Peat, Marwick, Mitchell & Co.

Certified Public Accountants

Peat Marwick Plaza
303 East Wacker Drive
Chicago, Illinois 60601
(312) 938-1000

July 13, 1981

he Echlin Manufacturing Company
ranford, Connecticut

and

org-Warner Corporation
hicago, Illinois

ear Sirs:

nclosed are 30 copies of the Combined Balance Sheet of the Automotive Aftermarket perations of Borg-Warner Corporation as of February 28, 1981 and our report thereon nd 30 copies of the calculation of Net Operating Investment of Borg-Warner Corporation ith respect to the Automotive Aftermarket Operations as of February 28, 1981 and our e t thereon, prepared in connection with the proposed acquisition of the Automotive f...market Operations by The Echlin Manufacturing Company.

ı connection with the examination of the aforementioned combined balance sheet, our uditing procedures, including tests of the accounting records, were limited to those hich we considered necessary in the circumstances on the basis of generally accepted uditing standards approved and adopted by the American Institute of Certified Public ccountants.

he objective of our examination was to express an opinion as to whether the aforementioned combined balance sheet presents fairly the financial position of the Automotive Aftermarket Operations of Borg-Warner Corporation at February 28, 1981 in onformity with generally accepted accounting principles applied on a basis consistent vith that of the preceding period, and was not directed to the discovery of immaterial rrors and misstatements. However, the following immaterial errors and misstatements, vhich have not been reflected in the aforementioned combined balance sheet, came to our ttention during the course of our examination and are set forth below for your nformation:

Peat, Marwick, Mitchell & Co.

			(In Thousands) Effect on Equity of Borg-Warner Corporation in Automotive Aftermarket Operations (Over) Understatement
Accounting Matters			
ustments related to inventories:			
Unrecorded (shrinkage) gain:			
APD - International	$(121)		
APD	(85)		
Ottawa	(85)		
Canada	77	$(214)	
(Excess) deficiency of recorded cost compared to FIFO:			
APD	(95)		
Ballwin/Washington	164		
Ottawa	20		
Net adjustments required	89		
Less amounts recorded in combination	$ 200	(111)	
Allowance for slow-moving goods - Canada		(84)	
Reversal of capitalized Federal sales tax - Canada		(61)	$ (470)
ustments related to prepaid expenses accrued liabilities:			
Understatement of prepaid freight and packaging-APD		201	
Overstatement of accrued sales commissions-APD		89	
Understatement of accrued Federal sales tax-Canada		(81)	
Other minor items, net		(67)	142

E00238

Other adjustments:

- Net effect of sales cutoff errors

Ballwin/Washington	(43)		
APD-International	(29)	(72)	
Additional allowance for doubtful accounts and reversal of interest income recognized thereon-APDI		(233)	
			(305)
			$ (633)

Unrecorded work-in-process inventory - Ottawa: $ 637

- The Ottawa division has consistently followed the practice of recording only raw materials and finished goods inventories and of not recording work-in-process inventories. A physical inventory of such work-in-process was taken on January 31, 1981 and was valued, as to raw material content only, at $637,000.

  We have inquired of Ottawa division officials as to the nature of the above described physical inventory and valuation procedures and we have performed limited tests of such procedures. Because such inquiries and limited tests do not constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion on the amount of Ottawa division work-in-process inventory. In connection with such inquiries and limited tests, nothing came to our attention that caused us to believe that the amount of Ottawa division work-in-process inventory should be adjusted, except that no value has been ascribed to the labor and overhead content of such inventory.

Should have records re purchase of ast

Contractual Matters

Unrecorded allowances for stock returns and warranties:	$(2,000)

- The Automotive Aftermarket Operations have consistently followed the practice of not accruing for future stock returns or warranties, except for an accrual of $330,000 related to the Ballwin/Washington division.

  The estimated unrecorded liability for stock returns and warranties of approximately $2,000,000 has not been recorded in the combined balance sheet because it is specifically excluded from the calculation of Borg-Warner Corporation in net operating investment as defined in section 1.4 of the Agreement for Sale of Assets and in order to remain consistent with prior practices.

Unrecorded liabilities for accrued vacation pay:	$ (445)

- The Automotive Aftermarket Operations have consistently followed the practice of only accruing vacation pay for hourly employees where contractually obligated.

  Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, which is effective for fiscal year beginning after December 15, 1980, would require the accrual of vacation pay for substantially all employees. Such accrual has not been recorded in the combined balance sheet because section 6.1 of Exhibit M to the Agreement for Sale of Assets provides for separate settlement of vacation pay liabilities and in order to remain consistent with prior practices.

Considering the test character of our examination, you will appreciate that the above listing represents only those immaterial errors and misstatements which came to our attention during the course of our examination and does not necessarily mean that there are no others.

Very truly yours,

Peat, Marwick, Mitchell & Co.

PEAT, MARWICK, MITCHELL & CO.

/cd

Enclosures