ACQUISITIONS AND DIVESTITURES OF BUSINESSES

On January 31, 1994, the Company acquired the Distribution and Control Business Unit (DCBU) of Westinghouse Electric Corporation for $1.050 billion. DCBU, a leading North American manufacturer of electrical distribution equipment and industrial controls, had sales of $1.1 billion in 1993. The acquisition was accounted for as a purchase and, accordingly, the statements of consolidated income include the results of DCBU beginning February 1, 1994. The assets acquired and liabilities assumed in the acquisition follow (in millions):

| | |
|---|---|
| Fair value of assets acquired including identified intangible assets of $95 | $ 742 |
| Liabilities assumed | (298) |
| Excess of cost over net assets acquired | 606 |
| Purchase price, net of cash acquired | $1,050 |

In December 1993, in conjunction with the acquisition of DCBU, the Company recorded a $55 million acquisition integration charge ($34 million after income tax credits, or $.49 per Common Share). The charge addressed the costs of integrating existing product lines and manufacturing operations with DCBU, related workforce reductions and a $9 million write-down of assets, largely in the United States. To date, expenditures and charges total $39 million with the remaining $16 million expected to occur primarily over the next two years.

On November 16, 1994, the Company acquired the common stock of Lectron Products, Inc. (Lectron) through the issuance of 1.6 million Common Shares. Lectron, a privately-held manufacturer of electronic and precision electromechanical controls for automotive manufacturers, had sales of $128 million in 1994. This acquisition was accounted for as a pooling-of-interests. Financial statements for periods prior to the acquisition were not restated for the acquisition since the effect was not material.

Effective May 1, 1995, in two separate transactions, the Company acquired the IKU Group of The Netherlands and the Emwest electrical switchgear and controls business from Email Ltd. of Australia for a combined purchase price of $120 million. The IKU Group is a leading supplier of electric mirror actuators for automotive manufacturers in the United States, Europe and Korea. Emwest manufactures and distributes a wide range of electrical equipment including circuit breakers, panelboards, contactors and switchgear in the Pacific Region. These two acquisitions had combined sales of $110 million in 1994. These acquisitions have been accounted for as purchases and, accordingly, the statements of consolidated income include the results of their operations since the effective date of acquisition.

During 1994, in conjunction with the acquisition of DCBU, the Company sold certain DCBU operations to Thomas & Betts Corporation (T&B) in exchange for cash aggregating $61 million and $14 million of T&B common stock. These divestitures resulted in no gain or loss.

During 1995, 1994 and 1993, the Company also acquired and divested other smaller operations.

EXTRAORDINARY ITEM

During 1993, the Company called for redemption $74 million of 9% debentures and $89 million of 8.5% debentures. The extraordinary loss on these redemptions, including the write-off of unamortized debt issuance costs, was $11 million ($7 million after income tax credits, or $.10 per Common Share).

ACCOUNTS RECEIVABLE AND INVENTORIES

Accounts receivable are net of an allowance for doubtful accounts (in millions) of $15 and $14 at the end of 1995 and 1994, respectively.

The components of inventories at December 31 follow (in millions):

| | 1995 | 1994 |
|---|---|---|
| Raw materials | $225 | $213 |
| Work in process | 369 | 358 |
| Finished goods | 235 | 216 |
| Gross inventories at FIFO | 829 | 787 |
| Excess of current cost over LIFO cost | (94) | (89) |
| Net inventories | $735 | $698 |

Gross inventories accounted for using the LIFO method (in millions) were $328 and $367 at the end of 1995 and 1994, respectively.

INVESTMENT IN LIFE INSURANCE

The Company has company-owned life insurance policies insuring the lives of a portion of active United States employees. The policies accumulate asset values to meet future liabilities including the payment of employee benefits such as health care. At December 31, 1995 and 1994, the investment in the policies included in other assets (in millions) was $10, net of policy loans of $348 and $226, respectively. Net life insurance expense (in millions) of $7 in 1995, $5 in 1994 and $2 in 1993, including interest expense of $27, $15 and $4 in 1995, 1994 and 1993, respectively, was included in selling and administrative expense.

DEBT AND OTHER FINANCIAL INSTRUMENTS

The Company's subsidiaries outside the United States have lines of credit, primarily short-term, aggregating $109 million from various banks worldwide. At December 31, 1995, the Company had $34 million outstanding under these lines of credit. The weighted average interest rate on short-term debt, excluding immaterial amounts for highly inflationary countries, at December 31, 1995 and 1994 was 6.3% and 6.8%, respectively.