3,381,000	1,093,000
Cash at end of year	\$ 2,100,000	\$ 2,311,000	\$ 3,381,000

*Reclassified to conform to 1993 presentation.

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Note 1—Summary of Significant Accounting and Reporting Policies

Consolidation and Reporting

The accompanying financial statements include the accounts of the Company and its majority-owned subsidiaries. Investments in common stock representing a significant ownership interest not in excess of 50 percent are included in such statements under the equity method of accounting.

The Company operates primarily in one industry segment: training. Training activities include advanced training of professional pilots and crews, primary training for individuals to obtain private or commercial pilot licenses, training in the maintenance of aircraft, design and implementation of integrated training systems and training crews of large ocean-going vessels in ship and cargo handling. The Company is also engaged in the manufacture and sale of products including simulators and visual systems. The Company's clients include corporations, commercial airlines, ship operators, the military and other government agencies.

Revenues

Revenue from training is recognized when the training is provided except for revenue from training provided pursuant to annual contracts which is recognized on the straight-line method over the life of the contract. Revenues and costs arising from product sales are accounted for principally under the percentage of completion method.

Depreciation and Amortization

Depreciation is provided on the straight-line method over estimated useful lives as follows: simulators, training equipment and spare parts, 4 to 20 years; buildings, 25 to 40 years; and furniture, fixtures and equipment, 4 to 10 years. Leasehold improvements, including buildings on leased property, are amortized over the life of the lease or the life of the improvement, whichever is shorter.

Interest is capitalized as an integral component of cost during the construction period of simulators and facilities and is amortized over the life of the related assets.

Short-term Investments

Short-term investments consist primarily of state and municipal obligations and are stated at amortized cost, which approximates market value.

Common Stock Repurchase

The Company records the repurchase of its common stock by reducing the common stock account by the par value of the common stock purchased and reducing retained earnings by the amount in excess of par value. Repurchased common stock is cancelled and returned to the Company's authorized and unissued common shares.

Amortization of Intangible Assets

Intangible assets arose principally from the acquisitions of a subsidiary in 1988 and a division in 1993 and are amortized over periods from 3 to 20 years.

Income Taxes

The Company records income taxes in accordance with Statement of Financial Accounting Standards No. 109—"Accounting for Income Taxes," which was adopted in 1993 and had no effect on the Company's financial statements since the Company had previously recorded income taxes in accordance with Statement of Financial Accounting Standards No. 96.

Net Income Per Share

Net income per share is based upon the weighted average number of shares outstanding during each year. Stock options have not been included in the calculation of net income per share because their inclusion would not have a significant dilutive effect.

Note 2—Acquisition

On January 29, 1993, the Company purchased the assets of the Visual Simulation Systems business unit of McDonnell Douglas Corporation. The assets purchased included accounts receivable, inventory, contracts-in-process, furniture, fixtures and various intangible assets arising from the acquisition. The new Division manufactures computer generated image display systems for aircraft simulators, under the trade name VITAL, at its St. Charles, Missouri facility.

Note 3—Equipment and Facilities

	<i>December 31,</i>	
	1993	1992
Simulators, training equipment and spare parts	\$587,297,000	\$535,029,000
Land and buildings	63,737,000	62,610,000
Furniture, fixtures and equipment	30,095,000	20,689,000
Leasehold improvements	5,253,000	4,708,000
Construction-in-progress	58,026,000	57,867,000
	\$744,408,000	\$680,903,000

Note 4—Income Taxes

Analysis of income tax provision

	<i>Year ended December 31,</i>		
	1993	1992	1991
Currently payable	\$31,680,000	\$42,305,000	\$27,771,000
Deferred income taxes	12,593,000	4,234,000	11,143,000
Effect of tax leases	(1,138,000)	(833,000)	(762,000)
Income taxes as recorded	\$43,135,000	\$45,706,000	\$38,152,000

State and local income taxes amounted to \$5,645,000 in 1993 (\$6,760,000 in 1992 and \$5,534,000 in 1991). Foreign income before taxes and foreign taxes were not material. The principal temporary difference generating deferred income taxes in the current year and past years is depreciation of equipment and facilities which is recognized in different years for financial reporting than for tax reporting. Due to an increase in the federal income tax rate in 1993, additional deferred income tax liabilities of \$3.4 million were recorded in 1993 related to temporary differences that arose in prior years.

Analysis of effective tax rate

	<i>Year ended December 31,</i>					
	1993		1992		1991	
	Amount	%	Amount	%	Amount	%
Federal income tax at statutory rate	\$38,343,000	35.0%	\$43,525,000	34.0%	\$37,602,000	34.0%
State income taxes, net of federal tax benefit	3,727,000	3.4	4,462,000	3.5	3,652,000	3.3
Tax exempt interest income	(2,890,000)	(2.6)	(3,601,000)	(2.8)	(3,286,000)	(3.0)
Effect of federal tax rate increase on previously provided deferred income tax liabilities	3,427,000	3.1				
Other, net	528,000	.5	1,520,000	1.0	184,000	.2
Income taxes as recorded	\$43,135,000	39.4%	\$45,706,000	35.7%	\$38,152,000	34.5%

The Company does not provide taxes on undistributed earnings of foreign subsidiaries since the Company anticipates no significant incremental U.S. income taxes on the repatriation of these earnings due to tax rates in foreign jurisdictions in which the Company has operations approximating or exceeding the U.S. statutory income tax rates. In 1991, the Company realized a reduction of U.S. federal income taxes from foreign tax credits attributable to a distribution of earnings from a foreign subsidiary.

The Company made tax payments of \$33.5 million in 1993 (\$40.9 million in 1992 and \$29.8 million in 1991).

Note 5—Short-term Borrowings and Long-term Debt

	<i>December 31,</i>	
	1993	1992
Industrial development obligations due 1994-2012	\$37,930,000	\$40,804,000
Short-term borrowings		18,500,000
Capitalized lease obligations	5,461,000	14,019,000
Less—short-term borrowings and current portion of long-term debt	(1,819,000)	(28,693,000)
	<u>\$41,572,000</u>	<u>\$44,630,000</u>

The Company's industrial development obligations had variable rates between 1.7 and 4.0 percent during 1993. The weighted average interest rate for the above borrowings was 3.3 percent in 1993 (4.3 percent in 1992). The short-term borrowings at December 31, 1992 were incurred by one of the Company's foreign subsidiaries at a rate of 6.34%. At December 31, 1993, approximately \$20 million of the Company's assets were pledged as security for the industrial development obligations. Under the most restrictive covenants, the Company must maintain positive working capital, a long-term debt to net worth ratio of less than 0.75 to 1.0 and a minimum net worth of \$100 million.

Intangible and other assets include investments in corporate-owned life insurance which have a cash surrender value of \$43.6 million offset by borrowings against cash surrender value of \$20.3 million at December 31, 1993 (\$34.8 million and \$20.3 million, respectively, at December 31, 1992). In 1993, the borrowings against the cash surrender value of corporate-owned life insurance were at an interest rate of 9.3 percent (10.2 percent in 1992).

The amounts of debt payable in the five years subsequent to 1993 are: \$1,819,000 in 1994, \$1,759,000 in 1995, \$1,759,000 in 1996, \$1,259,000 in 1997 and \$959,000 in 1998.

The Company paid interest of \$2,402,000 in 1993, \$2,605,000 in 1992 and \$1,938,000 in 1991, net of amounts capitalized. The amount of interest capitalized was \$1,543,000 in 1993 (\$2,262,000 in 1992 and \$2,721,000 in 1991).

Note 6—Retirement Plans

Substantially all employees of the Company and all but one of its domestic subsidiaries are eligible to participate in the Company's noncontributory defined benefit retirement plan. Benefits are based principally on years of service and compensation during an employee's career. An employee becomes vested upon completion of five years of service or the attainment of age 55 and is entitled to receive a minimum monthly benefit at normal retirement age. The Company also has a defined contribution plan for certain employees. Pension cost amounted to \$1,799,000 in 1993 (\$1,225,000 in 1992 and \$1,268,000 in 1991).

The Company's funding policy is to contribute amounts sufficient to meet the requirements of the Employee Retirement Income Security Act of 1974, plus any additional amounts which the Company may determine to be appropriate. The assets of the Plan include insurance contracts, marketable equity securities and mutual funds.

The funded status as of the following measurement dates were:

	<i>December 31,</i>		
	1993	1992	1991
Plan assets at fair value	\$22,212,000	\$17,910,000	\$15,869,000
Actuarial present value of benefits for service rendered to date:			
Accumulated benefits based on salaries to date, including vested benefits of \$14,998,000 (\$11,095,000 in 1992 and \$9,224,000 in 1991)	15,419,000	11,419,000	9,540,000
Additional benefits based on estimated future salary levels	6,150,000	4,470,000	4,247,000
Projected benefit obligation	<u>21,569,000</u>	<u>15,889,000</u>	<u>13,787,000</u>
Plan assets in excess of projected benefit obligations	643,000	2,021,000	2,082,000
Unrecognized net actuarial (gain) loss	555,000	(1,296,000)	(557,000)
Unamortized transition net asset	(1,060,000)	(1,124,000)	(1,188,000)
Prepaid pension asset (accrued liability)	<u>\$ 138,000</u>	<u>\$ (399,000)</u>	<u>\$ 337,000</u>
Net periodic pension cost included the following components:			
Service cost-benefits earned during the period	\$ 1,810,000	\$ 1,456,000	\$ 1,314,000
Interest cost on projected benefit obligation	1,307,000	1,103,000	929,000
Actual return on plan assets	(2,173,000)	(1,750,000)	(2,483,000)
Net amortization and deferral	855,000	416,000	1,508,000
Net pension cost	<u>\$ 1,799,000</u>	<u>\$ 1,225,000</u>	<u>\$ 1,268,000</u>

The assumed discount rate in computing the projected benefit obligation was 7 percent, the assumed rate of compensation increase was 4 percent and the assumed long-term rate of return on plan assets was 7 percent.

Asset gains and losses are deferred in the year generated and amortized in future years over the average remaining service period of active participants.

Note 7—Shareholders' Equity

Changes in issued common stock, capital in excess of par value and retained earnings for the three years ended December 31, 1993 were as follows:

	Common Stock Shares	Common Stock Amount	Capital in excess of par value	Retained Earnings
Balance, December 31, 1990	34,244,624	\$3,424,000	\$22,104,000	\$399,309,000
Net income				72,442,000
Exercise of stock options, net	126,074	13,000	3,488,000	
Restricted stock compensation plan, net	647		195,000	
Dividends declared				(8,926,000)
Balance, December 31, 1991	34,371,345	3,437,000	25,787,000	462,825,000
Net Income				82,309,000
Exercise of stock options, net	84,145	9,000	2,549,000	
Restricted stock compensation plan, net	1,118		189,000	
Dividends declared				(11,018,000)
Balance, December 31, 1992	34,456,608	3,446,000	28,525,000	534,116,000
Net income				66,414,000
Exercise of stock options, net	62,321	6,000	2,021,000	
Restricted stock compensation plan, net	5,529	1,000	232,000	
Dividends declared				(12,451,000)
Repurchase of common stock	(2,516,900)	(252,000)		(93,938,000)
Balance, December 31, 1993	32,007,558	\$3,201,000	\$30,778,000	\$494,161,000

On February 19, 1993, the Board of Directors authorized a stock repurchase program for up to 3,000,000 shares of the Company's common stock. On December 3, 1993, the Board of Directors increased its authorization to 4,000,000 shares. As of December 31, 1993, there are 1,483,100 shares authorized and remaining for possible repurchase.

Note 8—Employee Stock Plans

Stock Option Plans

The Company has three active stock option plans for its key employees: the "1979 Plan", the "1982 Plan" and the "1992 Plan".

The 1979 Plan provided for awards consisting of non-qualified options for the purchase of shares of common stock at the market price at date of grant. Options granted under the 1979 Plan expire ten years from date of grant. As of December 31, 1989, pursuant to its terms, no further grants of options were available under the 1979 Plan.

The 1982 Plan permitted awards consisting of non-qualified and incentive stock options at the market price at date of grant. As of August 1992, pursuant to its terms, no further grants of options were available under the 1982 Plan. Options for 72,933 shares were granted in 1991.

The 1992 Plan permits awards consisting of non-qualified and incentive stock options for the purchase of up to 600,000 shares of common stock at the market price at date of grant. Options for 102,410 shares were granted in 1993 and 67,275 shares were granted in 1992. At December 31, 1993, shares available for future options under the 1992 Plan were 431,315.

Proceeds received from the exercise of options under the plans are credited to the capital accounts in the year the options are exercised. The plans permit employees to tender shares to the Company in lieu of cash for the exercise of stock options. No amounts were charged or credited to income as a result of these plans.

The following tabulation sets forth the activity of the plans for the three years ended December 31, 1993.

	Number of Options	Option Price Per Share		
Outstanding at December 31, 1990	501,664	\$13.79	-	\$47.25
Granted in 1991	72,933		43.00	
Exercised in 1991	(100,993)	13.79	-	47.25
Cancelled in 1991	(54,884)	13.79	-	47.25
Outstanding at December 31, 1991	442,220	13.79	-	47.25
Granted in 1992	67,275		44.13	
Exercised in 1992	(46,954)	13.79	-	41.75
Cancelled in 1992	(7,010)	20.71	-	47.25
Outstanding at December 31, 1992	455,531	13.79	-	47.25
Granted in 1993	102,410		33.81	
Exercised in 1993	(14,673)	13.79	-	22.50
Cancelled in 1993	(3,000)	41.75	-	47.25
Outstanding at December 31, 1993	540,268	\$13.79	-	\$47.25

Under the 1979 Plan, 225,411 options were exercisable at December 31, 1993 (215,234 options at December 31, 1992). The remaining 10,300 options become exercisable in 1994. Under the 1982 Plan, 67,334 options were exercisable at December 31, 1993 (40,411 options at December 31, 1992). The remaining options become exercisable as follows: 27,134 in 1994, 27,123 in 1995 and 14,281 in 1996. Under the 1992 Plan, 13,287 options were exercisable at December 31, 1993 (no options were exercisable in 1992). The remaining options become exercisable as follows: 33,729 each year in 1994 through 1997 and 20,482 in 1998.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan which provides for the granting of options to eligible employees to purchase not more than an aggregate of 1,012,500 shares of common stock. Options are granted annually on July 1 and terminate one year from date of grant. The purchase price of the shares is 85 percent (90 percent prior to July 1, 1992) of the closing price of the common stock on the date of grant or exercise, whichever is lower. At December 31, 1993, options to purchase approximately 53,000 shares were outstanding. The actual number of shares issued under the plan in 1993 was 48,745 (38,267 in 1992 and 33,785 in 1991).

Restricted Stock Compensation Plan

In 1984, the Board of Directors and shareholders approved the 1984 Restricted Stock Compensation Plan, which permits awards consisting of restricted stock of up to 900,000 shares of common stock. The plan contains various restrictions on the disposition of the shares and the shares issued are held in escrow by the Company until such time as the restrictions lapse or they are forfeited. As of December 31, 1993, 106,910 restricted shares are being held in escrow. The quoted market price of the stock at the date issued has been recorded as restricted stock compensation and is being amortized over the time required for each employee to attain normal retirement age. The amount of compensation expense recorded is not significant to the Company's financial statements.

Note 9—Sale of Minority Interest in European Venture

In July 1992, the Company sold its minority financial interest in a European venture to the majority shareholder for a pre-tax gain of \$12.6 million which increased net income per share by \$7.7 million, or 22 cents per share.

Note 10—Commitments and Contingencies

The Company is obligated under long-term operating leases for offices, facilities and real property. The future minimum rental payments under these leases are as follows: \$1,291,000 in 1994, \$1,215,000 in 1995, \$1,023,000 in 1996, \$825,000 in 1997, \$743,000 in 1998 and \$5,829,000 thereafter. These leases are generally subject to renewal. Rent for 1993 was \$1,790,000 (\$1,407,000 in 1992 and \$1,417,000 in 1991).

Note 11—Industry Segments

The Company is predominantly in one industry segment: training. The Company is also engaged in product sales of simulators, visual systems and other high-technology training equipment. Revenues derived from U.S. Government agencies amounted to \$58,382,000 in 1993 (\$59,418,000 in 1992 and \$57,656,000 in 1991).

	<i>Year ended December 31.</i>		
	1993	1992	1991
Revenues:			
Training	\$244,784,000	\$239,434,000	\$229,777,000
Product sales	92,202,000	66,358,000	70,345,000
Intersegment elimination (1)	(39,890,000)	(27,357,000)	(32,481,000)
Total	<u>\$297,096,000</u>	<u>\$278,435,000</u>	<u>\$267,641,000</u>
Contributions to operating income:			
Training	\$ 86,620,000	\$ 94,786,000	\$ 90,765,000
Product sales	14,564,000	11,336,000	9,438,000
Total	<u>\$101,184,000</u>	<u>\$106,122,000</u>	<u>\$100,203,000</u>

(1) Intersegment sales, all of which relate to product sales, are recorded at cost.

Training revenues are predominately earned in the United States. Product sales to unaffiliated customers are in the following geographic areas:

	1993	1992	1991
Europe	\$ 27,030,000	\$ 13,178,000	\$ 10,871,000
United States	17,674,000	10,520,000	15,834,000
Canada	3,866,000		
Asia	3,742,000	15,303,000	11,159,000
Total	<u>\$ 52,312,000</u>	<u>\$ 39,001,000</u>	<u>\$ 37,864,000</u>

At December 31, 1993 the accounts receivable related to product sales were \$13.4 million (\$9.4 million in 1992). The following represents the identifiable assets by segment as of December 31:

	1993	1992	1991
Training	\$504,763,000	\$491,809,000	\$454,413,000
Product sales	42,531,000	26,537,000	23,147,000
Corporate (2)	206,640,000	296,140,000	213,034,000
Total	<u>\$753,934,000</u>	<u>\$814,486,000</u>	<u>\$690,594,000</u>

(2) Corporate assets consist primarily of cash, short-term and other investments and equipment and facilities (net).

Capital expenditures and depreciation and amortization expense relate primarily to the training industry segment of the Company and are not material with respect to product sales.

1993, 1992 and 1991 Selected Quarterly Financial Information (Unaudited)

1993	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$73,759,000	\$78,660,000	\$67,853,000	\$76,824,000
Income from operations	24,362,000	26,878,000	20,867,000	29,077,000
Net income	17,238,000	18,505,000	11,035,000 ⁽¹⁾	19,636,000
Net income per share	50 cents	56 cents	34 cents ⁽¹⁾	61 cents
1992	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$69,867,000	\$70,941,000	\$69,174,000	\$68,453,000
Income from operations	26,766,000	28,640,000	25,910,000	24,806,000
Net income	18,699,000	19,841,000	25,812,000 ⁽²⁾	17,957,000
Net income per share	54 cents	58 cents	75 cents ⁽²⁾	52 cents
1991	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$63,698,000	\$68,102,000	\$64,292,000	\$71,549,000
Income from operations	25,037,000	25,377,000	22,294,000	27,495,000
Net income	17,795,000	18,188,000	16,585,000	19,874,000
Net income per share	52 cents	53 cents	48 cents	58 cents

(1) Due to an increase in the federal income tax rate, additional deferred income taxes of \$3.4 million, or 10 cents per share, were recorded in 1993 related to increased deferred income tax liabilities for temporary differences recorded prior to 1993.

(2) In July 1992, the Company sold its minority financial interest in a European venture to the majority shareholder for a pre-tax gain of \$12.6 million which increased net income by \$7.7 million, or 22 cents per share.

Report of Independent Accountants

To the Board of Directors and Shareholders of FlightSafety International, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and of cash flows present fairly, in all material respects, the financial position of FlightSafety International, Inc. and its subsidiaries at December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Price Waterhouse
New York, New York
February 1, 1994

Directors

Albert L. Ueltschi, Chairman
President, FlightSafety International, Inc.

George B. Beitzel*
Senior Vice President and Director, Retired
International Business Machines Corporation
*Information handling systems,
equipment and services*

Edward E. Hood, Jr.*
Vice Chairman and Executive
Officer, Retired
General Electric Company
*Diversified technology,
manufacturing and services company*

Charles R. Longworth*
Chairman
Colonial Williamsburg Foundation
*Museum, education, hotel
and restaurant services*

John A. Morgan*
Partner
Morgan Lewis Githens & Ahn
Investment Bankers

Bruce N. Whitman
Executive Vice President
FlightSafety International, Inc.

Officers

Albert L. Ueltschi
President

Bruce N. Whitman
Executive Vice President

Elmer G. Gleske
Vice President-Governmental Affairs

Dennis Gulasy
Vice President-Simulation Systems

Kenneth W. Motschwiller
Vice President-Treasurer

James S. Waugh
Vice President-Marketing

Mario D'Angelo
Controller

Peter P. Mullen
Secretary
Partner, *Skadden, Arps, Slate, Meagher & Flom*

*Member of the Audit Committee

Registrar and Transfer Agent:

American Stock Transfer and Trust Co., 40 Wall Street, New York, New York 10005

Annual Meeting:

The Annual Meeting of Shareholders is scheduled for 4 p.m., Wednesday, April 27, 1994 at the corporate headquarters, Marine Air Terminal, LaGuardia Airport, Flushing, New York 11371

Form 10-K report to the Securities and Exchange Commission will be made available to interested persons upon written request to the Treasurer of the Corporation.

FlightSafety Learning Centers and Other Locations

Alliance Flight Training Academy

2250 Alliance Blvd.
Fort Worth, Texas 76177
(817) 491-9699 • Fax (817) 491-4002
Toll Free (800) 791-1414

*Helicopter and Airplane
Primary Flight
Training Plus Add-on Ratings
Bell JetRanger 206B III
Schweizer 269/300C
Piper PA28-161, Piper PA28-201
Piper PA44-180*

Atlanta Learning Center

1804 Hyannis Court
College Park, Georgia 30337
(404) 991-6064 • Fax (404) 991-5959

*Jetstream 31; Embraer 120
JetStar -6, -8, 731, JetStar II
King Air 90, 100, 200 Series*

Bethany Learning Center

Wiley Post Airport
P.O. Box 1640
7310 N.W. 50th Street
Bethany, Oklahoma 73008
(405) 495-6400 • Fax (405) 495-6404 • Telex 203122(ESL)

*Cmdr. Jetprop 840, 900, 980, 1000
Cmdr. Turbo 690, 690A, 690B*

Cincinnati Learning Center

1600 Dolwick Dr.
Erlanger, Kentucky 41018
(606) 283-2345 • Fax (606) 283-2362

*Boeing 727
Embraer 120*

Daleville Learning Center

24 Industrial Boulevard
Daleville, Alabama 36322
(205) 598-4485 • Fax (205) 598-4488

*C-12, C, D, F, U-21
RC-12*

Dothan Learning Center

600 FlightSafety Drive
Dothan, Alabama 36303
(205) 983-5652 • Fax (205) 983-1393

King Air A90; Cessna 182

FlightSafety Academy

Vero Beach Municipal Airport
2805 Airport Drive
P.O. Box 2708
Vero Beach, Florida 32961
(407) 567-5178 • Fax Admin. (407) 567-5228
Toll Free (800) 800-1411

*Ab Initio Airline Training
Career-Oriented Primary Flight
Training-Private through Instructor*

Ab Initio & New Hire Programs
(407) 778-4992 • Fax (407) 778-6496
Toll Free (800) 829-4992

Fort Worth Learning Center

9601 Trinity Boulevard
Fort Worth, Texas 76053
(817) 282-2557 • Fax (817) 282-8543

*Bell 212, 214ST
222, 222B, 222U, 412, 230
Helicopter Instrument Rating
Agusta Bell 212/412*

Greater Philadelphia/Wilmington Learning Center

New Castle County Airport
155 N. Dupont Hwy.
New Castle, Delaware 19720
(302) 328-7548 • Fax (302) 322-6664
Telex 6503401581(MCI/WUI)
Toll Free (800) 733-7548

*HS-125/1A-400, /600, /700
BAe 800/1000
Jet Commander 1121
Westwind 1123, 1124, Astru
ATR-42/72; Fokker 100*

Houston Learning Center

William P. Hobby Airport
7525 Fauna at Airport Boulevard
Houston, Texas 77061
(713) 644-1521 • Fax (713) 644-2118
Telex 9103507267 (TWX)
62824224(ESL) • Toll Free (800) 927-1521

*MU-2; Embraer 120
King Air 90, 100, 200 Series
BAe 800, HS-125/700
Falcon 20; Boeing 737
ATR-42/72; Challenger
Gulfstream I*

LaGuardia Learning Center

Marine Air Terminal
LaGuardia Airport
Flushing, New York 11371
(718) 565-4170 • Fax (718) 565-4174 • Telex 667573UW (WUI)
Toll Free (800) 877-5343

*Beech 1900
Sborts 360*

Lakeland Flight Academy

Lakeland Airport
2949 Medulla Road
Lakeland, Florida 33811
(813) 646-5037 • Fax (813) 644-6211
Toll Free (800) 726-5037

*Primary Flight Training
plus Add-On Ratings
Private through ATP
Cheyenne I, IA, II, IIXL, III, IIIA
400; Chieftain; Mojave; AeroStar
Navajo 310, 325, 350; T1020, T1040*

Long Beach Learning Center

Long Beach Municipal Airport
4350 Donald Douglas Drive
Long Beach, California 90808
(310) 420-7670 (Corporate Scheduling)
(310) 420-7733 (Airline Scheduling)
Fax (310) 429-1226
Toll Free (800) 487-7670

*Boeing 737; Citation I, II
Cessna 300/400 Series
Gulfstream II
King Air 90, 100, 200 Series
MD-80; MD-88/87*

Miami Learning Center

4800 N.W. 36th St.
P.O. Box 661198
Miami, Florida 33266
(305) 871-8625 • Fax (305) 871-8659

*A310-300; A300-600; MD-88/87
Boeing 727-100; 727-200
757-200; DC-9-30*

Montreal Learning Center

9555 Ryan Avenue
Dorval, Quebec, Canada H9P 1A2
(514) 631-2084 • Fax (514) 631-2263

Challenger 600, 601, 601-3A

Paris Learning Center

BP25
Zone d'Aviation d'Affaires
Bldg. 404
Aéroport du Bourget
93350 Le Bourget CEDEX, France
+33 (1) 49-92-19-19 • Fax +33 (1) 49-92-18-92
• Telex 232032F (TWX)

*Falcon 10/100, 20, 50, 200, 900
King Air 200; Citation I/II, V
Embraer 120
Dash 8 (DH-8)
Mooney*

St. Louis Sabreliner Learning Center

Lambert-St. Louis International Airport
6161 Aviation Drive
St. Louis, Missouri 63134
(314) 731-2040 • Fax (314) 731-3077

*Sabreliner 40/60
65, 75A/80, 1-39*

St. Louis Airline Learning Center

4619 Le Bourget Drive
St. Louis, Missouri 63134
(314) 426-6160 • Fax (314) 426-2834

*MD-80; DC-9-30
Boeing 727
SAAB 340*

St. Louis Flight Crew Learning Center

Lambert St. Louis International Airport
6185 Aviation Drive
St. Louis, Missouri 63134
(314) 731-2040 (Ext. 15) • Fax (314) 895-8868

*Jetstream 31
Merlin SA226
Metro SA227*

Salt Lake City Airline Learning Center

201 North 2200 West
Salt Lake City, Utah 84116
(801) 355-3901 • Fax (801) 355-3801

Boeing 737

San Antonio Learning Center

San Antonio International Airport
9027 Airport Boulevard
San Antonio, Texas 78216
(210) 826-6358 • Fax (210) 826-4008

*Martin SA26, SA226
Metro SA227 Series
SAAB 340
Mooney; TBM700*

Savannah Learning Center Savannah Maintenance Learning Center

Travis Field
P.O. Box 2307
Savannah, Georgia 31402
(912) 964-6421 • Fax (912) 964-6430 • Telex 62822180(ESL)
9103506364(TWX)

Gulfstream I, II, III, IV

Seattle Airline Learning Center

1505 South 192nd St.
Seattle, Washington 98148
(206) 243-9081 • Fax (206) 243-0357

*Boeing 737, 757, 767
Jetstream 31/32; Embraer 120
Metro SA227; Dash 8 (DH-8)*

Teterboro Learning Center

Teterboro Airport
100 Moonachie Avenue
Moonachie, New Jersey 07074
(201) 939-1810 • Fax (201) 939-7341
Maintenance (201) 939-2600 • Fax (201) 939-0346

Falcon 10/100, 20/20-731, 50, 200, 900

Toledo Learning Center

Toledo Express Airport
11600 West Airport Service Road
Swanton, Ohio 43558
(419) 865-0551 • Fax (419) 865-0754
Toll Free (800) 497-4023

*Citation I, II, S/II, III, V, VI
King Air 90, 100, 200 Series*

Toronto Learning Center

95 Garratt Boulevard
Downsview, Ontario
Canada M3K 2A5
(416) 638-9313 • Fax (416) 638-3348

*de Havilland Twin Otter (DH-6)
Dash 7 (DH-7), Dash 8 (DH-8)*

Tucson Learning Center

Tucson International Airport
6870 South Plumer Avenue
Tucson, Arizona 85706
(602) 889-9538 • Fax (602) 889-9619 • Telex 6835032(TWX)

Learjet 20, 30, 50, 60 Series

West Palm Beach Learning Center

Palm Beach International Airport
3887 Southern Boulevard
West Palm Beach, Florida 33406
(407) 686-7677 • Fax (407) 689-7719
Telex 9103809772 (ESL)

*Sikorsky S-76A, A+, B, C
Learjet 30 Series
Composite Structures Repair*

Wichita Beech Learning Center

9720 E. Central Avenue
Wichita, Kansas 67206
(316) 685-4949 • Fax (316) 685-2476
Telex 62043796(ESL)
9102505115(TWX)
Toll Free (800) 488-3747

*Beech 1900; Baron 55, 58
58P/58TC; King Air 90, 100, 200
300 Series; Bonanza, Duke; Starship
Diamond MU-300
Beechjet 400*

Wichita Beech Maintenance Learning Center

9525 East Central Avenue
Wichita, Kansas 67206
(316) 685-5510 • Fax (316) 685-2448
Telex 62043796(ESL)
9102505115(TWX)

*Beech 1900, C99
King Air 90, 100, 200, 300 Series
Bonanza; Baron 58; Starship
Diamond MU 300; Beechjet 400
King Air 200 Series Troubleshooting*

Wichita Cessna Learning Center

1951 Airport Road
P.O. Box 12304
Wichita, Kansas 67277
(316) 943-2140 • Fax (316) 943-1017
Telex 62806593(ESL) • 9103339800(TWX)
Toll Free (800) 227-5656

*Cessna 210, 300/400 Series
Conquest I (CE-425), II (CE-441)
Caravan I (CE-208), Caravan II (CE-406)*

Wichita Cessna Maintenance Center

1962 Midfield Road
P.O. Box 12263
Wichita, Kansas 67277
(316) 945-0123 • Fax (316) 945-0161
Telex 62806593(ESL)
9103339800(TWX)

*Cessna 182, R182, 206, 208, 210
T210, P210
303, 340A, 402C, 406, 414, 421, 425, 441
Citation I, II, S/II, III, V, VI, VII
Composite Repair
Citation 500 Series
Troubleshooting
Citation 500 Series Run & Taxi
CitationJet (CE-525)*

Wichita Citation Learning Center

1851 Airport Road
P.O. Box 12323
Wichita, Kansas 67277
(316) 943-3214 • Fax (316) 943-7651
9103339800(TWX)
Toll Free (800) 488-3214

*Citation I, II, S/II, III, V, VI, VII
CitationJet (CE-525)*

Wichita Learjet Learning Center

8217 West Harry
P.O. Box 9320
Wichita, Kansas 67277
(316) 943-3394 • Fax (316) 943-0314

Learjet 20, 30, 50, 60 Series

DIVISIONS:

Instructional Systems Division

8900 Trinity Blvd.
Hurst, Texas 76053
(817) 595-5450 • Fax (817) 595-5479

Simulation Systems Division

2700 North Hemlock Circle
Broken Arrow, Oklahoma 74012
(918) 251-0500 • Fax (918) 251-5597 • Telex 492384

Visual Simulation Systems Division

2590 North Highway 94
St. Charles, Missouri 63301
(314) 925-8500 • Fax (314) 925-8444

SUBSIDIARIES:

FlightSafety Services Corporation

10184 West Belleview Ave., Ste. 300
Littleton, Colorado 80127
(303) 932-3680 • Fax (303) 932-3699

P.O. Box 1598
Travis Air Force Base, California 94535
(707) 437-6661 • Fax (707) 437-6509

P.O. Box 02043
Building 206, Room 13
Dover Air Force Base, Delaware 19902
(302) 734-9900 • Fax (302) 734-9918

P.O. Box 8040
Altus Air Force Base, Oklahoma 73522
(405) 482-9223 • Fax (405) 482-9389

MarineSafety International Kings Point Learning Center

MarineSafety/CAORF
U.S. Merchant Marine Academy
Steamboat Road
Kings Point, New York 11024
(516) 773-5866 • Fax (516) 773-5604

Newport Learning Center

344 Aquidneck Avenue
Middletown, Rhode Island 02842
(401) 849-0222 • Fax (401) 849-9264

San Diego Learning Center

P.O. Box 368-002
San Diego, CA 92136-8002
(619) 231-3333 • Fax (619) 231-2062

MarineSafety Rotterdam B.V.

Wilhelminalade 701
P.O. Box 51290
3007 GG Rotterdam
The Netherlands
+31-10-486-6654 • Fax +31-10-484-6071

AFFILIATES:

PowerSafety International Lynchburg Learning Center

3305 Old Forest Rd.
P.O. Box 11886
Lynchburg, Virginia 24506
(804) 385-8852 • Fax (804) 385-5276

Indiana Learning Center

Mike Wida Industrial Park
325 Ferguson Rd.
Homer City, Pennsylvania 15748
(412) 479-3585 • Fax (412) 479-3911

Washington Office

300 Metropolitan Square
655 Fifteenth Street, N.W.
Washington, D.C. 20005
(202) 639-4066 • Fax (202) 638-2670
Telex 440487 Courtesy

CORPORATE HEADQUARTERS:

FlightSafety International

Marine Air Terminal
LaGuardia Airport
Flushing, New York 11371
(718) 565-4100 • Fax (718) 565-4134 • Telex 667573UW

FlightSafety
international

FlightSafety International
Marine Air Terminal
LaGuardia Airport
Flushing, New York 11371
(718) 565-4100
Fax 565-4134

An equal opportunity employer
