In order to finance the acquisition, the Company issued $930 million of short-term commercial paper. The Company plans to reduce these short-term financings by the middle of 1994 through equity and long-term debt financings. The timing and mix of these financings will depend on market conditions. Of these short-term financings, $555 million will be classified as long-term debt because the Company intends, and has the ability under a new five-year $555 million revolving credit agreement entered into in January 1994, to refinance this debt on a long-term basis. Also, in January 1994, the Company entered into a $555 million 364-day revolving credit agreement.

In 1993, the Company entered into several interest rate hedge agreements related to the planned financing of the acquisition. In September 1993, the Company entered into four interest rate swaps commencing on January 18, 1994. Two thirty-year swaps will effectively convert $100 million of floating rate debt into fixed rate debt at an average rate of 6.685%, and two ten-year swaps will effectively convert $100 million of floating rate debt into fixed rate debt at an average rate of 5.788%. In October 1993, the Company purchased a one-year interest rate cap commencing on January 1, 1994 that effectively places a 5.5% ceiling on $400 million of floating rate debt, and a ten-month interest rate cap commencing January 1, 1995 that effectively places a 5.5% ceiling on $100 million of floating rate debt.

In December 1993, in conjunction with the acquisition, the Company recorded a $55 million acquisition integration charge before income tax credits ($34 million after income tax credits, or $.49 per Common Share). Part of a comprehensive business plan, the charge addresses the costs of the integration of ICPDO product lines and operations with DCBU, related workforce reductions and an $8 million write-down of assets, largely in the United States. Expenditures are expected to occur over approximately the next four years and will be funded through cash flow from the combined operations. The Company anticipates that integration of the businesses will create permanent value by streamlining product lines, manufacturing capacity and organization structure and enable the businesses to attain maximum benefit from synergy of complementary product offerings, operations and technical expertise. Positive incremental benefits are anticipated following the first year of integration activities.

EXTRAORDINARY ITEM AND RESTRUCTURING CHARGE

In March 1993, the Company called for redemption, in April 1993, the $74 million outstanding balance of its 9% debentures, and in December 1993, the Company called for redemption, in January 1994, the $89 million outstanding balance of its 8.5% debentures. The extraordinary loss on these redemptions, including the write-off of debt issue costs, was $11 million before income tax credits ($7 million after income tax credits, or $.10 per Common Share).

In 1991, as a result of the review of operating strategies and in order to improve competitiveness and future profitability, the Company recorded a restructuring charge of $39 million before income tax credits ($25 million after income tax credits, or $.38 per Common Share). The charge included provisions for restructuring, relocation and rationalization of product lines and operations and permanent workforce reductions involving a significant number of operations, primarily in the United States and Europe.

ACCOUNTING CHANGES

In 1992, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". SFAS No. 106 requires accrual of these benefits, primarily postretirement health care and life insurance for retirees in the United States, over the working lives of employees rather than recognition of expenses as claims are incurred. Included in net income for 1992 is the cumulative effect of this accounting change for prior years of $442 million before income tax credits ($274 million after income tax credits, or $3.97 per Common Share). As a result of this accounting change, 1992 postretirement health care and life insurance costs increased $25 million before income tax credits ($16 million after income tax credits, or $.23 per Common Share). Results for 1991 have not been restated for this accounting change. SFAS No. 106 has no effect on cash flows since claims will continue to be paid as incurred.

In 1992, the Company also adopted SFAS No. 109, "Accounting for Income Taxes". The adoption of this standard changed the method of accounting for income taxes to the liability method from the deferred method. The liability method requires recognition of deferred income taxes based on temporary differences between the financial reporting and income tax bases of assets and liabilities, using currently-enacted income tax rates and regulations. Included in net income for 1992 is the cumulative effect of this accounting change for prior years of $6 million, or $.09 per Common Share. Results for 1991 have not been restated for this accounting change. SFAS No. 109 has no effect on cash flows.

ACCOUNTS RECEIVABLE

Included in accounts receivable at December 31, 1993 and 1992 were unbilled amounts of $23 million and $91 million, respectively, primarily related to long-term contracts of the Defense Systems business segment with the United States Government. These receivables will be billed in accordance with applicable contract terms and are expected to be collected within one year.

Accounts receivable are net of an allowance for doubtful accounts of $10 million at the end of 1993 and 1992.

INVENTORIES

December 31	*1993*	*1992*
(Millions of dollars)		
Raw materials	$141	$128
Work in process	238	264
Finished goods	139	146
Gross inventories at FIFO	518	538
Excess of current cost over LIFO cost	(84)	(83)
Net inventories at LIFO	$434	$455

Gross inventories accounted for using the LIFO method were $314 million and $294 million at the end of 1993 and 1992, respectively.

DEBT AND OTHER FINANCIAL INSTRUMENTS

Information related to the 1994 financing of the acquisition of DCBU is contained under "Subsequent Event - Acquisition of DCBU and Integration Charge" in the Financial Review.

The Company has lines of credit, primarily short-term, aggregating $119 million from various banks worldwide. Most of these arrangements do not have termination dates, but are reviewed periodically