Interest expense declined to $75 million for 1993, the lowest level since 1986, from $89 million for 1992 largely due to the reduction of higher interest rate debt, lower debt levels during 1993 and increased capitalized interest.

Other income – net was $12 million in 1993, down from $23 million in 1992, largely due to the $11 million pretax gain on the sale of the Company's interest in a limited partnership recorded in 1992.

An analysis of changes in income taxes and the effective income tax rate is presented under "Income Taxes" in the Financial Review.

In 1992, the Company adopted two new accounting standards for postretirement benefits other than pensions and for income taxes, which together reduced net income by $268 million due to the recognition of their cumulative effect for prior years.

CHANGES IN FINANCIAL CONDITION

The Company's financial condition remained strong during 1993. The current ratio was 1.9 at December 31, 1993 compared to 2.0 at December 31, 1992. The decline in working capital to $679 million at year-end 1993 from $751 million at year-end 1992 was primarily the result of an increase in the current portion of long-term debt due to the decision to redeem, in early 1994, the $89 million outstanding balance of 8.5% debentures. Cash and short-term investments increased by $84 million to $300 million at December 31, 1993 due to improved cash flow from operations and the sale of 1.3 million Common Shares in 1993 for net proceeds of $62 million. In spite of the increase in sales in 1993 to record levels, heightened emphasis on efficient asset management is reflected in the $21 million decline in inventories to $434 million at December 31, 1993. An increase in accounts receivable resulting from improved 1993 sales was more than offset by a reduction due to the collection of receivables at AIL as a consequence of the definitization of contract modifications as agreed to with the United States Air Force late in 1992; the net impact of the increase and offsetting decrease resulted in a $78 million decline in accounts receivable to $550 million at December 31, 1993. In addition, accounts receivable days sales outstanding at December 31, 1993 was 43, historically one of the lowest levels, in spite of the expanding economy and sales growth.

Long-term debt declined to $649 million at year-end 1993 from $833 million at the end of 1992 primarily due to the call for redemption of $74 million of 9% debentures in March 1993 and $89 million of 8.5% debentures in December 1993.

In private placements the Company sold 1.3 million Common Shares in 1993 for aggregate net proceeds of $62 million and, in January 1994, an additional 800,000 Common Shares for $38 million. Beginning in April 1995, the holder of these shares has the right to require the Company to register their public sales under the Federal securities law.

Capital expenditures were $227 million, one of the Company's highest levels, in 1993 compared with $186 million in 1992, as the Company maintained its emphasis on enhancing manufacturing efficiencies and capabilities. Capital expenditures in 1994 are anticipated to be higher than 1993 for those businesses unrelated to the acquisition of DCBU. Further capital expenditures are planned relative to the combining of DCBU and ICPDO. During 1993, the Company [illegible]

Net cash provided by operating activities increased to $435 million for 1993 from $381 million for 1992. This increase resulted primarily from improved net income, reflecting higher sales and rigorous cost controls. Changes in operating assets and liabilities also contributed to the increase in net cash provided by operating activities in 1993. Operating cash flow and proceeds from the sale of Common Shares during 1993 were more than adequate to fund capital expenditures, cash dividends, the investment in certain small businesses and other corporate purposes.

On May 25, 1993, the Company redeemed its share purchase rights at a redemption price of 3-1/3 cents for each right for a total payment of $2 million.

At the end of 1993, as a result of the trend of declining long-term interest rates, the discount rate used to measure the projected benefit obligation for pensions was reduced to 7.25% from 8.25%. This change had the effect of increasing the accumulated pension benefit obligation by $103 million with an offsetting decrease in the unamortized net gain. In addition, the rates used to measure the projected benefit obligation for postretirement benefits other than pensions were changed. The changes in rates included a reduction in the discount rate to 7.25% from 8.5%, and in the annual rate of increase in per capita cost of covered health care benefits. These rate changes had the effect of increasing the accumulated postretirement benefit obligation by $49 million with an offsetting increase in the unamortized net loss. The effect on future expense for pensions and postretirement benefits other than pensions will be immaterial.

At December 31, 1993 and 1992, the Company had net deferred income tax assets included in current and long-term assets. Management believes it is more likely than not that these tax benefits will be realized through the reduction of future taxable income. Significant factors considered by management in its determination of the probability of the realization of the deferred tax assets include the historical operating results of the Company, expectations of future earnings and the extended period of time over which the postretirement health care liability will be paid.

On January 31, 1994, the Company acquired DCBU from Westinghouse Electric Corporation and issued $930 million of short-term commercial paper to finance the acquisition. The Company plans to reduce these short-term financings by the middle of 1994 through expanded use of 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. Strong cash flow, reinforced by the projected results of the newly created Cutler-Hammer business unit, should permit the repayment of the financings within the next five years. The Company is maintaining the strength of its balance sheet, and two major debt-rating agencies, Standard and Poor's and Moody's, have confirmed the "A" rating on its long-term debt.

The Company expects that the economic and market growth experienced in North America during 1993 will continue to expand to additional markets in 1994, however that growth will likely be [illegible]