THE ECHLIN MANUFACTURING COMPANY

175 North Branford Road
Branford, Connecticut 06405

Notice of Special Meeting of Stockholders
To Be Held July 7, 1981

To the Stockholders of The Echlin Manufacturing Company:

Notice is hereby given that a Special Meeting of Stockholders of The Echlin Manufacturing Company, a Connecticut corporation ("Echlin" or the "Company"), will be held at the offices of the Company at Echlin Road and U.S. Route #1, Branford, Connecticut, on Tuesday, July 7, 1981 at 4:00 P.M., Eastern Daylight Time, for the purpose of considering and acting upon the following:

(1) To approve the acquisition by Echlin of the Automotive Aftermarket Operations of Borg-Warner Corporation ("Borg-Warner") and certain other assets, in exchange for 4,500,000 shares of Echlin Common Stock;

(2) To transact such other business as may properly come before the meeting or any adjournments thereof.

The proposed acquisition of the Automotive Aftermarket Operations has been the subject of careful consideration by Echlin's officers and directors. The Board believes the acquisition to be in the best interests of Echlin and its stockholders and recommends a vote FOR the proposed acquisition.

The accompanying Proxy Statement includes a description of the proposed acquisition, pro forma financial information and other information about Echlin and the Automotive Aftermarket Operations, a copy of the Agreement for Sale of Assets, a copy of the Restricted Securities Agreement placing restrictions on Echlin shares to be held by Borg-Warner, and other related information. You should study all such information carefully.

Only stockholders of record on the close of business on May 26, 1981 are entitled to notice of and to vote at the meeting.

If you wish to vote for the approval of the proposal, it is not necessary to specify your choice; merely sign, date and return the enclosed proxy in the enclosed envelope, which requires no postage if mailed in the United States. Your prompt response will be helpful and your cooperation will be appreciated.

By order of the Board of Directors.

David H. Spiller, *Secretary*

Dated: June 5, 1981

SUMMARY INFORMATION REGARDING THE PROPOSED ACQUISITION OF AUTOMOTIVE AFTERMARKET OPERATIONS

The following summary is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Proxy Statement.

The matter to be considered and voted on by the stockholders of Echlin is the proposed acquisition by Echlin of the Automotive Aftermarket Operations of Borg-Warner.

Description of Automotive Aftermarket Operations. The Automotive Aftermarket Operations is a group of five divisions of Borg-Warner or of its subsidiaries, two of which are manufacturing divisions and three of which distribute and sell replacement parts (including those produced by the manufacturing divisions) in the automotive aftermarket, in the United States, Canada and abroad. See "Business and Property of the Automotive Aftermarket Operations".

Description of Proposed Transaction. Echlin proposes to acquire the Automotive Aftermarket Operations and certain other assets from Borg-Warner in exchange for 4,500,000 shares of Echlin Common Stock (the "Echlin Shares"). Borg-Warner would thereby become the holder of approximately 22% of Echlin's outstanding Common Stock. Echlin believes that the consideration to be paid is within the range of prices paid by others for comparable acquisitions, and is justified by the operating record of the Automotive Aftermarket Operations and its prospects as part of Echlin. See "Acquisition of Automotive Aftermarket Operations—Consideration to be Paid for Automotive Aftermarket Operations; Opinion of Investment Banking Firm". The Echlin Shares had an aggregate market value on June 2, 1981, based on the closing price on the New York Stock Exchange, of $60,200,000. However, the Echlin Shares will be subject to significant contractual restrictions, and, in the opinion of Echlin, will have a fair value which is considerably less than the market price. See "The Echlin Manufacturing Company and Automotive Aftermarket Operations of Borg-Warner Corporation Notes to Pro Forma Combined Balance Sheet (Unaudited)". With respect to the contractual restrictions, see "Acquisition of Automotive Aftermarket Operations—Summary of Restrictions on Echlin Shares to be Held by Borg-Warner" and the Restricted Securities Agreement attached as an Exhibit to this Proxy Statement.

Summary Financial Information

Set forth below is selected financial data relating to The Echlin Manufacturing Company, the Automotive Aftermarket Operations of Borg-Warner Corporation and the combination of Echlin and the Automotive Aftermarket Operations on a pro forma basis, in thousands, except per share amounts:

Income Statement

	Echlin	Automotive Aftermarket Operations (Pro Forma)	Pro Forma Combined
Six Months Ended February 28, 1981			
Net sales	$167,761	$ 58,047	$224,309
Income before taxes	12,423	4,797	17,765
Net income	7,143	*	10,052
Earnings per share of common stock	0.45	—	0.49
Average number of common shares outstanding	16,038	—	20,538
Year ended August 31, 1980			
Net sales	$301,400	$115,741	$414,730
Income before taxes	14,659	10,502	25,831
Net income	8,769	*	14,719
Earnings per share of common stock	0.55	—	0.72
Average number of common shares outstanding	15,993	—	20,493

Balance Sheet

	Echlin	Automotive Aftermarket Operations (Pro Forma)	Pro Forma Combined
February 28, 1981			
Working capital	$109,874	$ 38,887	$156,844
Total assets	253,947	63,499	325,588
Long-term debt	51,530	2,032	53,562
Shareholders' equity	147,409	44,782	199,409

* See Note 1 of Notes to Combined Financial Statements and Note C of Notes to Statement of Combined Income Before Income Taxes of the Automotive Aftermarket Operations and Note D of The Echlin Manufacturing Company and Automotive Aftermarket Operations of Borg-Warner Corporation Pro Forma Statements of Combined Income for information relating to income taxes of the Automotive Aftermarket Operations.

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THE ECHLIN MANUFACTURING COMPANY

175 North Branford Road
Branford, Connecticut 06405

PROXY STATEMENT

For

SPECIAL MEETING OF STOCKHOLDERS

July 7, 1981

Approximate Date of Mailing: June 5, 1981

This Proxy Statement accompanies the Notice of Special Meeting of Stockholders of The Echlin Manufacturing Company, a Connecticut corporation ("Echlin" or the "Company") to be held at the Company's offices at Echlin Road and U. S. Route #1, Branford, Connecticut on Tuesday, July 7, 1981 at 4:00 P.M., E. D. T.

GENERAL

The accompanying proxy is solicited by and on behalf of the Board of Directors of the Company for use at a Special Meeting of Stockholders to be held on July 7, 1981, and any adjournment of that meeting. On May 2, 1981, the Board of Directors of Echlin voted to approve the transaction and to submit the matter to the Stockholders for their consideration. There were no dissenting votes and the Board is unanimously in favor of the transaction. The matter to be acted upon is the acquisition by Echlin of all the assets of Borg-Warner Corporation's aftermarket operations, in exchange for 4,500,000 shares of Echlin common stock, $1 par value ("Common Stock"). Borg-Warner Corporation is hereinafter referred to as "Borg-Warner" and the aftermarket operations assets and business to be acquired are hereinafter called the "Automotive Aftermarket Operations". The Echlin shares proposed to be issued in the transaction (the "Echlin Shares") are presently authorized, and under Connecticut law, stockholder approval for their issuance is not required. Because the transaction would result in an increase of more than 20% in the outstanding Common Stock, however, the rules of the New York Stock Exchange require that the matter be submitted to the stockholders of Echlin for approval. The Board of Directors of Echlin will be bound by the results of the stockholder vote at the Special Meeting. If stockholder approval is not obtained, the transaction will not be completed. Echlin presently has no plans to seek a similar type of acquisition if this transaction is not approved by its stockholders.

As a part of the transaction, and subject to its consummation, the Echlin Board of Directors intends to elect Frank E. Pilling, a Vice President of Borg-Warner, to the Echlin Board after the closing. Mr. Pilling will fill the vacancy recently created by the death of Douglas R. G. Williams. Mr. Williams had been a director of Echlin for more than twenty years and a Vice President of the Company, before his retirement, for more than ten years. He will be greatly missed.

If you wish to vote in accordance with the recommendation of the Board of Directors, no choice need be specified; the proxy may simply be signed and returned, and that action will constitute a vote in favor of the transaction. Any stockholder giving a proxy may revoke it at any time before it is voted, by written notice to the Secretary of Echlin or by submitting a proxy bearing a later date.

Echlin will bear the cost of the solicitation of these proxies, including the reasonable charges of custodians, nominees, fiduciaries and other agents in forwarding the proxy material to their principals. The Company has engaged Morrow & Co. to solicit proxies in favor of the approval of the transaction. The Company anticipates that the fees and expenses of Morrow will amount to approximately $6,000.

At the close of business on May 26, 1981, the Company had 16,063,628 shares of Common Stock issued and outstanding, and only holders of Common Stock of record at that time will be entitled to notice of and to vote at the meeting or any adjournment thereof. Each share is entitled to one vote. A majority of the shares present in person or by proxy is required for approval of the transaction.

Deadline for Submission of Stockholder Proposals at Next Annual Meeting.

Proposals of stockholders intended to be presented at the next Annual Meeting must be received by the Secretary, The Echlin Manufacturing Company, 175 North Branford Road, Branford, CT. 06405, no later than September 14, 1981.

ACQUISITION OF BORG-WARNER'S AUTOMOTIVE AFTERMARKET OPERATIONS

Background of the Proposed Transaction.

Borg-Warner is a significant manufacturer and distributor of automotive parts, among other products, both to original equipment manufacturers and the aftermarket. In the transaction under consideration, Borg-Warner is proposing to transfer to Echlin two of its divisions which manufacture motor vehicle repair and replacement parts. In addition, under the proposed transaction, Borg-Warner will transfer three of its aftermarket distribution divisions to Echlin. Such divisions collectively are referred to in this Proxy Statement as the "Automotive Aftermarket Operations". The business being transferred is discussed in greater length under "Business and Property of Borg-Warner's Automotive Aftermarket Operations." Also, Echlin is to receive certain additional assets ("Additional Assets") consisting of all the stock of a West German distributing company, 60% of the stock of a Puerto Rican distributing company and certain assets relating to an automatic slack adjuster product line. Most of such assets are subject to rights of third parties, and to the extent they cannot be conveyed, Echlin will receive cash in an amount equivalent to their net book value at February 28, 1981 (approximately $2,100,000). Since the Additional Assets are not regarded as significant in value and their acquisition is contingent in nature, they have not been included in the Automotive Aftermarket Operations Financial Statements, or discussed under "Business and Property of Borg-Warner's Automotive Aftermarket Operations."

As additional consideration Borg-Warner has agreed that to the extent that its "Net Operating Investment" in the Automotive Aftermarket Operations at February 28, 1981, is less than $55,000,000, it will give an inventory credit to the Automotive Aftermarket Operations to make up the deficiency. If the Net Operating Investment exceeds $55,000,000, the excess will be paid by Echlin to Borg-Warner in cash. Net Operating Investment is the net book value (before the elimination of profit resulting from transactions among the divisions comprising Automotive Aftermarket Operations) of assets to be transferred plus the value of capitalized lease liabilities.

Echlin believes that its acquisition of the Automotive Aftermarket Operations will give it broader participation in the automotive aftermarket. Borg-Warner is of the view that Echlin's experience in aftermarket distribution will be valuable in promoting the business of the Automotive Aftermarket Operations and Borg-Warner's products. The negotiations focused upon the total consideration, assurances that Borg-Warner will supply, at competitive prices, products which neither Echlin nor the Automotive Aftermarket Operations manufacture, use of the Borg-Warner trademark by Echlin in connection with the future distribution of the Automotive Aftermarket Operations products, and restrictions upon the manner in which Borg-Warner may deal with the Echlin Shares. In addition, if the closing takes place before July 15, 1981, Echlin will pay to Borg-Warner an amount equal to dividends which would have been paid on the Echlin Shares from February 28, 1981 to the closing date as if those shares had been outstanding. If the closing is delayed beyond July 15, 1981, the additional payment will be equal to dividends that would have been paid on the Echlin Shares from May 31, 1981 to the closing date. Echlin believes that the total consideration to be paid is within the range of prices paid by others for comparable acquisitions, and is justified by the operating record of the Automotive Aftermarket Operations and its prospects as part of Echlin (see "Consideration to be Paid for Automotive Aftermarket Operations; Opinion of Investment Banking Firm"). Issuance of the Echlin Shares will not result in any dilution to Echlin's earnings per share on a pro forma basis for the six months ended February 28, 1981 (see "The Echlin Manufacturing Company and Automotive Aftermarket Operations of Borg-Warner Corporation—Pro Forma Statements of Combined Income"). As to the contractual restrictions on the Echlin Shares, see "Summary of Restrictions on Echlin Shares to be Held by Borg-Warner".

Description of Proposed Transaction.

Pursuant to an Agreement for Sale of Assets, dated as of February 28, 1981 between Echlin and Borg-Warner (the "Assets Agreement", attached as Exhibit A to this Proxy Statement), Echlin has agreed with Borg-Warner to exchange 4,500,000 shares of Echlin Common Stock for the Automotive Aftermarket Operations. As a result of the exchange, Borg-Warner would become the owner of approximately 22% of Echlin's Common Stock.

Since a significant volume of the products the Automotive Aftermarket Operations distributes are purchased from other divisions of Borg-Warner not being transferred (see "Business and Properties of Automotive Aftermarket Operations"), Echlin regards its Supply Agreement with Borg-Warner to be of importance to the transaction. Under the terms of that Agreement, for a period of fifteen years, and continuing thereafter until terminated, Borg-Warner has agreed to sell to Echlin automotive products manufactured by its retained supplying divisions at prices no less favorable than those offered to purchasers of such products who are competitors of Echlin, including original equipment vehicle manufacturers buying replacement parts for their dealers. The Automotive Aftermarket Operations shall continue as the primary aftermarket distributor for Borg-Warner automotive products. Echlin has agreed to purchase from Borg-Warner its requirements of automotive products manufactured by Borg-Warner supplying divisions and not manufactured presently by the Automotive Aftermarket Operations or Echlin, provided that Borg-Warner prices remain competitive with those offered by other manufacturers and Borg-Warner is able to meet the delivery requirements of Echlin. Under a Trademark License Agreement, Borg-Warner has agreed to permit Echlin to use the Borg-Warner trademark for a period of fifteen years in connection with the marketing and sale of automotive products in the automotive aftermarket, exclusively in the United States and Canada and upon a nonexclusive basis elsewhere in the world, subject to certain restrictions.

Echlin and Borg-Warner have also entered into a Restricted Securities Agreement (the "Securities Agreement"), the terms of which are more fully described below. In addition to the Echlin Shares, Borg-Warner is allowed to purchase additional shares of Echlin voting securities up to, but not in excess of, 24% of the total voting power of all classes of Echlin voting securities. See "Summary of Restrictions on Echlin Shares to be Held by Borg-Warner".

Echlin has agreed, as long as Borg-Warner owns at least ten per cent of Echlin voting securities, to nominate for election to its Board of Directors a person designated by Borg-Warner who is acceptable to Echlin. Borg-Warner has designated Frank E. Pilling, Vice President—Transportation Equipment Group of Borg-Warner since 1974, for election to the Echlin Board, and Echlin has indicated that Mr. Pilling is satisfactory to it. He is 56 years old and presently owns 1,020 shares of Echlin Common Stock.

Reasons for the Acquisition.

The Board of Directors of Echlin believes that the proposed acquisition of the Automotive Aftermarket Operations is in the best interests of Echlin's shareholders and has recommended that the shareholders vote FOR such acquisition. In the opinion of the Board of Directors, the Automotive Aftermarket Operations will provide Echlin with an opportunity to manufacture and distribute products which it does not presently market, and to have access to channels of distribution which it does not presently enjoy.

Consideration to be Paid for Automotive Aftermarket Operations; Opinion of Investment Banking Firm.

The number of Echlin Shares was determined by negotiation between the management of Echlin and Borg-Warner. Echlin believes that the consideration to be paid is within the range of prices paid by others for comparable acquisitions, and is justified by the operating record of the Automotive Aftermarket Operations and its prospects as part of Echlin. The Echlin Shares had an aggregate market value on June 2, 1981, based on the closing price on the New York Stock Exchange, of $60,200,000; because of the significant contractual restrictions contained in the Securities Agreement, however, Echlin believes that the Echlin Shares will have a fair value which is considerably less than the market price. See "The Echlin Manufacturing Company and Automotive Aftermarket Operations of Borg-Warner Corporation Notes to Pro Forma Combined Balance Sheet (Unaudited)".

The Board of Directors of Echlin has also considered the opinion of Dean Witter Reynolds Inc. ("Dean Witter"), the investment banking firm consulted by the Company in connection with the proposed transaction. The Board has received a written opinion, dated June 4, 1981, from Dean Witter, confirming earlier discussions, that the terms of the proposed transaction are fair, from a financial point of view, to the stockholders of Echlin. In its opinion Dean Witter states that it has relied on the accuracy, fairness and completeness of all information supplied or otherwise made available by Echlin or Borg-Warner and that it has not independently verified such information nor undertaken independent appraisals of the assets of Echlin or of the assets to be acquired from Borg-Warner. A copy of the opinion of Dean Witter, which should be read in its entirety, is attached as Exhibit B to this Proxy Statement.

The fee of Dean Witter for its services in connection with this transaction is $175,000 (plus out-of-pocket expenses). Echlin has also agreed to indemnify Dean Witter against certain liabilities and expenses, including liabilities under the Federal securities laws.

Conditions to Closing; Termination.

In addition to the necessity of the approval by Echlin shareholders of this transaction, the acquisition of the Automotive Aftermarket Operations by Echlin and the issuance of the Echlin Shares are subject to the satisfaction of certain other conditions under the Assets Agreement. Unless Borg-Warner waives such requirements, the representations and warranties of Echlin set forth in the Assets Agreement must be correct as of the date of the Assets Agreement and as of the Closing Date and Echlin must have performed all agreements and met the conditions required, including the absence of any material adverse change in the business of Echlin since August 31, 1980, the listing of the Echlin Shares on the New York Stock Exchange, and additional matters. For the benefit of Echlin, Borg-Warner's representations and warranties must also be true as of the date of the Assets Agreement and as of the Closing Date, and Borg-Warner must have performed all the agreements and conditions required to be performed under the Assets Agreement. Such conditions include the conduct of the Automotive Aftermarket Operations in the ordinary course of business to the time of the closing. Additionally, all documents delivered at the closing must be reasonably satisfactory to counsel for the other party, and opinions of counsel shall be delivered by the parties to each other at the closing as to various legal matters. It is a condition binding upon both parties that the other related agreements must be executed and delivered prior to the closing in the form presently agreed upon, unless changed by mutual consent.

Notwithstanding approval by the Echlin shareholders, the Assets Agreement may be terminated any time before the Closing Date by the mutual consent of Borg-Warner and Echlin; or by either party after September 20, 1981; or by either party, if the other party has not met the conditions required to be performed by it, or in the event of threatened litigation deemed to be serious by the Board of Directors of either party or in the event Borg-Warner has not received assurances that consummation of the transaction will not put it in violation of a certain order of the Federal Trade Commission. See "Antitrust Considerations", below.

Summary of Restrictions on Echlin Shares To Be Held by Borg-Warner.

The Echlin Shares will constitute the largest single block of Common Stock outstanding. Consequently, Echlin is concerned with the manner in which such shares may be disposed of in the future and the manner in which they will be voted following their issuance. The parties have therefore entered into a Securities Agreement (printed as an Exhibit to the Assets Agreement attached hereto) with respect to such matters. The Securities Agreement provides that during its term, Borg-Warner will only dispose of Echlin voting securities in a manner which will reasonably assure their broad public distribution. With respect to voting rights, Borg-Warner has agreed that without the prior written consent of the Echlin Board of Directors, it will not engage in the solicitation of proxies or become a participant in any contested election relating to the election of directors and will vote its Common Stock for the election of directors in the same proportion as the shares of Echlin Common Stock held by others are voted. Furthermore, the Securities

Agreement does not permit Borg-Warner to own at any one time more than 24% of the Voting Securities. Echlin has agreed from time to time to register shares of Common Stock which Borg-Warner wishes to sell, under the Securities Act of 1933, and, with certain limitations, to provide Borg-Warner with the right to participate in any Echlin registration of shares.

The voting restrictions with respect to Echlin voting securities will remain in effect until 1991 unless Borg-Warner shall have disposed of all of its interest in Common Stock before then. The Asset Agreement provides that one year before the termination date Borg-Warner may offer to extend the termination date for five years, and if Echlin accepts that offer, the Securities Agreement will be so extended, but if Echlin does not accept the offer, the voting restrictions will be terminated. If Borg-Warner does not offer to extend, it must dispose of all of its Echlin shares in a public offering on or before the termination date.

Antitrust Considerations.

The size of the transaction has made it necessary for both Echlin and Borg-Warner to give advance notice to the Federal Trade Commission ("FTC") and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "Act") and to provide extensive information with respect to the proposed transaction. Under the Act, the FTC or the Department may, within a thirty-day period, request further information as to any aspect of the transaction. Echlin and Borg-Warner made their first filings under the Act on January 23, 1981, and each received notice from the FTC within the thirty-day period that more information was required. On May 14, 1981, Echlin and Borg-Warner made amended filings, to provide information with respect to the proposed transfer of the Additional Assets. Echlin and Borg-Warner expect to submit responses to the FTC's request for additional information on or about June 12, 1981. Twenty days thereafter, Echlin and Borg-Warner will be free, under the provisions of the Act, to proceed unless the FTC obtains a restraining order. Even though the closing may have occurred, the FTC is not precluded from bringing an action for divestiture or other relief. Neither Echlin nor Borg-Warner believe that there is any anticompetitive reason for the FTC to prevent the transaction.

On August 20, 1975 pursuant to an order entered into between the FTC and Borg-Warner, Borg-Warner was precluded from acquiring, without the consent of the FTC, for a period of 10 years after the date of the order, any rebuilder of automotive parts having direct sales of rebuilt parts in the United States. The acquisition of Echlin Shares by Borg-Warner may be deemed by the FTC to be a transaction covered by the order. Echlin does an insignificant amount of rebuilding of automotive parts through its Brake Parts Division (master cylinders) and its subsidiaries Ace Electric Company (starting motors) and Roto-Master, Inc. (turbochargers). Borg-Warner has requested that the FTC issue an advisory opinion stating that the order is not applicable to this transaction, or that in the alternative, the FTC grant approval to Borg-Warner for the acquisition of the Echlin Shares, insofar as it involves an acquisition within the meaning of the order. Under the terms of the Assets Agreement, if a favorable response is not received from the FTC, Echlin is required to discontinue its rebuilding activities not less than seven days prior to the closing date.

Accounting Treatment.

Management of Echlin has determined that the acquisition of the Automotive Aftermarket Operations will be accounted for as a purchase. Price Waterhouse & Co., independent accountants, has advised Echlin that it agrees with such determination.

DIVIDENDS AND MARKET PRICES OF ECHLIN COMMON STOCK

Echlin has paid regular quarterly cash dividends on its Common Stock since 1959. The present quarterly dividend rate is $0.13 per share. The Common Stock is listed on the New York Stock Exchange. The table below sets forth the high and low per share price and the dividend paid per share for the periods indicated. The high and low sales prices of the Common Stock are as reported by the Wall Street Journal for "New York Stock Exchange—Composite Transactions", rounded to the nearest eighth and after giving effect to the two-for-one stock split in 1978.

Year Ended August 31	Share Prices High	Share Prices Low	Dividends Paid Per Share
1976	$13⅜	$ 8¾	$.225
1977	14	10⅝	.27
1978	16⅞	11¼	.33
1979			
First quarter	18	14½	.09
Second quarter	18⅝	15⅛	.11
Third quarter	18¼	16½	.11
Fourth quarter	17⅝	16	.11
1980			
First quarter	20⅜	14¾	.11
Second quarter	18⅝	14½	.11
Third quarter	15¾	11¼	.13
Fourth quarter	17⅛	11⅞	.13
1981			
First quarter	15½	13½	.13
Second quarter	14½	12½	.13
Third quarter	14⅞	13⅜	.13

On June 2, 1981, the closing price for the Common Stock on the New York Stock Exchange was $13⅜.

EARNINGS AND BOOK VALUE PER SHARE DATA

The earnings and book value per share of Echlin on an historical basis and on a pro forma basis assuming the acquisition of the Automotive Aftermarket Operations for the six-month period ended February 28, 1981 and the year ended August 31, 1980 are as follows:

	Six months Ended February 28, 1981		Year Ended August 31, 1980	
	Historical	Pro Forma	Historical	Pro Forma
Earnings per share of common stock	$0.45	$0.49	$0.55	$0.72
Book value per share	9.18	9.70	9.00	N/A

PRINCIPAL HOLDERS OF SECURITIES

The following table sets forth certain information with respect to all persons known by Echlin to be the beneficial owner of more than 5% of the Company's Common Stock at May 26, 1981:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
J.P. Morgan & Co., Incorporated 23 Wall Street New York, New York 10015	1,423,288(1)	8.9%
Lord, Abbett & Co. 63 Wall Street New York, New York 10005	1,193,000(2)	7.4%
John E. Echlin 875 East Camino Real Boca Raton, Florida 33432	892,984(3)	5.6%

(1) The information is based upon the filing of J.P. Morgan Co., Incorporated, with the Securities and Exchange Commission on Form 13-G, dated December 31, 1980. The status of the shares owned was as follows: (a) sole voting power, 1,211,790; (b) shared voting power, 59,132; (c) sole dispositive power, 1,361,156; (d) shared dispositive power, 62,132.

(2) The information is based on the filing of Lord, Abbett & Co. with the Securities and Exchange Commission on Form 13-G, dated February 5, 1981. As to all shares, Lord, Abbett & Co. reported it had sole voting power and sole dispositive power.

(3) Includes 443,352 shares owned by Mr. Echlin's wife and 86,300 shares held in an irrevocable charitable foundation of which Mr. Echlin, his wife and his son are Trustees with voting rights over such shares.

As of June 2, 1981, the directors and officers of Echlin as a group owned beneficially 2,053,231 shares of Common Stock or 12.8% thereof, including 370,400 shares exercisable currently under the Company's Stock Option Plans.

CAPITALIZATION

The following table summarizes the short-term indebtedness and capitalization of Echlin and its consolidated subsidiaries and the Automotive Aftermarket Operations at February 28, 1981, and the pro forma combined capitalization of Echlin and its consolidated subsidiaries at February 28, 1981, after giving effect to the proposed acquisition of the Automotive Aftermarket Operations:

	Echlin	Automotive Aftermarket Operations	Pro Forma Combined(1)
		(Thousands of Dollars)	
Short-term debt:			
Notes payable to banks	$ 17,353		$ 17,353
Current portion of long-term debt	1,465	$ 375	1,840
Total short-term debt	$ 18,818	$ 375	$ 19,193
Long-term debt:			
Commercial paper	$ 15,000		$ 15,000
8.45% Senior notes due 1997	15,000		15,000
Industrial revenue bonds	9,498		9,498
Foreign borrowings due in varying installments to 1984	10,140		10,140
Other domestic borrowings	1,892	$ 2,032	3,924
Total long-term debt	51,530	2,032	53,562
Shareholders' equity:			
Preferred stock, without par value, authorized 1,000,000 shares, issued—none			
Common stock, $1 par value, authorized 33,000,000 shares, issued 16,191,442 shares	16,191		20,691
Capital in excess of par value	34,528		82,028
Retained earnings	98,306		98,306
Equity of Borg-Warner Corporation		44,782	
	149,025	44,782	201,025
Less—Treasury stock, 140,914 shares, at cost	1,616		1,616
Total shareholders' equity	147,409	44,782	199,409
Total capitalization	$198,939	$46,814	$252,971

(1) See "Adjustments" set forth in the Pro Forma Combined Balance Sheet herein.

Reference is also made to notes 5, 6, 7, 8, and 16 of Notes to Consolidated Financial Statements of Echlin and to note 7 of Notes to Combined Financial Statements of the Automotive Aftermarket Operations for information relating to short-term debt, long-term debt, capital stock, stock options, and lease commitments.

THE ECHLIN MANUFACTURING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

The following consolidated statement of income insofar as it relates to the five years ended August 31, 1980, has been examined by Price Waterhouse & Co., independent accountants, whose report thereon appears elsewhere in this Proxy Statement. In the opinion of the management of Echlin, all adjustments, which consist only of normal recurring adjustments, necessary for a fair statement of the results for the unaudited interim periods have been included. This statement should be read in conjunction with the other financial statements of the Company, and notes thereto, included elsewhere herein.

	(Unaudited) Six Months Ended		Year Ended August 31,				
	Feb. 28, 1981	Feb. 29, 1980*	1980*	1979*	1978*	1977*	1976*
	(In Thousands, Except Per Share Data)						
Net sales	$167,761	$157,059	$301,400	$304,022	$278,304	$239,205	$205,425
Cost of goods sold	117,571	106,481	209,608	200,590	186,149	158,307	139,237
Gross profit on sales	50,190	50,578	91,792	103,432	92,155	80,898	66,188
Selling and administrative expenses	33,999	32,943	72,354	61,410	52,952	47,610	37,819
Income from operations	16,191	17,635	19,438	42,022	39,203	33,288	28,369
Interest expense	4,561	2,674	5,889	4,328	4,183	3,789	3,380
Interest income	793	480	1,110	705	337	91	
Interest expense, net	3,768	2,194	4,779	3,623	3,846	3,698	3,380
Charges related to disposition of the Park Bros. Ltd. subsidiary					4,607		
Income before taxes	12,423	15,441	14,659	38,399	30,750	29,590	24,989
Provision for taxes	5,280	6,408	5,890	15,744	12,106	13,500	11,756
Net income	$ 7,143	$ 9,033	$ 8,769	$ 22,655	$ 18,644	$ 16,090	$ 13,233
Earnings per share of common stock	$0.45	$0.57	$0.55	$1.50	$1.30	$1.12	$0.93
Cash dividends per share	$0.26	$0.22	$0.48	$0.42	$0.33	$0.27	$0.225
Average number of common shares outstanding	16,038	15,980	15,993	15,142	14,367	14,329	14,282

* As restated, see Note 9.

The notes appearing on pages 36 to 48 of this Proxy Statement are an integral part of this and the related financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

First Six Months of 1981 vs. First Six Months of 1980

Liquidity and Capital Resources

Funds generated during the first six months of fiscal 1981 were $6,249,000 lower than those generated during the same period a year ago. This decline is attributable to a 10.6% decline in funds generated by operations and the fact that there were no proceeds from long-term borrowings as opposed to $4,656,000 provided a year ago.

As a result of the purchase of Blackstone Manufacturing Co., Inc., $1,241,000 of the net cash price was applied to the purchase of this entity's machinery and equipment. This transaction was the major cause of the 5.6% increase in the use of funds over the first six months of fiscal 1980. Further, during the first six months of fiscal 1981, an additional $2,407,000 of investments were purchased by Echlin's Puerto Rican subsidiary versus $3,088,000 in the first half of fiscal 1980.

Working capital at February 28, 1981, declined $4,288,000 from the beginning of the fiscal year as short-term bank borrowings and other liabilities increased $6,536,000 and $7,574,000, respectively. Partially offsetting these increases was the $9,792,000 gain in accounts receivable which reflects the company's higher sales level. The above decline in working capital compares with a $2,817,000 increase during the first six months of fiscal 1980 which was reflected in higher accounts receivable and inventory balances.

During the first six months of fiscal 1981, total debt increased $5,983,000 as compared with a $7,791,000 increase during the first half of fiscal 1980. The total debt outstanding at February 28, 1981, represents 32% of the company's total capitalization versus 28% a year ago.

Management believes that funds provided by operations will increase during the second half of fiscal 1981 and be sufficient to finance all normal capital expenditures. Capital expenditure commitments outstanding at February 28, 1981 were not significant.

Short-term credit lines currently available to the company approximate those at year end.

Operating Results

Net sales for the first six months of fiscal year 1981 increased 6.8% over the first half of fiscal year 1980. This gain represents increases in the domestic operations offset in part by a decline in the foreign operations. Under the Company's present sales reporting systems, the degree to which revenue growth is attributable to price increases versus unit volume growth cannot be accurately estimated. However, management believes that sales have increased primarily as a result of price increases. The declines experienced by the foreign operations are the result of the recessionary impact on Echlin's United Kingdom and West German operations partially offset by gains occurring in the Company's Mexican and South African companies. Fiscal year 1981 results include the operations of Blackstone Manufacturing Co., Inc. since the date of acquisition.

Although gross profit dollars for the comparable six months are essentially unchanged, gross margin has declined 2.3% due to the continuing pressure from rising costs for material, labor, and services which is affecting all domestic and foreign divisions. This pressure may be showing signs of easing, however, as previous periods unit sales price increases are beginning to offset cost increases.

Selling and administrative expenses during fiscal 1981 increased 3.2% over the comparable six months of fiscal 1980 as inflationary increases in costs and services offset the effect of cost reduction measures implemented by the Company.

Translation gains included in selling and administrative expense for the six months of fiscal 1981 were $62,000 compared with losses of $202,000 a year ago. The change is due to the maxi-devaluation of the Brazilian cruzeiro during the second quarter of fiscal 1980.

The 71.7% increase in net interest expense over the first six months of fiscal 1980 is due to higher debt levels, losses sustained by the Company's interest rate futures program, and higher interest rates. The higher debt levels primarily result from funds required for capital expenditures and the acquisition of Blackstone Manufacturing Co., Inc. The weighted average interest rates on commercial paper borrowings increased from 13.3% to 15.3% for the comparable six month periods.

The provision for taxes on income for the six months of fiscal 1981 is lower than the comparable period a year ago, primarily due to lower pretax earnings.

1980 vs. 1979

Liquidity and Capital Resources

During fiscal year 1980, operations provided 53% of the working capital needs of the Company; 39.5% was provided by long-term borrowings primarily through the issuance of commercial paper, classified as long-term debt, and new foreign bank borrowings, and 7.5% of working capital was generated by other sources. These represent a change from a year ago when operations contributed 54.3% of the working capital needs and the remaining 45.7% was provided by the 1,500,000 share common stock offering.

The majority of the working capital generated in fiscal 1980 was used to pay dividends (22.6%), purchase machinery and equipment (52.7%) and purchase marketable securities (17.8%) that are held by the Company's Puerto Rican subsidiary. Only $2,334,000 of the funds generated (6.9%) were used to increase working capital.

There were no significant commitments for capital expenditures as of August 31, 1980 and management believes that all normal future commitments will continue to be financed principally by operations.

As a result of the issuance of commercial paper and the increase in foreign bank borrowings, total debt as a percentage of total capitalization increased to 31% from 26% a year ago. The lower fiscal 1979 percentage resulted from the common stock offering. The current level of total debt is below the 38% level that the Company has averaged since 1975, excluding the effect of fiscal 1979.

Short-term credit lines with foreign and domestic banks at August 31, 1980 approximated $33,000,000 as compared with $21,000,000 a year ago.

Operating Results

The $2,622,000 or 0.9% decrease in net sales from fiscal 1979 reflects lower sales volume offsetting the effects of price increases, which approximated 7% for the year. Domestic markets were down 3.6% as a result of a reduction in miles driven, the postponement of vehicle repairs by consumers and inventory cutbacks by customers. Foreign markets reflected a 16.1% sales increase due to improvements at Echlin Mexicana, Echlin Charger and a full year of operations at Echlin Limited U.K.

Gross margins declined to 30.5% from 34.0% a year ago. The major causes for the reduction in gross margin were the decline in unit volume sales of 8%, which resulted in capacity variances being charged against income rather than being absorbed in production, and the fact that market conditions did not permit the Company to raise prices to keep pace with the inflationary impact on the costs of manufactured products at all domestic and international divisions. Gross profit dollars declined by $12,000,000 for the same reasons.

Selling and administrative expenses reflected a 17.8% increase over the previous year due to expenses related to the reevaluation of the Company's ongoing computer software development program, the recording of current year losses and write-off of the investment in Carmel Electronics, Ltd., and normal cost increases. Translation losses increased to $213,000 from $141,000 a year ago due in part to the maxi-devaluation of the Brazilian cruzeiro.

The increase in interest expense reflects higher interest rates on commercial paper borrowings and a higher average debt level maintained throughout the year as a result of increases in inventory levels.

The lower provision for taxes on income is due to the decline in pretax earnings.

Information as to the impact of inflation on operating results may be found in Note 18 of The Notes to Consolidated Financial Statements.

1979 vs. 1978

Liquidity and Capital Resources

Proceeds from the issuance of common stock accounted for 45.7% of the working capital generated during fiscal 1979. This was primarily the result of the 1,500,000 share common stock offering completed on February 22, 1979. The remainder of the working capital generated during the fiscal year resulted from operations.

Largely as a result of a 14% increase in inventory and a 9.4% increase in accounts receivable, working capital increased by $20,284,000 or 37.3% of funds generated during the fiscal year. The other major uses were payment of dividends (11.8%), fixed asset expenditures (27.4%), the purchase of marketable securities by Echlin Puerto Rico (7.8%) and a reduction of long-term debt (12.8%).

Total debt as a percentage of total capitalization dropped to 26% as compared to 38% in 1978 due to the common stock offering and the repayment of long-term debt from the proceeds.

At August 31, 1979, the Company had $21,000,000 of short-term credit lines with foreign and domestic banks as compared with $25,300,000 a year ago.

Operating Results

Sales for fiscal year 1979 rose 9.2% over the previous year due to price increases and increased demand for the Company's products. Domestic and international sales increased 10.5% and 2.1%, respectively. On a comparative basis, worldwide and international sales increased 11.9% and 21.6%, respectively, after excluding the sales of Park Bros., Ltd. in 1978.

Gross margins rose slightly over 1978 in the international operations after giving effect to the absence of Park Bros., Ltd. Domestic gross margins were adversely affected by decreased production levels at Peerless Instrument Company, the inability to pass on price increases at Kravex Manufacturing Corp., a result of competitive conditions, and a higher level of product development costs throughout domestic operations. The increase in gross profit dollars over the prior year reflects the overall improvement in gross margin and the increase in sales volume.

The 16% increase in selling and administrative expenses reflects additional sales personnel necessary to meet market and product expansion, cost related to the development of a major new data processing system, expenses incurred for the relocation of Peerless Instrument Company and normal cost increases. Partially offsetting these increases was a reduction in translation losses from $981,000 to $141,000 due to reduced exposure to Pound Sterling currency fluctuations.

As a result of the common stock offering on February 22, 1979, the Company reduced its debt levels and partially offset the effect of rising interest rates on its commercial paper borrowings.

The provision for taxes on income is higher than in 1978 as a result of higher pre-tax earnings and an increased effective tax rate. In 1978, the Company had an income tax benefit as a result of the liquidation of Park Bros., Ltd.

AUTOMOTIVE AFTERMARKET OPERATIONS OF BORG-WARNER CORPORATION

STATEMENT OF COMBINED INCOME BEFORE INCOME TAXES

The following statement of combined income before income taxes of the Automotive Aftermarket Operations of Borg-Warner Corporation, insofar as it relates to the year ended December 31, 1980, has been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants, as set forth in their report included elsewhere in this Proxy Statement. In the opinion of the management of Borg-Warner Corporation, all adjustments (which consist only of normal recurring accruals) necessary for a fair presentation of the results for the unaudited periods have been included. The statement should be read in conjunction with its notes and with the other combined financial statements and related notes of the Automotive Aftermarket Operations of Borg-Warner Corporation included elsewhere in this Proxy Statement.

	Six Months Ended		Year Ended December 31,				
	Feb. 28, 1981*	Feb. 29, 1980*	1980	1979*	1978*	1977*	1976*
			(In Thousands)				
Net sales	$58,223	$57,517	$116,009	$115,155	$103,864	$101,701	$89,660
Cost of sales	43,556	44,268	85,448	87,513	78,087	79,778	68,609
Gross margin	14,667	13,249	30,561	27,642	25,777	21,923	21,051
Selling, general and administrative expenses	9,820	8,829	19,931	16,291	14,058	13,744	11,852
Operating income	4,847	4,420	10,630	11,351	11,719	8,179	9,199
Interest and other expense—net	50	62	128	118	144	15	29
Income before income taxes	$ 4,797	$ 4,358	$ 10,502	$ 11,233	$ 11,575	$ 8,164	$ 9,170

* Unaudited

See accompanying notes to statement of combined income before income taxes.

AUTOMOTIVE AFTERMARKET OPERATIONS OF BORG-WARNER CORPORATION
NOTES TO STATEMENT OF COMBINED INCOME BEFORE INCOME TAXES

(Information for the years ended December 31, 1976 through 1979, and for the six-month periods endea February 28, 1981 and February 29, 1980 is unaudited).

A. The above statement combines the accounts of the Automotive Aftermarket Operations of Borg-Warner Corporation (see note 1 to combined financial statements of the Automotive Aftermarket Operations). Net sales, income before income taxes and net foreign exchange losses included in the above statement with respect to operations located outside the United States are as follows for the periods indicated (in thousands):

	Six Months Ended		Year Ended December 31,				
	Feb. 28, 1981	Feb. 29, 1980	1980	1979	1978	1977	1976
Net sales	$1,144	$ 990	$ 2,236	$ 1,832	$ 1,258	$ 961	$ 443
Income (loss) before income taxes	$ (5)	$ 45	$ 112	$ 18	$ (163)	$ (141)	$ (194)
Net foreign exchange losses	$ 15	$ 1	$ 3	$ 27	$ 49	$ 80	$ 1

B. Reference is made to note 6 to combined financial statements of the Automotive Aftermarket Operations for information relating to retirement benefit plans. Expenses under the plans for the five years ended December 31, 1980 and the six-month periods ended February 28, 1981 and February 29, 1980 were (in thousands) $528, $654, $540, $478, $401, $282, and $328, respectively.

C. Reference is made to note 1 to combined financial statements of the Automotive Aftermarket Operations for the accounting policy relating to income taxes.

The Automotive Aftermarket Operations generated investment tax credits and DISC benefits which reduced the U.S. federal income tax payments of Borg-Warner Corporation, as follows (in thousands):

	Six Months Ended		Year Ended December 31,				
	Feb. 28, 1981	Feb. 29, 1980	1980	1979	1978	1977	1976
Investment tax credit	$ 26	$ 27	$ 52	$ 64	$ 42	$ 44	$ 35
DISC	$ 71	$ 48	$ 163	$ 96	$ 88	$ 80	$ 60

D. The Automotive Aftermarket Operations sell to and purchase from Borg-Warner companies which are not included in the combined financial statements.

The sales and purchases are summarized as follows for the periods indicated (in thousands):

	Six Months Ended		Year Ended December 31,				
	Feb. 28, 1981	Feb. 29, 1980	1980	1979	1978	1977	1976
Sales to Borg-Warner companies	$ 147	$ 770	$ 503	$ 1,188	$ 983	$ 832	$ 913
Purchases from Borg-Warner companies	$7,098	$13,450	$22,452	$29,257	$28,332	$30,673	$28,862

E. Selling, general, and administrative expenses have been reduced for income generated since 1978 by a unit of the Automotive Aftermarket Operations in its capacity as a sales agent on a commission basis for certain Borg-Warner companies in the distribution of original equipment components. The expenses associated with this income activity have also been included in selling, general, and administrative expenses. Such income for the three years ended December 31, 1980 and the six-month periods ended February 28, 1981 and February 29, 1980 amounted to (in thousands) $363, $634, $626, $215, and $214, respectively.

F. Borg-Warner Corporation allocates corporate charges to operating units substantially on the basis of the relationship of individual unit operating assets to the consolidated operating assets of Borg-Warner. Allocations of corporate charges to the Automotive Aftermarket Operations, which have been charged to selling, general and administrative expenses, for the five years ended December 31, 1980 and the six-month periods ended February 28, 1981 and February 29, 1980 amounted to (in thousands) $1,193, $1,017, $859, $728, $554, $721 and $555, respectively.

G. Supplementary information regarding charges to costs and expenses in the above statement is summarized as follows for the periods indicated (in thousands):

	Six Months Ended		Year Ended December 31,				
	Feb. 28, 1981	Feb. 29, 1980	1980	1979	1978	1977	1976
Maintenance and repairs	$392	$ 452	$1,030	$1,162	$1,105	$ 988	$ 865
Provision for doubtful accounts	279	231	385	254	53	171	106
Depreciation and amortization of property, plant and equipment	521	487	952	904	816	458	418
Taxes, other than taxes on income:							
Payroll taxes	403	309	1,178	1,051	925	795	718
Real estate and personal property taxes	80	209	289	429	353	305	654
Other, primarily excise taxes	174	182	278	393	341	315	22
Rents	584	475	1,192	1,067	1,183	1,199	798
Advertising costs	869	1,125	1,715	2,062	2,017	1,869	1,814
Research and development costs	225	193	433	342	288	184	119
Interest expense	80	87	164	178	197	50	43

Rents for the year ended December 31, 1980 include (in thousands) $426 paid to Borg-Warner Leasing Corporation.

H. Inventories used in the determination of cost of sales for the five years ended December 31, 1980 were as follows (in thousands):

December 31, 1980	$29,582
December 31, 1979	33,881
December 31, 1978	31,330
December 31, 1977	26,659
December 31, 1976	26,441
December 31, 1975	21,820

Inventories used in the determination of cost of sales were (in thousands) $30,974, $34,771, and $29,933, at February 28, 1981, February 29, 1980 and February 28, 1979, respectively.

I. No single customer accounted for 10% or more of combined sales in any one of the periods presented.

J. Export sales from the United States were as follows for the periods indicated (in thousands):

	Six Months Ended		Year Ended December 31,				
	Feb. 28, 1981	Feb. 29, 1980	1980	1979	1978	1977	1976
To unaffiliated customers	$10,673	$9,342	$24,721	$18,967	$18,107	$17,694	$15,497
To affiliated customers	128	557	427	795	598	555	501
Total	$10,801	$9,899	$25,148	$19,762	$18,705	$18,249	$15,998

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE AUTOMOTIVE AFTERMARKET OPERATIONS OF BORG-WARNER CORPORATION STATEMENT OF COMBINED INCOME BEFORE INCOME TAXES

Six Months Ended February 28, 1981 Compared to February 29, 1980:

Sales for the six months ended February 28, 1981 increased $706,000, or 1.2% to $58,223,000, though when deflated by price increases they were 8.4% lower. Depressed demand and the effects of high financing costs on customers' inventories were the principal reasons for the decline in unit sales.

Cost of sales declined $712,000, or 1.6%, thereby causing cost of sales as a percent of sales to fall from 77.0% to 74.8%. Prompt price recovery of escalating materials costs was principally responsible for this improvement.

Selling, general and administrative expenses increased $991,000, or 11.2% to $9,820,000. Selling expenses at the Automotive Parts Division alone increased $732,000 as long-term marketing programs proceeded despite reduced short-term demand and changeover costs were sharply higher as new customers were added which required substantial front-end expenditures. Administrative costs were pushed up by general inflationary pressures.

Income before income taxes of $4,797,000 was 10.1% higher, all due to the improvement in gross margin discussed above.

1980 Compared to 1979:

Sales in 1980 increased $854,000 or .7% to $116,009,000 though when deflated by price increases they were 9.1% lower. Depressed demand and substantial inventory reductions by customers were the principal reasons for the sales decline.

Cost of sales decreased $2,065,000, or 2.4%, primarily reflecting prompt pricing action in face of rising costs and reduced direct charges, principally freight expense. Cost of sales as a percent of sales fell from 76.0% to 73.7%.

Selling, general and administrative expenses increased $3,640,000, or 22.3%. Selling expenses at the Automotive Parts Division alone increased $2,812,000 as long-term marketing programs proceeded despite reduced short-term demand and changeover costs were sharply higher as new customers were added which required substantial front-end expenditures. Administrative costs were pushed up by general inflationary pressures.

Income before income taxes of $10,502,000 was 6.5% lower than in 1979, largely as a result of the factors discussed above.

1979 Compared to 1978:

Sales in 1979 increased $11,291,000, or 10.9%, to $115,155,000, though when deflated by price increases they were only 2.2% higher. Gasoline shortages and sharply higher fuel costs caused vehicle miles driven to actually fall 1.5% in 1979, reducing consumer demand for replacement parts.

Cost of sales increased $9,426,000, or 12.1% to $87,513,000, thereby causing cost of sales as a percent of sales to rise from 75.2% to 76.0%. Price recovery of escalating materials costs slipped in 1979.

Selling, general and administrative expenses increased $2,233,000, or 15.9%. Inflationary cost pressures caused most of the rise, though in 1978 these expenses had been reduced by the proceeds of settlement of a disputed receivable, thereby lowering the 1978 base upon which the 1979 increase is calculated.

Income before income taxes of $11,233,000 was 3.0% lower than in 1978, largely as a result of the factors discussed above.

AUTOMOTIVE AFTERMARKET OPERATIONS OF BORG-WARNER CORPORATION

PRO FORMA STATEMENTS OF COMBINED INCOME BEFORE INCOME TAXES (UNAUDITED)

The following pro forma statements of combined income before income taxes of the Automotive Aftermarket Operations of Borg-Warner Corporation are based on the statements of combined income before income taxes of the Automotive Aftermarket Operations appearing elsewhere in this Proxy Statement which have been adjusted pro forma to facilitate their inclusion in the pro forma statements of combined income of The Echlin Manufacturing Company and the Automotive Aftermarket Operations of Borg-Warner Corporation appearing elsewhere in this Proxy Statement. The following statements give effect to changes of accounting principles to conform to those used by The Echlin Manufacturing Company. These statements should be read in conjunction with their notes and with the other combined financial statements and related notes of the Automotive Aftermarket Operations included elsewhere in this Proxy Statement.

	Historical Combined	Pro Forma Adjustments	Pro Forma Combined
		(In Thousands)	
Six Months Ended February 28, 1981			
Net sales	$ 58,223	$ (176)(A)	$ 58,047
Cost of sales	43,556	(2,882)	40,674
Gross margin	14,667	2,706	17,373
Selling, general and administrative expenses	9,820	2,706 (B)	12,526
Operating income	4,847	—	4,847
Interest and other expense—net	50		50
Income before income taxes	$ 4,797	$ —	$ 4,797
Year Ended December 31, 1980			
Net sales	$116,009	$ (268)(A)	$115,741
Cost of sales	85,448	(4,911)	80,537
Gross margin	30,561	4,643	35,204
Selling, general and administrative expenses	19,931	4,643 (B)	24,574
Operating income	10,630	—	10,630
Interest and other expense—net	128		128
Income before income taxes	$ 10,502	$ —	$ 10,502

Net sales of $37,687,000 and income before income taxes of $2,951,000 for the four-month period ended December 31, 1980 are included in the amounts shown for the year ended December 31, 1980 and also for the six-month period ended February 28, 1981.

The above statements give effect to the following pro forma adjustments to cost of sales to conform to those accounting principles utilized by The Echlin Manufacturing Company:

	Six Months Ended February 28, 1981	Year Ended December 31, 1980
	(In Thousands)	
(A) Excise tax expense	$ 176	$ 268
(B) Freight-out expense	$1,285	$2,383
Packing and shipping expense	1,421	2,260
	$2,706	$4,643

AUTOMOTIVE AFTERMARKET OPERATIONS OF BORG-WARNER CORPORATION

PRO FORMA COMBINED BALANCE SHEET (UNAUDITED)

The following pro forma combined balance sheet of the Automotive Aftermarket Operations of Borg-Warner Corporation is based on the combined balance sheet of the Automotive Aftermarket Operations appearing elsewhere in this Proxy Statement which has been adjusted pro forma to facilitate its inclusion in the pro forma combined balance sheet of The Echlin Manufacturing Company and the Automotive Aftermarket Operations of Borg-Warner Corporation appearing elsewhere in this Proxy Statement. This balance sheet gives effect to changes of accounting principles to conform to those used by The Echlin Manufacturing Company. This statement should be read in conjunction with its notes and with the other combined financial statements and related notes of the Automotive Aftermarket Operations included elsewhere in this Proxy Statement.

ASSETS

	February 28, 1981		
	Historical Combined	Pro Forma Adjustments	Pro Forma Combined
		(In Thousands)	
CURRENT ASSETS:			
Cash	$ 33		$ 33
Accounts receivable	23,784		23,784
Inventories	30,974	$ 683 (A)	31,657
Prepaid expenses	781	(683)(A)	98
Total current assets	55,572	—	55,572
PROPERTY:			
Cost	13,709	597 (B)	14,306
Less accumulated depreciation	(6,658)	(174)(B)	(6,832)
Net property	7,051	423	7,474
OTHER ASSETS	876	(423)(B)	453
TOTAL	$63,499	$ —	$63,499

LIABILITIES AND EQUITY

	Historical Combined	Pro Forma Adjustments	Pro Forma Combined
CURRENT LIABILITIES:			
Current portion of capitalized leases	$ 375		$ 375
Accounts payable	14,131		14,131
Accrued liabilities:			
Salaries, wages and related expenses	593		593
Other	1,586		1,586
Total current liabilities	16,685		16,685
LONG-TERM CAPITALIZED LEASE LIABILITIES	2,032		2,032
EQUITY OF BORG-WARNER CORPORATION	44,782		44,782
TOTAL	$63,499		$63,499

The above statement gives effect to the following pro forma adjustments to conform to those accounting principles utilized by The Echlin Manufacturing Company:

(A) To reclassify to inventories freight-in expense and packaging supplies classified as prepaid expenses by the Automotive Aftermarket Operations of Borg-Warner Corporation.

(B) To reclassify to property the historical cost and accumulated amortization of leasehold improvements classified as other assets.

THE ECHLIN MANUFACTURING COMPANY
AND
AUTOMOTIVE AFTERMARKET OPERATIONS OF BORG-WARNER CORPORATION
PRO FORMA STATEMENTS OF COMBINED INCOME

The following pro forma statements of combined income have been prepared by combining the statements of consolidated income of The Echlin Manufacturing Company for the year ended August 31, 1980 and the six-month period ended February 28, 1981 and the pro forma statements of combined income before income taxes of the Automotive Aftermarket Operations of Borg-Warner Corporation for the year ended December 31, 1980 and the six-month period ended February 28, 1981, adjusted to give effect on a purchase basis to the acquisition by The Echlin Manufacturing Company of the Automotive Aftermarket Operations as if such acquisition had taken place at September 1, 1979. The pro forma earnings are not necessarily indicative of what actual earnings of the combined companies would have been if combined for the periods or will be in the future. The pro forma statements include the results of Blackstone Manufacturing Co., Inc. from the date of acquisition and have not been adjusted retroactively for its results or the results of M. Black Manufacturing Company since the operating results of such companies, individually and in the aggregate, are not significant to the operating results of The Echlin Manufacturing Company (See Notes 2 and 21 of Notes to Consolidated Financial Statements). These statements should be read in conjunction with their notes and the other financial statements and notes thereto included elsewhere in this Proxy Statement.

	Echlin	Automotive Aftermarket Operations (Pro Forma)*	Pro Forma Adjustments*	Pro Forma Combined*
			(In Thousands)	
Six Months Ended February 28, 1981—Unaudited				
Net Sales	$167,761	$ 58,047	$(1,499)(A)	$224,309
Cost of goods sold	117,571	40,674	(1,544)(A)(B)	156,701
Gross profit on sales	50,190	17,373	45	67,608
Selling and administrative expenses	33,999	12,526	(500)(C)	46,025
Income from operations	16,191	4,847	545	21,583
Interest expense—net	3,768	50		3,818
Income before taxes	12,423	$ 4,797	545	17,765
Provision for taxes	5,280		2,433 (D)	7,713
Net income	$ 7,143		$(1,888)	$ 10,052
Earnings per share of common stock	$ 0.45			$ 0.49
Average number of common shares outstanding	16,038		4,500	20,538
Year Ended August 31, 1980				
Net sales	$301,400	$115,741	$(2,411)(A)	$414,730
Cost of goods sold	209,608	80,537	(2,331)(A)(B)	287,814
Gross profit on sales	91,792	35,204	(80)	126,916
Selling and administrative expenses	72,354	24,574	(750)(C)	96,178
Income from operations	19,438	10,630	670	30,738
Interest expense—net	4,779	128		4,907
Income before taxes	14,659	$ 10,502	670	25,831
Provision for taxes	5,890		5,222 (D)	11,112
Net income	$ 8,769		$(4,552)	$ 14,719
Earnings per share of common stock	$ 0.55			$ 0.72
Average number of common shares outstanding	15,993		4,500	20,493

* Unaudited

The above statements give effect to the following pro forma adjustments:

	Six Months Ended February 28, 1981	Year Ended August 31, 1980
(A) To eliminate intercompany sales	$1,499,000	$2,411,000
(B) To eliminate intercompany profit residing in ending inventory	(45,000)	80,000
(C) To adjust selling and administrative expenses to eliminate allocated Borg-Warner corporate expenses (such as interest expense) which do not represent an allocation of expense for specific services rendered by Borg-Warner Corporation to the Automotive Aftermarket Operations (such as for legal or accounting assistance) that will not be incurred by The Echlin Manufacturing Company	500,000	750,000
(D) To reflect the tax effect of the aforementioned adjustments and to provide income taxes on the pro forma income before taxes net of investment tax credits and DISC benefits	2,433,000	5,222,000

THE ECHLIN MANUFACTURING COMPANY
AND
AUTOMOTIVE AFTERMARKET OPERATIONS OF BORG-WARNER CORPORATION
PRO FORMA COMBINED BALANCE SHEET (UNAUDITED)

The following unaudited pro forma combined balance sheet combines the consolidated balance sheet of The Echlin Manufacturing Company with the pro forma combined balance sheet of the Automotive Aftermarket Operations of Borg-Warner Corporation as of February 28, 1981, as adjusted to give effect on a purchase basis to the acquisition by The Echlin Manufacturing Company of the Automotive Aftermarket Operations as if such acquisition had taken place at February 28, 1981. The balance sheet should be read in conjunction with its notes and the other financial statements and notes thereto included elsewhere in this Proxy Statement.

ASSETS

	February 28, 1981			
	Echlin	Automotive Aftermarket Operations (Pro Forma)	Pro Forma Adjustment	Pro Forma Combined
	(In Thousands)			
Current assets:				
Cash	$ 2,451	$ 33		$ 2,484
Accounts receivable	51,195	23,784	$ (406)(F)	74,573
Inventories	103,005	31,657		134,662
Other	5,324	98	9,413 (C)	14,835
Total current assets	161,975	55,572	9,007	226,554
Property, plant, and equipment—net of accumulated depreciation and amortization	67,034	7,474	(865)(D)	73,643
Investments in and advances to affiliated companies at equity	832			832
Marketable securities	18,489			18,489
Intangible assets, net	2,398			2,398
Other assets	3,219	453		3,672
TOTAL	$253,947	$63,499	$8,142	$325,588

LIABILITIES AND SHAREHOLDERS' EQUITY

	Echlin	Automotive Aftermarket Operations (Pro Forma)	Pro Forma Adjustment	Pro Forma Combined
Current liabilities:				
Notes payable to banks	$ 17,353			$ 17,353
Current portion of long-term debt	1,465	$ 375		1,840
Accounts payable	14,480	14,131	$ (406)(F)	28,205
Accrued taxes on income	5,102			5,102
Accrued liabilities:				
Payroll and other compensation	6,804	593		7,397
Other	6,897	1,586	1,330 (B)	9,813
Total current liabilities	52,101	16,685	924	69,710
Long-term debt	51,530	2,032		53,562
Deferred income taxes	2,907			2,907
Shareholders' equity:				
Preferred stock, without par value: Authorized 1,000,000 shares Issued none				
Common stock, $1 par value Authorized 33,000,000 shares Issued 16,191,442 shares	16,191		4,500 (A)	20,691
Capital in excess of par value	34,528		47,500 (A)	82,028
Retained earnings	98,306			98,306
Equity of Borg-Warner Corporation		44,782	(44,782)(E)	—
	149,025	44,782	7,218	201,025
Less—Treasury stock at cost	1,616			1,616
	147,409	44,782	7,218	199,409
TOTAL	$253,947	$63,499	$8,142	$325,588

See accompanying notes to pro forma combined balance sheet.

THE ECHLIN MANUFACTURING COMPANY

AND

AUTOMOTIVE AFTERMARKET OPERATIONS OF BORG-WARNER CORPORATION

NOTES TO PRO FORMA COMBINED BALANCE SHEET (UNAUDITED)

The unaudited pro forma combined balance sheet gives effect to the purchase of the net assets of the Automotive Aftermarket Operations of Borg-Warner Corporation in exchange for 4,500,000 shares of common stock of The Echlin Manufacturing Company. The shares to be issued for the Automotive Aftermarket Operations had an aggregate market value, based on the closing price on the New York Stock Exchange on the date of the Sale of Assets Agreement, of $62,400,000. Because of the significant contractual restrictions to which such shares will be subject, however, Echlin places a fair value of approximately $52,000,000 on such shares for financial purposes. The business combination is a purchase for accounting purposes. The allocation of the acquisition cost to the assets of the Automotive Aftermarket Operations is based upon the estimated value of the common stock plus the liabilities assumed. The following is a summary of the adjustments required in accordance with generally accepted accounting principles:

Purchase Cost:		
(A) By issuance of common stock, $1 par value		$52,000,000
Net Adjustments Resulting From Purchase:		
(B) To accrue for the following liabilities:		
1. Anticipated acquisition expenses	$(450,000)	
2. Present value of future unfunded pension costs, net of income tax consequences	(300,000)	
3. Present value of future stock registration expenses	(180,000)	
4. Contingent moving costs associated with the slack adjuster product line, net of income tax consequences	(400,000)*	$(1,330,000)
(C) To record other consideration to be received from Borg-Warner Corporation in the form of an inventory credit and stock of Borg-Warner International GmbH and B-W Automotive of Puerto Rico, Inc. (or cash equivalent) and the slack adjuster product line (or cash equivalent) now manufactured at the Borg & Beck, Sterling Heights, Michigan facility		9,413,000
(D) To reduce the carrying value of fixed assets due to an excess of net assets and liabilities assumed over the purchase price		(865,000)
(E) To eliminate the equity of Borg-Warner Corporation in the Automotive Aftermarket Operations		44,782,000
		$52,000,000
Intercompany Eliminations:		
(F) To eliminate intercompany receivables and payables		$ (406,000)

* Should Echlin receive cash instead of the assets of the slack adjuster product line (see "Background of the Proposed Transaction"), these moving costs would not be incurred and the resultant effect would be to further reduce the carrying value of fixed assets.

BUSINESS AND PROPERTY OF ECHLIN

General

Echlin is a world-wide supplier of parts and supplies used to maintain the efficiency and safety of motor vehicles. The principal products made by the Company are used in the electrical and brake systems of motor vehicles.

Electrical. Echlin's electrical and ignition parts include contacts, condensers, distributor caps, rotors, ignition coils, electronic control modules, pick-ups, sensors, electronic and electromechanical voltage regulators and ignition wire.

Brake. Brake parts include hydraulic brake master cylinders, wheel cylinders for drum brake systems and brake drums, rotors and calipers for disc brake systems, repair kits, air brakes, and controllers for electrical brakes.

Other related products. Other products include turbochargers, carburetor and emission control parts, fuel pumps, PCV valves, small engine parts, forklift truck replacement parts and automotive test equipment.

Sales of parts and supplies by product class for the last five fiscal years are as follows:

Year Ended August 31,	Electrical	Brake	Other	Total
		(in millions of dollars)		
1980	$166	$87	$48	$301
1979	167	85	52	304
1978	167	72	39	278
1977	142	68	29	239
1976	128	54	23	205

Distribution

Echlin maintains sales organizations in the United States and Canada which sell to warehouse distributors, retail mass merchandisers, oil companies, automotive replacement parts manufacturers and trailer manufacturers. The warehouse distributor members of the National Automotive Parts Association ("NAPA") accounted for approximately 28.2% of Echlin's sales in fiscal 1980. Genuine Parts Company, the largest member of NAPA, accounted for 19.3% of Echlin's sales. This long-standing relationship with NAPA started in 1928 and for many years NAPA warehouses were the only outlet for Echlin products. Products identified by the trademarks "Echlin" and "United" are sold only to NAPA warehouse distributors. Echlin believes its relations with NAPA and its members are good. The loss of the NAPA members as customers would have a materially adverse effect on the business of Echlin. Echlin also sells under trademarks other than "Echlin" or "United". A limited number of Echlin's replacement parts and supplies are sold in bulk or in customers' private label packages to other manufacturers or mass merchandisers.

International Operations

Echlin manufactures its products in Canada, South Africa, the United Kingdom, Brazil, Mexico, West Germany and Venezuela and has recently commenced sales and distribution of its products in Australia. In the fiscal year ended August 31, 1980, international operations contributed 16.3% of the Company's total net sales. Information relating to the Company's foreign and domestic operations for each of the last three fiscal years is set forth in Note 17 of Notes to Consolidated Financial Statements. Foreign operations are subject to currency fluctuations in relation to the United States dollar, exchange controls and political, economic and other risks inherent in doing business abroad.

In August 1978, the Company adopted a plan to liquidate Park Bros, Ltd., one of its wholly-owned subsidiaries in the United Kingdom. As a result, $4,607,000 was charged to income in 1978, representing a write-down of trade receivables, inventories and property, plant and equipment to net realizable value and a provision for closing costs incurred in the wind-up of operations. The related income tax benefit approximated $5,027,000. See Note 3 of Notes to Consolidated Financial Statements.

Competition

While Echlin is a significant independent manufacturer of parts and supplies for motor vehicles, it faces substantial competition in all markets which it serves. There are a number of major independent manufacturers of parts and supplies, many of which have greater financial resources than Echlin. In addition, all the leading automobile manufacturers supply virtually every replacement part sold by the Company. Such manufacturers have much greater financial resources than Echlin and supply dealer service shops across the country.

Competition in all Echlin products is based primarily on product quality, warranty, customer service and price. The Company's business requires it to maintain inventory levels which ensure that rapid delivery requirements of customers can be met. The Company believes that it is able to compete effectively, and that its trademarks and tradenames command good acceptance.

New Products

On April 1, 1976, Echlin acquired the exclusive rights to the Wiegand Effect, a new method of magnetic pulse generation requiring no electrical power based upon the discoveries of John Wiegand. Mr. Wiegand assigned to Echlin all of his right, title and interest in patents, technology and know-how, for cash and has continued as a full-time consultant to Echlin with respect to the Wiegand technology. The Wiegand Effect is covered by numerous issued and pending U.S. and foreign patents covering both general and specific aspects of the technology and its applications. Echlin has granted and plans to continue to negotiate licenses for various applications by others and is in the process of developing its own products utilizing the Wiegand technology. The Company has applied the Wiegand Effect technology to its proprietary security access system and to automotive and industrial uses.

Echlin's basic parts and supplies business does not require it to make substantial expenditures on research and development activities. However, the Company has developed several new products and continues to make expenditures for the modification and improvement of existing products and services. For the years ended August 31, 1980 and 1979, the Company spent approximately $2,216,000 and $1,786,000, respectively, on research and developmental efforts, substantially all of which was Company sponsored.

Raw Materials

Echlin's principal requirements for raw materials consist of copper, tungsten, steel, plastics, rubber, iron and aluminum. Echlin is not dependent on any one source of raw materials essential to its business and during the last year has encountered no difficulties in obtaining its requirements.

Patents and Licenses

Echlin holds a number of domestic and foreign patents which include those on its Berg air brake systems, electrical products, and, as noted above, the Wiegand Effect. The loss or expiration of any of these patents or the license would not, however, have a significant effect on Echlin's operations.

Facilities

The following table sets forth the location and size of the Company's principal manufacturing facilities, and the major products manufactured at the respective locations.

Location	Principal Products	Approximate Square Feet		Lease Expiration Dates
North Hollywood, CA	Engine turbochargers	176,000	*	1981-1990
Branford, CT	Ignition and electrical parts	348,000		
Miami, FL	Ignition wire, battery and booster cables	141,000		
Chicago, IL	Fuel pumps	160,000	*	1982
Des Plaines, IL	Industrial fork lift truck parts	160,000		
Litchfield, IL	Brake, fuel system and small engine parts	288,000		
McHenry, IL	Brake parts	267,000		
Niles, IL	Engine tuneup and diagnostic equipment	44,000	*	1987
Cherryvale, KS	Engine tuneup and diagnostic equipment	55,000	*	1986
Columbus, KS	Electrical parts	178,000	*	1997
Independence, KS	Ignition and electrical parts	210,000	*	1981 & 1989
Iola, KS	Air brake systems	151,000	*	1999
Tekonsha, MI	Trailer brake controls	36,000		
Kansas City, MO	Electrical parts	75,000		
Philadelphia, PA	Ignition wire, battery and booster cables	67,000		
		69,000	*	1982 & 1989
Ponce, Puerto Rico	Ignition and electrical parts	40,000	*	1985
Sao Paulo, Brazil	Ignition and electrical parts	63,000	*	1981
Toronto, Canada	Air brake systems, ignition and other electrical products	97,000		
Blackburn, England	Air brake systems	48,000		
Johannesburg, S. Africa	Ignition and electrical parts	30,000		
		66,000	*	1981-1989
Mexico City, Mexico	Ignition and electrical parts	50,000	*	1981

* Leased facility.

The Company's plant facilities in Independence (two), Cherryvale, Iola, and Columbus, Kansas are leased from the respective cities under leases which expire as indicated above. The Company has the option to purchase these properties at a price equal to the remaining principal amount of the Industrial Revenue Bonds under which they were financed. Except for the Iola facility, these options can be exercised at any time; the Iola option cannot be exercised prior to February 1, 1984.

In addition, Echlin leases other small facilities both in the United States and abroad. The Company believes it will be able to renew all leases upon expiration. Inability to do so, however, would not have any material effect on the Company's operations.

In the opinion of Echlin's management, its properties are in good condition and provide adequate capacity for its current operations.

BUSINESS AND PROPERTY OF BORG-WARNER'S AUTOMOTIVE AFTERMARKET OPERATIONS

General

Borg-Warner's Automotive Aftermarket Operations is engaged in the manufacture and distribution of motor vehicle repair and replacement parts for the aftermarket. The Automotive Aftermarket Operations consists of two Borg-Warner manufacturing divisions (the Ballwin/Washington and Ottawa Divisions) and three Borg-Warner distribution divisions (the Automotive Parts Division, Automotive Parts Division International and Automotive Parts Division of Borg-Warner (Canada) Limited.

Products manufactured by the Automotive Aftermarket Operations include carburetor parts, remanufactured clutches, and emission control system components. A significant portion of these products is sold under customers' proprietary-brands for distribution to the repair and replacement market. The Automotive Aftermarket Operations also distributes a broad line of automotive repair and replacement parts and components manufactured by Borg-Warner's original equipment divisions and by other manufacturers of products for the automotive aftermarket. Products are sold by the distribution divisions exclusively under the Borg-Warner trademark and are distributed to markets in the United States, Canada and throughout the world.

The following table sets forth, for each of the two most recent calendar years, the percentage contribution of sales of each of the product groups set forth therein to total Automotive Aftermarket Operations sales:

	1980	1979
Products manufactured by Automotive Aftermarket Operations	32%	32%
Products manufactured by Borg-Warner or Borg-Warner affiliates	32	30
Products manufactured by non-Borg-Warner affiliates	36	38
	100%	100%

The Automotive Aftermarket Operations' principal manufacturing facilities are located in Ballwin and Washington, Missouri and Ottawa, Illinois. Seven distribution facilities are located throughout the United States and one is located in Canada.

Distribution

The Automotive Aftermarket Operations distributes to the motor vehicle repair and replacement market a broad line of parts and components manufactured by the Automotive Aftermarket Operations and by Borg-Warner's original equipment divisions, including new replacement clutches, remanufactured carburetor parts, transmission parts, torque converters, driveline parts, universal joints, and timing chains, sprockets, and gears. In addition, the Automotive Aftermarket Operations distributes repair and replacement parts and components produced by other manufacturers of products for the automotive aftermarket, including ignition parts, water pumps, motor mounts, fuel pumps, and wire and cable products. The Automotive Aftermarket Operations is the primary distributor of automotive repair and replacement products bearing the Borg-Warner trademark. Exclusive of sales attributable to products manufactured by the Automotive Aftermarket Operations, sales of the Automotive Aftermarket Operations during the fiscal years ended December 31, 1979 and 1980, were approximately $73,900,000 and $75,200,000, respectively, which constituted 64% and 65% of total Automotive Aftermarket Operations sales for the respective periods.

The Automotive Aftermarket Operations' Automotive Parts Division ("APD") (headquartered in Franklin Park, Illinois) and Automotive Parts Division of Borg-Warner (Canada) Limited ("APDC") (headquartered in Mississuaga, Ontario) sell in North America under the Borg-Warner trademark repair and replacement parts for domestically-produced motor vehicles to over 580 independent warehouse distributors. These independent warehouse distributors in turn sell to over 25,000 jobbers throughout the United States and Canada. The jobbers sell replacement parts to many thousands of service stations, automotive repair shops and car dealers, and increasingly, to individuals who maintain their own cars. The APD and APDC sales force of approximately 110 representatives maintains continual field contact with both warehouse distributors and jobbers and, with respect to some particular products, directly at the retail level with service stations, automotive repair shops and car dealers.

The distribution of automotive repair and replacement products bearing the Borg-Warner trademark to non-North American markets is handled by the Automotive Parts Division International ("APDI"), which is also headquartered in Franklin Park, Illinois. APDI primarily sells repair and replacement products for domestically-produced automobiles and trucks. Except with respect to remanufactured clutches, which are not distributed by APDI, the product line of APDI is substantially similar to that of APD. Total sales of APDI (inclusive of sales by APDI of products manufactured by the Automotive Aftermarket Operations) during the fiscal years ended December 31, 1979 and 1980 were $18,500,000 and $24,200,000, respectively, which constituted 16% and 21% of total Automotive Aftermarket Operations sales for the respective periods. APDI actively markets Borg-Warner automotive repair and replacement products in 64 countries, principally to those countries with large U.S. automobile populations in South America and the Middle East. APDI sells its products directly to distributors located within the foreign markets or through 28 commissioned sales agents responsible for sales in 35 countries.

Sources of Supply. APD, APDC and APDI are supplied with repair and replacement products for distribution under the Borg-Warner trademark by the Automotive Aftermarket Operations' Ballwin/Washington and Ottawa Divisions, by 10 Borg-Warner manufacturing divisions, and by outside suppliers of automotive repair and replacement products.

All transactions between Borg-Warner manufacturing divisions and the Automotive Aftermarket Operations, and all transactions within the Automotive Aftermarket Operations between manufacturing divisions and distribution divisions, are on an arms'-length basis, and the Automotive Aftermarket Operations obtains such products upon terms no more favorable than those offered by such divisions to non-Borg-Warner affiliated customers. For a discussion concerning the continued availability of Borg-Warner products to the Automotive Aftermarket Operations following its acquisition by Echlin, see discussion of the Supply Agreement under "Description of Proposed Transaction". No single outside supplier of repair and replacement products is essential to the operations of the Automotive Aftermarket Operations' distribution business, since alternative sources of supply exist for each of the components supplied by these companies. In addition, the Automotive Aftermarket Operations maintains sizable inventories of all necessary parts and components.

Competition. Competition is based primarily on price, quality, design and servicing capabilities. The Automotive Aftermarket Operations competes with other automotive parts suppliers, including original equipment vehicle manufacturers. In the international market for repair and replacement products for U. S. produced automobiles and trucks, competition is more segmented within countries and among product lines. International markets are supplied by exports from independent parts manufacturers and United States automobile manufacturers as well as by overseas producers of parts and automotive vehicles.

Manufacturing

The manufacturing divisions of the Automotive Aftermarket Operations produce carburetor parts, remanufactured clutches, and emission control system components. Sales of these products during the fiscal years ended December 31, 1979 and 1980 were approximately $37,000,000 and $37,500,000, respectively, or approximately 32% for each of the respective periods of total Automotive Aftermarket Operations sales.

Borg-Warner's Ballwin/Washington Division, located in Ballwin and Washington, Missouri, manufactures a broad line of carburetor parts, including gaskets, floats, idlestop solenoids, pump diaphragms, power valves, needle valve and seat assemblies, and accelerator pump plungers. A substantial portion of these carburetor parts is assembled, packaged and sold as carburetor kits under private label by the Ballwin/Washington Division to national account customers. For the fiscal years ended December 31, 1979 and 1980, approximately 9% and 10%, respectively, of the Automotive Aftermarket Operations' total sales were attributable to sales of carburetor kits packaged under private label. For the fiscal years ended December 31, 1979 and 1980, sales of carburetor kits packaged by the Ballwin/Washington Division and sold under the Borg-Warner trademark accounted for approximately 6% and 7%, respectively, of total Automotive Aftermarket Operations sales.

The Ballwin/Washington Division sells carburetor parts in bulk to carburetor rebuilders and packagers. Approximately 3% of total Automotive Aftermarket Operations sales for each of the fiscal years ended December 31, 1979 and 1980, respectively, were attributable to sales of carburetor components in bulk.

Carburetor needles, an important component of carburetors, are purchased by the Ballwin/Washington Division from an outside producer, Vernay Laboratories, for incorporation in other carburetor components and kits. Vernay Laboratories utilizes a proprietary process to bond a rubber compound onto the carburetor needle, and is the sole manufacturer of high-quality bonded needles. While alternate sources of supply exist, a prolonged interruption of production by Vernay Laboratories could have an adverse effect on the operations of the Ballwin/Washington Division.

The Ottawa Division, located in Ottawa, Illinois, remanufactures a complete line of clutches for domestically-produced automobiles, trucks and agricultural equipment. Approximately 13% and 12% of total Automotive Aftermarket Operations sales during the fiscal years ended December 31, 1979 and 1980, respectively, were attributable to sales of clutches remanufactured by the Ottawa Division and marketed through the Automotive Aftermarket Operations as Borg-Warner remanufactured clutches; the remaining portions of the Ottawa Division's production are packaged and sold under private label and consist principally of truck and agricultural clutches.

The remanufacturing process engaged in by the Ottawa Division involves the complete disassembly of used clutches, known as "cores". Following disassembly, worn or defective clutch components are replaced by new components, and the clutch's friction surface is reground to precise specifications. Remanufactured clutches have been historically distinguished from "rebuilt" clutches in that many components are automatically and systematically replaced in a remanufactured clutch whereas clutch rebuilders generally replace only worn or damaged components.

Competition. The Automotive Aftermarket Operations competes with numerous manufacturers of new and rebuilt carburetors and carburetor parts, including such companies as General Motors Corporation, Ford Motor Company, Carter Carburetor (a division of ACF Industries, Incorporated), Holley Carburetor (a division of Colt Industries, Inc.), Standard Motors, Inc., Champion Rebuilders, Inc., Cardo Automotive Products, Inc. and a number of other manufacturers. The Automotive Aftermarket Operations believes that it can continue to compete effectively primarily because of its reputation for quality and dependability, and its ability to meet the specialized needs of its customers within the aftermarket by offering a broad line of carburetor parts and kits. The demand for carburetion products may also be affected by an increase in the use of diesel engines (which use fuel injection systems exclusively) and by an increase in the use of fuel injection systems instead of carburetors in gasoline engines.

With respect to remanufactured clutches, the Automotive Aftermarket Operations competes with several national remanufacturers and many regional and local rebuilders. The Automotive Aftermarket Operations believes that the Borg-Warner trademark and the Ottawa Division's reputation for quality and service will continue to allow it to compete favorably with such remanufacturers and rebuilders. The Automotive Aftermarket Operations also competes with manufacturers of new clutches. A remanufactured clutch is less expensive than a comparable new replacement clutch, and the Automotive Aftermarket Operations believes that consumers in the replacement and repair market are becoming increasingly price-conscious.

Backlog

The estimated value of incompleted orders ("backlog") for the Automotive Aftermarket Operations at December 31, 1979 and 1980 was approximately $26,300,000 and $24,300,000, respectively. These backlog figures include orders submitted by the distribution divisions of the Automotive Aftermarket Operations to the Ballwin/Washington and Ottawa Divisions to maintain or adjust inventories at the distribution level; accordingly, they may not be relied upon as being necessarily indicative of revenues or profit or loss which the Automotive Aftermarket Operations might ultimately realize when and if the products in backlog are sold to outside customers. Of the backlog at December 31, 1980, it is anticipated that substantially all will be shipped within one year.

Patent and Trademarks

Patent protection is not a significant factor bearing on the maintenance of the Automotive Aftermarket Operations' market position. The Automotive Aftermarket Operations does utilize proprietary techniques and processes in the manufacture of its products. The Borg-Warner trademark is believed to be of importance to the financial condition and results of operations of the Automotive Aftermarket Operations. The Borg-Warner trademark is identified with quality and dependability, and creates favorable consumer response to products bearing it.

Employees

As of March 1, 1981, the Automotive Aftermarket Operations employed approximately 930 employees. Approximately 580 of these employees are hourly workers at the Automotive Aftermarket Operations' Ballwin/Washington and Ottawa manufacturing facilities and are represented by the International Association of Machinists. The collective bargaining agreements at the Ballwin/Washington and Ottawa locations will expire within the next 12 months. The Automotive Aftermarket Operations have experienced strikes and work stoppages in the past, none of which has had a material adverse effect on the Automotive Aftermarket Operations' business. However, a prolonged strike at the Ballwin/Washington or Ottawa manufacturing facilities could have a material adverse effect on the business of the Automotive Aftermarket Operations.

Facilities

The Automotive Aftermarket Operations maintains three manufacturing facilities located in Ballwin and Washington, Missouri and Ottawa, Illinois. The Ballwin, Missouri plant, built in 1966, occupies 100,500 square feet and is situated on a tract of 25 acres. The Washington, Missouri facility was constructed in 1974; it occupies 69,300 square feet and is situated on a tract of 23 acres. The Ottawa, Illinois plant was built in 1967 and occupies 135,000 square feet of manufacturing space; it is situated on a 40-acre tract. All of the manufacturing facilities are owned by Borg-Warner, except the Washington facility, which is leased pursuant to an industrial revenue bond lease. In the opinion of management, the buildings, machinery and equipment of the Automotive Aftermarket Operations' manufacturing locations are well maintained and equipped, in sound repair, and are suitable for the purposes for which they are used.

In addition to the headquarters of APD and APDI located in Franklin Park, Illinois, which occupies approximately 140,000 square feet of office and warehousing space, the distribution operations of the Automotive Aftermarket Operations leases seven warehouse facilities in the United States and one in Canada. The following table sets forth the location and size of the Automotive Aftermarket Operations' distribution facilities:

Location	Principal Function	Approximate Square Feet
Franklin Park, Illinois	Division headquarters and central distribution center	140,000
Pico Rivera, California	Distribution center	53,000
Elkridge, Maryland	Distribution center	72,400
Marietta, Georgia	Distribution center	51,000
Mesquite, Texas	Distribution center	43,860
Milwaukie, Oregon	Distribution center	43,200
Philadelphia, Pennsylvania	APDI freight forwarding office	980
Norfolk, Virginia	APDI warehouse	50,400
Mississuaga, Ontario	APDC office and distribution center	15,000

All of the facilities listed above are, in the opinion of management, well maintained and equipped, in sound repair, and are suitable for the purposes for which they are used.

RELATIONSHIP WITH INDEPENDENT ACCOUNTANTS

The shareholders have approved the appointment of Price Waterhouse & Co., Certified Public Accountants, as independent accountants of the Company for the fiscal year ending August 31, 1981.

For the year ended August 31, 1980, Price Waterhouse & Co. examined the Company's annual consolidated financial statements and its subsidiaries' annual financial statements, reviewed quarterly reports and filings with the SEC, and rendered various other services in connection with the audit function. Price Waterhouse & Co. also performed nonaudit services which consisted of rendering tax assistance to the Company's consolidated subsidiaries, international tax advice and a review of the Company's Federal income tax return; the total fees for such nonaudit services were 1% of total audit fees. In addition, fees resulting from audit and tax services relating to proposed acquisitions amounted to 8% of total audit fees. The Company's Audit Committee approved the nonaudit services prior to their performance and determined that, in its view, the performance of such services did not impair the independence of Price Waterhouse & Co.

Representatives of Price Waterhouse & Co. are expected to be present at the Special Meeting of Stockholders, with the opportunity to make a statement if they desire to do so. Such representatives are also expected to be available to respond to appropriate questions.

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The individual financial statements of The Echlin Manufacturing Company have been omitted since it is primarily an operating company and the total of minority interest and long-term debt of all subsidiaries (excluding debt guaranteed by The Echlin Manufacturing Company) is less than 5% of total consolidated assets at August 31, 1980 and February 28, 1981. The separate financial statements of companies carried at equity in underlying net assets have not been included since, if considered in the aggregate, they would not constitute a significant subsidiary.

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REPORT OF INDEPENDENT ACCOUNTANTS

To The Shareholders and Board of Directors of
The Echlin Manufacturing Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of changes in financial position and of shareholders' equity, together with the consolidated statement of income appearing elsewhere in this Proxy Statement, present fairly the financial position of The Echlin Manufacturing Company and its subsidiaries at August 31, 1980, and the results of their operations and the changes in their financial position for each of the five years in the period then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

Stamford, Connecticut
October 15, 1980

THE ECHLIN MANUFACTURING COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	(Unaudited) February 28, 1981	August 31, 1980
	(Thousands of Dollars)	
Current assets:		
Cash	$ 2,451	$ 1,652
Accounts receivable (less allowance for doubtful accounts of $1,421,000 at February 28, 1981 and $1,548,000 at August 31, 1980)	51,195	41,403
Inventories	103,005	103,800
Other	5,324	5,298
Total current assets	161,975	152,153
Property, plant and equipment, at cost:		
Land	4,536	4,536
Buildings	32,870	29,974
Machinery and equipment	75,403	69,367
	112,809	103,877
Less—Accumulated depreciation and amortization	45,775	41,596
	67,034	62,281
Investments in and advances to affiliated companies, at equity	832	851
Marketable securities	18,489	16,082
Intangible assets, net	2,398	2,488
Other assets	3,219	3,290
	$253,947	$237,145

The accompanying notes are an integral part of these financial statements.

THE ECHLIN MANUFACTURING COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	(Unaudited) February 28, 1981	August 31, 1980
	(Thousands of Dollars)	
Current liabilities:		
Notes payable to banks	$ 17,353	$ 10,770
Current portion of long-term debt	1,465	1,512
Accounts payable, trade	14,480	14,221
Accrued taxes on income	5,102	234
Accrued liabilities:		
Payroll and other compensation	6,804	5,342
Other	6,897	5,912
Total current liabilities	52,101	37,991
Long-term debt	51,530	52,083
Deferred income taxes	2,907	2,907
Shareholders' equity:		
Preferred stock, without par value:		
Authorized 1,000,000 shares		
Issued none		
Common stock, $1 par value:		
Authorized 33,000,000 shares		
Issued 1980—16,165,282 shares		
1981—16,191,442 shares	16,191	16,165
Capital in excess of par value	34,528	34,282
Retained earnings	98,306	95,333
	149,025	145,780
Less—Treasury stock, 140,914 shares, at cost	1,616	1,616
	147,409	144,164
	$253,947	$237,145

The accompanying notes are an integral part of these financial statements.

THE ECHLIN MANUFACTURING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	(Unaudited) Six Months Ended		Year Ended August 31,				
	Feb. 28, 1981	Feb. 29, 1980	1980	1979	1978	1977	1976
	(Thousands of Dollars)						
Working capital was provided by:							
Operations:							
Net income	$ 7,143	$ 9,033	$ 8,769	$ 22,655	$ 18,644	$ 16,090	$ 13,233
Expenses not requiring outlay of working capital:							
Depreciation and amortization	4,539	4,034	8,582	7,051	6,638	5,433	4,487
Deferred income taxes			608	(228)	325	322	212
Total from operations	11,682	13,067	17,959	29,478	25,607	21,845	17,932
Disposals of land and building						1,861	2,900
Proceeds from long-term borrowings		4,656	13,394		11,442	26,633	26,679
Construction funds disbursed by a trustee						2,845	1,072
Stock transactions of pooled companies							153
Proceeds from issuance of common stock	272	480	667	24,806	411	185	275
Other			1,895				45
	11,954	18,203	33,915	54,284	37,460	53,369	49,056
Working capital was applied to:							
Cash dividends paid	4,170	3,516	7,677	6,387	4,734	3,868	3,141
Additions to property, plant and equipment—net of normal disposals	7,700	8,579	17,867	14,890	9,823	9,152	7,198
Reduction of long-term debt	553			6,956	2,037	27,415	24,965
Industrial development revenue bond proceeds deposited with a trustee						5,000	
Assets of businesses acquired:							
Property, plant and equipment	1,219					497	3,242
Other, excluding working capital	22					116	570
Cost of business acquired over corresponding net assets							2,742
Purchase of marketable securities	2,407	3,088	6,037	4,203	3,897	1,907	
Other	171	203		1,564	1,196	320	
	16,242	15,386	31,581	34,000	21,687	48,275	41,858
Increase (decrease) in working capital	$ (4,288)	$ 2,817	$ 2,334	$ 20,284	$ 15,773	$ 5,094	$ 7,198
Increase (decrease) in working capital comprises:							
Cash	$ 799	$ (5,781)	$ (5,190)	$ 668	$ 603	$ (1,852)	$ (464)
Accounts receivable	9,792	5,549	(3,880)	3,877	8,488	1,573	3,102
Inventories	(795)	5,322	8,881	11,690	12,912	3,255	11,498
Other current assets	26	(250)	(2,213)	12	4,998	733	(364)
Notes payable to banks	(6,583)	(3,216)	(592)	3,092	(5,502)	(224)	396
Current portion of long-term debt	47	81	307	357	(719)	(210)	303
Accounts payable and accrued liabilities	(2,706)	93	1,735	587	(1,954)	(3,313)	(2,936)
Accrued taxes on income	(4,868)	472	3,286	1	(389)	5,132	(4,337)
Accrued closing costs resulting from disposition of the Park Bros., Ltd. subsidiary		547			(2,664)		
	(4,288)	2,817	2,334	20,284	15,773	5,094	7,198
Working capital at beginning of period	114,162	111,828	111,828	91,544	75,771	70,677	63,479
Working capital at end of period	$109,874	$114,645	$114,162	$111,828	$ 91,544	$ 75,771	$ 70,677

The accompanying notes are an integral part of these financial statements.

THE ECHLIN MANUFACTURING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Five Years Ended August 31, 1980 (Audited)
and Six Months Ended February 28, 1981 (Unaudited)

	Common stock, $1 par value	Capital in excess of par value	Retained earnings	Treasury stock at cost	Total shareholders' equity
	(Thousands of Dollars)				
Balance at August 31, 1975	$ 7,252	$16,698	$41,749	$(1,616)	$ 64,083
Net income			13,233		13,233
Cash dividends paid ($0.225 per share)			(3,141)		(3,141)
Shares issued under employee stock option plans	23	252			275
Stock transactions of pooled companies prior to acquisition	21	132			153
Balance at August 31, 1976	7,296	17,082	51,841	(1,616)	74,603
Net income			16,090		16,090
Cash dividends paid ($0.27 per share)			(3,868)		(3,868)
Shares issued under employee stock option plans	18	167			185
Balance at August 31, 1977	7,314	17,249	64,063	(1,616)	87,010
Net income			18,644		18,644
Cash dividends paid ($0.33 per share)			(4,734)		(4,734)
Shares issued under employee stock option plans	24	387			411
Effect of 2-for-1 stock split	7,193	(7,193)			
Other	(5)	5			
Balance at August 31, 1978	14,526	10,448	77,973	(1,616)	101,331
Net income			22,655		22,655
Cash dividends paid ($0.42 per share)			(6,387)		(6,387)
Shares issued under employee stock option plans	69	644			713
Shares issued under common stock offering	1,500	22,755			24,255
Costs related to stock split and common stock offering		(162)			(162)
Balance at August 31, 1979	16,095	33,685	94,241	(1,616)	142,405
Net income			8,769		8,769
Cash dividends paid ($0.48 per share)			(7,677)		(7,677)
Shares issued under employee stock option plans	70	646			716
Costs related to common stock filing fees		(49)			(49)
Balance at August 31, 1980	16,165	34,282	95,333	(1,616)	144,164
Net income			7,143		7,143
Cash dividends paid ($0.26 per share)			(4,170)		(4,170)
Shares issued under employee stock option plans	26	246			272
Balance at February 28, 1981	$16,191	$34,528	$98,306	$(1,616)	$147,409

The accompanying notes are an integral part of these financial statements.

THE ECHLIN MANUFACTURING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information with respect to the six-month periods ending February 28, 1981 and February 29, 1980 is unaudited)

Note 1—Summary of Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Echlin and its subsidiaries; all subsidiaries are wholly-owned with the exception of relatively insignificant foreign companies. Echlin's investments in and advances to unconsolidated affiliated companies are carried at equity in their underlying net assets.

Translation of Foreign Currencies and Exchange Adjustments

The financial statements of foreign subsidiaries have been translated in accordance with the provisions of Financial Accounting Standards Board Statement No. 8. Realized exchange (losses) gains for the five years ended August 31, 1980 approximated $(28,000), $(113,000), $(24,000), $(134,000) and $70,000 and for the six-month periods ended February 28, 1981 and February 29, 1980 approximated $(67,000) and $10,000, respectively. Unrealized translation (losses) gains for the five years ended August 31, 1980 approximated $(213,000), $(141,000), $(981,000), $(262,000) and $(380,000) for the six month periods ended February 28, 1981 and February 29, 1980 approximated $62,000 and $(202,000), respectively.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market (see Note 4).

Property, Plant and Equipment and Depreciation

Beginning with 1973 additions, depreciation of property, plant and equipment is computed principally on the straight-line method over the estimated useful lives of these assets. Depreciation of properties acquired prior to 1973 is computed principally on the declining balance method for new properties and the straight-line method for used properties. Accelerated methods of depreciation are used for federal income tax purposes. At the time fixed assets are sold or otherwise disposed of, the accounts are relieved of the original cost of the assets and the related accumulated depreciation, and any resulting profit or loss is credited or charged to income.

Intangible Assets

The excess of cost over the fair value of net assets (exclusive of patents and trademarks) of businesses acquired is amortized on the straight-line method over periods expected to be benefited (currently up to thirty years). Costs of acquired patents and trademarks are amortized on the straight-line basis over the shorter of the estimated useful lives of the patents and trademarks or thirty years.

Marketable Securities

Marketable securities are valued at cost which approximated market value at August 31, 1980 and February 28, 1981 and consist principally of investments in government interest-bearing securities held in Puerto Rico.

Maintenance and Repairs

Expenditures for maintenance and repairs, which do not materially extend the useful lives of the related assets, are charged directly to income when incurred.

Pension Costs

Pension costs are determined on an actuarial basis and include amortization of prior service costs over a period of thirty years. It is Echlin's normal policy to fund an amount at least equal to pension costs accrued (see Note 13).

Income Taxes

Taxes are provided for items entering into the determination of net income for financial statement purposes, irrespective of when such items are reported for income tax purposes. Accordingly, deferred income taxes have been provided for all timing differences. Federal income taxes are not provided on the undistributed earnings of subsidiaries and affiliated companies located outside the United States because a substantial portion of such earnings is considered permanently reinvested. After utilization of available foreign income tax credits, additional U.S. income taxes payable upon the remission of these undistributed earnings would not be material. The Company's effective tax rate benefited from income earned by its Puerto Rican subsidiary which is exempt from federal income taxes through 1990. Investment tax credits are accounted for on the flow-through method as a reduction of the provision for federal income taxes.

Interest Rate Futures

During November, 1980, the Company commenced a program of investing in interest rate futures contracts. It is the Company's policy to include both realized and unrealized gains and losses resulting from the difference between the purchase price of the contract and the current market price in the determination of net income. Such gains and losses are netted against interest expense in the income statement. For the six months ended February 28, 1981, unrealized losses of $724,000 and realized losses of $40,000 were charged to expense.

Note 2—Businesses Acquired:

In December 1975, Echlin acquired Peerless Instrument Company and Roto-Master, Inc. in exchange for 704,000 and 700,000 shares of its common stock, respectively. Both acquisitions were accounted for as poolings of interests.

In June 1976, the Company acquired all of the outstanding stock of Kravex Manufacturing Corp. for $10,000,000 and in September, 1976, Echlin purchased all of the outstanding stock of Tekonsha Engineering Company for $1,000,000. The consolidated financial statements include the results of Kravex and Tekonsha from the dates acquired.

On October 24, 1980, the Company acquired all of the outstanding stock of Blackstone Manufacturing Co., Inc., a manufacturer of fuel pumps, for a net cash price of approximately $2,600,000. The acquisition was accounted for by the purchase method and the financial statements for the six-month period ended February 28, 1981 include the results of operations, which are not significant to consolidated income, from that date.

Note 3—Disposition of Foreign Subsidiary:

In August 1978, the Company adopted a plan to liquidate its Park Bros., Ltd. wholly-owned subsidiary. The $4,607,000 charge to income in 1978 represents the write-down ($1,943,000) of trade receivables, inventories and property, plant and equipment to net realizable value, in addition to providing for closing costs to be incurred in connection with the wind-up of operations ($2,664,000). The related income tax benefit approximated $5,027,000.

Note 4—Inventories:

The components of inventories are as follows:

	February 28, 1981	August 31, 1980
	(Thousands of Dollars)	
Finished goods	$ 51,892	$ 54,299
Work in process	21,334	20,038
Raw materials and component parts	29,779	29,463
	$103,005	$103,800

Inventories used in determining cost of sales for the five years ending August 31, 1980 were as follows:

	(Thousands of Dollars)
At August 31,	
1980	$103,800
1979	94,919
1978	83,229
1977	70,317
1976	67,062
1975	55,564

At February 28, 1981, February 29, 1980 and February 28, 1979, inventories used in determining cost of sales were $103,005,000, $100,241,000 and $91,990,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 5—Long-Term Debt and Other Borrowing Arrangements:

	February 28, 1981	August 31, 1980
	(Thousands of Dollars)	
Commercial paper	$15,000	$19,000
8.45% Senior notes	15,000	15,000
Foreign (interest 8%-16%) payable in varying installments to 1987	10,210	6,077
4.38%-8.25% obligations under terms of lease agreements with four municipalities, payable in varying installments to 1999	10,189	10,623
Other (interest 6%-11.25%) payable in varying installments to 1998	2,596	2,895
	52,995	53,595
Less-Current portion	1,465	1,512
	$51,530	$52,083

The Company has a revolving credit agreement (RCA) which provides for the availability, through September 1, 1982, of maximum borrowings of $15,000,000. Subject to certain specific terms and conditions contained in the RCA, the Company may borrow up to $15,000,000 on or before September 1, 1982, repayable in sixteen equal quarterly installments beginning December 1, 1982. Interest will be payable at the prime rate of the agent bank plus a variable factor paid in lieu of maintaining compensating balances.

During 1980, the Company entered into two credit agreements with a United Kingdom bank. Under the terms of one agreement, the Company may borrow a maximum of $5,000,000 through March, 1987 with interest payable at the London Interbank market rate, plus a factor varying between one half of one percent and three quarters of one percent. At August 31, 1980, $5,000,000 had been borrowed under this agreement at an interest rate of 10.46%. At February 28, 1981, $5,000,000 was outstanding at an interest rate of 16%. The second agreement, which is cancellable with not less than thirteen months written notice, allows for maximum borrowings of $5,000,000 with interest payable at a maximum of one half of one percent above the London Interbank market rate. At August 31, 1980, $1,000,000 bearing interest at 11.0% had been borrowed against this commitment. At February 28, 1981, $5,000,000 was outstanding at an interest rate of 16%.

The commercial paper has been classified as long-term debt because of the Company's intent to refinance this debt on a long-term basis and the availability of such financing under the terms of the non-cancellable RCA and, at August 31, 1980, the United Kingdom credit agreements. The commercial paper borrowings outstanding at August 31, 1980 and February 28, 1981 bear interest at a weighted average rate of 9.82% and 16.52%, respectively.

Under the senior note agreements, repayments of at least $1,000,000 per year are required beginning on July 15, 1983, with the balance due on July 15, 1997.

In addition, under credit lines with various U.S. and foreign banks, the Company is permitted maximum borrowing approximating $22,000,000 and $11,000,000, respectively, at August 31, 1980 and $22,000,000 and $15,000,000, respectively, at February 28, 1981, principally at the prime or foreign equivalent interest rates of the various banks.

In connection with the short-term U.S. credit lines, Echlin has informally agreed with the lending banks to maintain compensating balances, on an average basis over a period of time, which approximated $1,060,000 at August 31, 1980 and February 28, 1981. Echlin was in compliance with these informal arrangements during the year ended August 31, 1980 and the six-month period ending February 28, 1981.

Under the most restrictive provisions of Echlin's several borrowing agreements, Echlin may not, among other things, pay cash dividends and/or repurchase common stock in amounts which exceed 50% of net income, as defined in the agreement, earned after August 31, 1977 plus $10,000,000, however, the

Note 5—Long-Term Debt and Other Borrowing Arrangements—(Continued)

aggregate amount of dividends paid or common stock repurchased during any one fiscal year cannot exceed the average net income for the three years preceding the year in which such transactions occur. As of August 31, 1980 and February 28, 1981 there is $16,867,000 and $16,561,000, respectively, of retained earnings available for the payment of dividends. Other restrictions include provisions relating to the maintenance of working capital, shareholders' equity and the issuance of new debt.

Minimum annual principal repayments of all long-term debt in each of the next five fiscal years are as follows:

Year ended August 31,	
1981	$1.512,000
1982	850.000
1983	1.805,000
1984	1,636,000
1985	1.482,000

Note 6—Short-Term and Commercial Paper Borrowings:

Borrowings from international money markets by its foreign operations constitute the majority of the Company's short-term debt obligations. Interest rates in these markets are significantly higher than the U.S. prime lending rate. As a result, the average interest rate on short-term borrowings, at August 31, 1980 and February 28, 1981 was approximately 14.9% and 17.8%, respectively. During these same periods, short-term borrowings averaged approximately $4,214,000 and $10,481,000 and the weighted average interest rates were approximately 15.5% and 14.5%. The maximum amount of aggregate short-term borrowings outstanding during the year ended August 31, 1980 and the six-month period ended February 28, 1981 were $12,160,000 and $13,699,000, respectively. Commitment fees were not significant in either period.

During fiscal 1980 and during the six-month period ended February 28, 1981 the average commercial paper borrowings were $18,930,000 and $21,306,000, respectively and the weighted average interest rates were 13.3% and 15.3%. Any commercial paper borrowings in excess of the available long-term commitments were classified as short-term debt.

Note 7—Shareholders' Equity:

The Board of Directors has the authority to issue the authorized unissued preferred stock at its discretion with preferences and rights and at prices which it deems appropriate.

The Company's Certificate of Incorporation was amended by the shareholders at their annual meeting held on December 11, 1979, to increase the authorized number of shares of common stock from 23,000,000 to 33,000,000.

On February 22, 1979, the Company completed the sale to the public of 1,500,000 shares of common stock. The shares were priced at $17.00 each and the proceeds to the Company, after deducting underwriting discounts and commissions, amounted to $24,255,000. Expenses related to the offering of $115,000, were charged to capital in excess of par value in 1979.

On October 4, 1978, the Board of Directors declared a two-for-one stock split, excluding treasury stock, payable November 10, 1978 to shareholders of record on October 20, 1978. All references in the financial statements and notes to the number of shares of common stock and related prices, dividends and per share amounts have been restated to reflect this split.

Note 8—Stock Option Plans:

Under the Company's stock option plans, 736,800 shares of common stock were reserved for issuance to officers and key employees for options outstanding at August 31, 1980 (839,800 at February 28, 1981).

Note 8—Stock Option Plans—(Continued)

The 1970 plan, as amended, permits the granting of both qualified and non-qualified stock options and the 1976 plan permits the granting of only non-qualified stock options. No further grants may be made under the 1970 plan as it expired on December 17, 1980 as to shares not currently outstanding. On December 22, 1980, the Company's shareholders voted to amend the 1976 plan to make available an additional 800,000 shares for option.

Outstanding options were granted at 100% of the fair market value at the date of grant. Qualified options outstanding are exercisable one year from the date of grant and expire five years after date of grant. Non-qualified options under both plans are exercisable one year from the date of grant and will expire at varying dates, not to exceed ten years from date of grant.

The following is a summary of stock option data for the year ended August 31, 1980 and the six-month period ended February 28, 1981:

	Number of Shares		
	1970 Plan	1976 Plan	Total
Options:			
Outstanding at August 31, 1979	397,000	274,800	671,800
Granted		160,600	160,600
Exercised	(55,800)	(9,600)	(65,400)
Terminated	(11,800)	(18,400)	(30,200)
Outstanding at August 31, 1980	329,400	407,400	736,800
Granted	100,600	51,000	151,600
Exercised	(24,500)	(1,500)	(26,000)
Terminated	(8,700)	(13,900)	(22,600)
Outstanding at February 28, 1981	396,800	443,000	839,800
Additional data:			
Option price range per share			
At August 31, 1980	$ 8.94-$11.75	$10.81-$14.50	$ 8.94-$14.50
At February 28, 1981	$ 8.94-$12.75	$10.81-$14.50	$ 8.94-$14.50
Options exercisable			
At August 31, 1980	329,400	253,900	583,300
At February 28, 1981	296,200	248,100	544,300
Price range per share of options exercised			
Year ended August 31, 1980	$ 7.69-$12.25	$10.81-$14.50	$ 7.69-$14.50
Six-month period ended February 28, 1981	$10.00-$11.75	$10.81-$14.50	$10.00-$14.50

Under the 1970 and 1976 plans, 92,300 and 182,400 shares were respectively available for future grants as of August 31, 1980. At February 28, 1981, 945,300 shares were available under the 1976 plan while none were available under the 1970 plan.

Proceeds from exercised options are credited to common stock to the extent of the par value of the shares issued and the balance to capital in excess of par value. No charges or credits have been made to income with respect to any of the options.

Note 9—Reclassification of Investment Income:

The statements of income for the five-year period ended August 31, 1980 and the six-month period ended February 29, 1980 have been restated to reflect the reclassification of interest income on Puerto Rican investments. The effect of the reclassification was to increase selling and administrative expenses and reduce interest expense by $1,110,000, $705,000, $337,000, $91,000 and $480,000 for the four years ended August 31, 1980 and the six-month period ended February 29, 1980, respectively. No investment income was earned during the year ended August 31, 1976. Investment income for the six-month period ended February 28, 1981 was $793,000.

Note 10—Depreciation and Amortization:

The provisions for depreciation and amortization have been computed using the following estimated useful lives:

Land improvements	10 years
Buildings	20-40 years
Building improvements	5-25 years
Machinery and equipment	5-12 years
Molds, dies and tooling	3-10 years
Office furniture and fixtures	3-20 years
Automotive equipment	3-8 years

Leasehold improvements are amortized over the terms of the related leases or their estimated useful lives, whichever is shorter.

Note 11—Executive Bonus Plan:

Echlin's principal executives may receive bonuses based upon Echlin's performance during the preceding fiscal year. The bonus fund begins to accrue only when Echlin's income before taxes on income for a fiscal year exceeds 30% of Echlin's shareholders' equity at the beginning of such year, and is computed based upon a predetermined curve relating Echlin's performance to aggregate salaries of the participants. The bonus fund is divided among the participants based on the contribution of each to the performance of Echlin, as determined by the Compensation Committee of the Board of Directors.

The charge to income for bonuses earned under this plan for the four years ended August 31, 1979 amounted to $712,000, $639,000, $480,000 and $470,000, respectively. Bonuses were not earned in 1980, and amounts have not been accrued for the six-month period ended February 28, 1981 since it is not anticipated that any bonuses will be earned in 1981.

Note 12—Performance Unit Plan:

The Company has instituted a Performance Unit Plan as an incentive for certain key employees of the Company and its subsidiary corporations. Within one hundred twenty (120) days after the close of the Company's fiscal year, upon the recommendation of the Compensation Committee of the Board of Directors, a number of performance units may be awarded by the Board of Directors to eligible employees. The value of a performance unit is computed by multiplying (i) a performance factor reflecting the annual compound growth rate in earnings per share for the three fiscal years beginning with the year in which the award is made, by (ii) the earnings per share for the three-year period.

The value of the performance units will not vest to the employee until the end of the third fiscal year. Except for provisions for death or retirement, an employee who is not an employee of the Company at the end of the third fiscal year is not entitled to benefits under the Plan. The Plan commenced after the end of the 1976 fiscal year.

For the three years ended August 31, 1979, the charge to income representing the estimated value of performance units was $550,000, $430,000 and $270,000, respectively. During 1980, income was credited for $415,000 representing an estimated reduction in value of performance units. No amounts have been accrued under the Performance Unit Plan for the six-month period ended February 28, 1981 since it is not anticipated that any amounts will be paid out in 1981.

Note 13—Pension Plans:

The Company has non-contributory pension plans covering a majority of its domestic employees. The Company also contributes to pension plans for employees of certain foreign subsidiaries. For the five years ended August 31, 1980, pension expense approximated $2,024,000, $1,856,000, $1,420,000, $1,315,000 and $874,000 and for the six-month periods ended February 28, 1981 and February 29, 1980 approximated $1,248,000 and $1,049,000, respectively. At August 31, 1980 the unfunded prior service cost of the pension plans approximated $10,827,000.

Note 13—Pension Plans—(Continued)

A comparison of estimated accumulated plan benefits and actual plan net assets for the Company's domestic defined benefit plans as of January 1, 1980 (latest available data) is as follows:

	(Thousands of Dollars)
Actuarial present value of accumulated plan benefits:	
Vested	$6,577
Nonvested	2,419
Total	$8,996
Net assets available for benefits	$9,323

The composite weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 5.5% for 1980.

Echlin's foreign pension plans are not required to report to certain governmental agencies pursuant to ERISA and do not otherwise determine the actuarial present value of accumulated plan benefits or net assets available for plan benefits. For the foreign plans, the actuarially computed value of vested benefits was substantially fully funded.

Note 14—Federal Tax Expense:

The provision for taxes on income consists of the following:

	Year Ended August 31,				
	1980	1979	1978	1977	1976
	(Thousands of Dollars)				
Current:					
Federal	$2,460	$11,466	$11,852	$11,455	$ 9,403
State	1,600	1,350	1,890	1,282	958
Foreign	410	1,280	726	913	892
	4,470	14,096	14,468	13,650	11,253
Deferred:					
Federal	1,452	1,371	(2,352)	(143)	469
Foreign	(32)	277	(10)	(7)	34
	1,420	1,648	(2,362)	(150)	503
	$5,890	$15,744	$12,106	$13,500	$11,756

For the six months ended February 28, 1981, the current provision for taxes consisted of $3,987,000, $810,000 and $483,000, respectively, for federal, state and foreign taxes. For the six months ended February 29, 1980, the current provision for taxes consisted of $5,120,000, $752,000 and $536,000, respectively, for federal, state and foreign taxes.

Investment tax credits, which are accounted for on the "flow-through" method as a reduction of the current provision for federal income taxes, for the five years ended August 31, 1980 amounted to $699,000, $891,000, $574,000, $424,000 and $298,000; and $279,000 and $244,000 for the six-month periods ended February 28, 1981 and February 29, 1980, respectively.

Deferred income taxes result from timing differences in reporting transactions for financial reporting and income tax purposes. The tax effect of major timing differences is summarized below:

Note 14—Federal Tax Expense—(Continued)

	Year Ended August 31.				
	1980	1979	1978	1977	1976
	(Thousands of Dollars)				
Tax depreciation in excess of depreciation for financial reporting purposes	$ 679	$ 49	$ 352	$ 403	$487
Estimated tax benefit on disposition of foreign subsidiary	1,498	1,447	(3,393)	—	—
Pension funding in excess of expenses for financial reporting purposes	600	39	—	—	—
Valuation of inventories	(419)	107	—	—	—
Charges capitalized for tax purposes and expensed for financial reporting purposes	(467)	417	—	—	—
Estimated tax benefit on write-down of foreign investments	—	—	1,212	(1,212)	—
All other, net	(471)	(411)	(533)	659	16
	$1,420	$1,648	$(2,362)	$ (150)	$503

A reconciliation setting forth the differences between the effective tax rate of Echlin and the statutory federal rate is as follows:

	Six Months Ended		Year Ended August 31,				
	Feb. 28, 1981	Feb. 29, 1980	1980	1979	1978	1977	1976
U.S. statutory federal tax rate	46.0%	46.0%	46.0%	46.7%	48.0%	48.0%	48.0%
Earnings in Puerto Rico not subject to U.S. taxes	(7.9)	(5.4)	(14.0)	(6.2)	(6.3)	(6.2)	(2.4)
Net tax benefit not recognized on foreign operations	2.1	(.5)	6.6	1.4	2.1	4.0	3.4
Investment tax credit	(2.2)	(1.6)	(4.8)	(2.3)	(1.9)	(1.4)	(1.2)
State taxes	3.5	2.6	5.9	1.9	3.2	2.3	1.8
Estimated tax benefit resulting from disposition of the Park Bros. Ltd. subsidiary	—	—	—	—	(9.1)	—	—
Other	1.0	.4	.5	(.5)	3.4	(1.1)	(2.6)
	42.5%	41.5%	40.2%	41.0%	39.4%	45.6%	47.0%

Note 15—Earnings Per Share:

Earnings per share of common stock have been computed on the basis of the weighted average number of shares of common stock outstanding during the respective periods, after giving effect to shares issued for business combinations accounted for as poolings of interest, which shares were based upon the weighted average common and common equivalent shares outstanding, when appropriate, of the acquired companies converted to equivalent Echlin shares and the two-for-one stock split announced on October 4, 1978.

Fully diluted earnings per share of common stock for the five years ended August 31, 1980 and the six-month periods ended February 28, 1981 and February 29, 1980 have not been presented since the dilutive effect of common shares issuable under outstanding employee stock options was not significant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 16—Lease Commitments:

Minimum rental commitments under non-capitalized, non-cancellable lease agreements outstanding at August 31, 1980 (not significantly different at February 28, 1981) are as follows:

	Real Estate	Computers	All Others	Total
		(Thousands of Dollars)		
1981	$ 752	$649	$218	$1,619
1982	628	196	126	950
1983	562		62	624
1984	356		26	382
1985	289			289
1986-1990	1,147			1,147

Note 17—Business Segment Information:

The Company is engaged in only one business segment, a worldwide supplier of parts and supplies for motor vehicles.

An analysis of the Company's operations for the three years ended August 31, 1980 and the six-month periods ended February 28, 1981 and February 29, 1980 by geographic location is as follows:

	United States	International	Eliminations	Consolidated
		(Thousands of Dollars)		
February 28, 1981				
Sales to unaffiliated customers	$142,353	$25,408		$167,761
Sales between geographic areas	4,667	561	$(5,228)	—
Total sales	$147,020	$25,969	$(5,228)	$167,761
Income before taxes	$ 11,735	$ 688	—	$ 12,423
Identifiable assets	$199,019	$37,089	—	$236,108
Corporate assets				17,839
Total assets				$253,947
February 28, 1980				
Sales to unaffiliated customers	$132,399	$24,660		$157,059
Sales between geographic areas	4,775	252	$(5,027)	—
Total sales	$137,174	$24,912	$(5,027)	$157,059
Income before taxes	$ 14,527	$ 914	—	$ 15,441
Identifiable assets	$189,983	$34,727	—	$224,710
Corporate assets				14,086
Total assets				$238,796
August 31, 1980				
Sales to unaffiliated customers	$252,403	$48,997		$301,400
Sales between geographic areas	9,280	383	$(9,663)	—
Total sales	$261,683	$49,380	$(9,663)	$301,400
Income before taxes	$ 14,433	$ 226	—	$ 14,659
Identifiable assets	$186,250	$37,580	—	$223,830
Corporate assets				13,315
Total assets				$237,145

Note 17—Business Segment Information—(Continued)

	United States	International	Eliminations	Consolidated
	(Thousands of Dollars)			
August 31, 1979				
Sales to unaffiliated customers	$261,839	$42,183		$304,022
Sales between geographic areas	8,178	505	$(8,683)	—
Total sales	$270,017	$42,688	$(8,683)	$304,022
Income before taxes	$ 35,512	$ 2,887	—	$ 38,399
Identifiable assets	$177,018	$34,053	—	$211,071
Corporate assets				15,049
Total assets				$226,120
August 31, 1978				
Sales to unaffiliated customers	$236,981	$41,323		$278,304
Sales between geographic areas	7,190	694	$(7,884)	
Total sales	$244,171	$42,017	$(7,884)	$278,304
Income (loss) before taxes and charges related to disposition of a foreign subsidiary	$ 36,167	$ (810)	—	$ 35,357
Identifiable assets	$153,508	$29,524	—	$183,032
Corporate assets				13,235
Total assets				$196,267

Sales between geographic areas are made with reference to prevailing market prices and at prices approximating those charged to unaffiliated customers.

Assets and liabilities (including amounts due Echlin and its subsidiaries) of the foreign subsidiaries at February 28, 1981 and August 31, 1980 were as follows:

	February 28, 1981	August 31, 1980
	(Thousands of Dollars)	
Assets	$43,283	$42,722
Liabilities	36,242	36,246
Net assets	$ 7,041	$ 6,476

A number of distribution centers, who are members of the National Automotive Parts Association, represent the Company's largest group of customers and account for 28.2% of consolidated net sales for the year ended August 31, 1980 and 29.0% for the six-month period ended February 28, 1981.

The results of the Company's foreign subsidiaries are summarized as follows:

	Six Months Ended		Year Ended August 31,				
	Feb. 28, 1981	Feb. 29, 1980	1980	1979	1978	1977	1976
	(Thousands of Dollars)						
Net trade sales	$25,408	$24,660	$48,997	$42,183	$41,323	$33,846	$28,726
Net income (loss)	277	681	19	1,700	(1,113)	(1,646)	(1,130)

Note 18—Supplementary Information on Effects of Changing Prices (Unaudited):

In 1979, the Financial Accounting Standards Board (FASB) issued Statement No. 33, Financial Reporting and Changing Prices. The statement requires the disclosure of both the effect of general inflation (constant dollars) and the effect of changes in the prices of specific assets (current cost).

The constant dollar method adjusts historical financial information to dollars of equivalent purchasing power. The objective is to match revenues with expenses expressed in corresponding units. Under this method, the historical financial data for inventories, property, plant and equipment, cost of goods sold and depreciation expense have been recalculated for the general inflation experienced by use of the Consumer Price Index for all Urban Consumers published by the U.S. Department of Labor.

Under the current cost method, historical data is adjusted to reflect the effects of changes in specific prices of the assets consumed in the Company's operations. Current costs of the Company's assets were determined by appraisal and by applying externally generated indices to the historical cost of assets currently in use.

Both methods prescribed inherently involve the use of estimates and assumptions. Thus the Company cautions that the presented data as adjusted for changing prices is not a precise indicator of the inflationary effect on future costs and does not reflect the potential effect of other economic considerations on the Company's cost of operations. The data set forth herein is not purported to be the current market value of existing assets but is merely an estimate of the costs that would be incurred if certain assets were replaced at August 31, 1980. As a practical matter, the Company replaces its productive assets on a systematic basis after careful consideration of all available technological improvements. While such replacement techniques may require a capital outlay greater than suggested under the two methods mandated by the FASB, significant efficiencies may be obtained which may reduce the Company's cost of manufacturing considerably below the adjusted data presented.

Aside from the inherent limitation of measuring the complex effects of inflation, management believes that current cost earnings are more relevant to the Company's operations than constant dollar earnings, since adjustments are based upon the changing cost of specific corporate assets which may not react in the same manner as the market basket of consumer goods as measured by the Consumer Price Index. Although the Consumer Price Index is recognized as a measurement of general inflation, it has been criticized lately as overstating the overall inflation rate. The constant dollar loss is higher than the loss under the current cost method primarily because during the past year the costs of the Company's raw materials increased less rapidly than the reported general inflation rate.

Because governmental taxing authorities do not allow for the adjustment of earnings to record the eroding effects of inflation, the Company's effective tax rate under constant dollar and current cost accounting increases dramatically. This results in a tax on capital as well as the tax on income and has a negative impact on capital formation which is the fundamental building stone of a business enterprise.

During inflationary periods, monetary assets, such as cash and receivables, decline in value while monetary liabilities, such as trade payables and bank borrowings, can be liquidated with dollars of diminished purchasing power. The net result is a gain in purchasing power when monetary liabilities exceed monetary assets. This gain, which benefits the Company through increased purchasing power, is not considered reportable income in this supplementary data.

Note 18—Supplementary Information on Effects of Changing Prices (Unaudited)—(Continued)

	For the year ended August 31, 1980		
	As reported in the primary statements	Adjusted for general inflation (constant dollar)	Adjusted for changes in specific prices (current cost)
	(Thousands of Dollars Except Per Share Data)		
Net sales	$301,400	$301,400	$301,400
Cost and expenses:			
Cost of goods sold (excluding depreciation)	203,707	214,121	208,973
Depreciation	7,560	11,002	11,713
Selling and administrative expenses (excluding depreciation)	69,585	69,585	69,585
Interest expense	5,889	5,889	5,889
	286,741	300,597	296,160
Income before taxes on income	14,659	803	5,240
Provision for taxes on income	5,890	5,890	5,890
Net income (loss) for the year	$ 8,769	$ (5,087)	$ (650)
Earnings (loss) per share of common stock	$0.55	$(0.32)	$(0.04)
Unrealized gain on net monetary liabilities due to decline in purchasing power of the dollar		$ 2,266	$ 2,266
Increase in value of inventories and property, plant and equipment held during the year reflect:			
Increase in general price level			$ 22,950
Increase in specific prices			18,963
Excess of increase in general price level over increase in specific prices			$ 3,987
Net assets at year end	$144,164	$165,818	$173,256

Comparison of selected supplementary data adjusted for changing prices, for the years ended August 31,

	1980	1979	1978	1977	1976
			(Thousands of Dollars)		
Net sales					
As reported	$301,400	$304,022	$278,304	$239,205	$205,425
Adjusted for general inflation	$301,400	$345,189	$347,587	$319,434	$290,682
Cash dividends paid per common share					
As reported	$0.48	$0.42	$0.33	$0.27	$0.23
Adjusted for general inflation	$0.48	$0.48	$0.41	$0.36	$0.32
Market price per common share at August 31	$14⅝	$17⅜	$20	$15⅞	$17⅝
Average consumer price index	237.3	209.0	190.0	177.7	167.7

Note 19—Quarterly Financial Data (Unaudited):

	Net Sales	Gross Profit	Net Income	Per Share
	(Thousands of Dollars Except Per Share Data)			
Six Months Ended February 28, 1981				
First Quarter	$ 82,770	$ 24,640	$ 3,935	$0.25
Second Quarter	84,991	25,550	3,208	0.20
	$167,761	$ 50,190	$ 7,143	$0.45
Year Ended August 31, 1980				
First Quarter	$ 78,004	$ 24,579	$ 4,715	$0.30
Second Quarter	79,055	25,999	4,318	0.27
Third Quarter	74,537	21,068	1,624	0.10
Fourth Quarter	69,804	20,146	(1,888)	(0.12)
	$301,400	$ 91,792	$ 8,769	$0.55
Year Ended August 31, 1979				
First Quarter	$ 72,119	$ 24,377	$ 5,272	$0.37
Second Quarter	74,949	26,456	5,662	0.39
Third Quarter	81,494	27,474	6,332	0.40
Fourth Quarter	75,460	25,125	5,389	0.34
	$304,022	$103,432	$22,655	$1.50

At the conclusion of 1980, the Company reevaluated its ongoing computer software development program and concluded that the reasonable valuation of the program approximated amounts deferred in prior years and that all continuing development costs would be expensed as incurred. As a result, net income in the fourth quarter of 1980 was reduced by $1,146,000 or $.07 per share.

Also during the fourth quarter, the Company reduced net income by $724,000 or $.05 per share as a result of adjusting its forty percent equity investment in Carmel Electronics, Ltd., a British company, for current period operating losses and the write down of the remaining balance to zero in order to reflect the net realizable value of the investment.

Note 20—Supplementary Income Statement Information:

Amounts charged to costs and expenses include the following:

	Six Months Ended		Year Ended August 31,				
	Feb. 28, 1981	Feb. 29, 1980	1980	1979	1978	1977	1976
			(Thousands of Dollars)				
Maintenance and repairs	$1,660	$1,485	$3,143	$3,424	$3,412	$2,443	$2,488
Depreciation and amortization of property, plant and equipment	4,539	4,034	7,561	6,413	6,285	5,089	4,339
Research & development	1,172	1,035	2,216	1,786	1,807	1,616	1,098
Payroll taxes	2,438	2,339	4,856	4,798	4,333	3,240	3,211
Rents	3,025	2,758	6,285	4,258	3,087	2,707	2,003

Other required "Supplementary Income Statement Information" has been omitted since the amounts did not exceed 1% of net sales during each of the above periods.

Note 21—Subsequent Events:

A. On March 2, 1981, the Company acquired the net assets of M. Black Manufacturing Company, a manufacturer of wire and cable, for a cash price of approximately $2,100,000. The acquisition will be accounted for by the purchase method of accounting.

B. Pursuant to an agreement dated as of February 28, 1981 between Echlin and Borg-Warner Corporation, Echlin agreed to acquire the Automotive Aftermarket Operations of Borg-Warner in exchange for 4,500,000 shares of Echlin common stock. The consummation of the acquisition is subject to approval of the shareholders of Echlin as well as certain other contingencies.

C. The Company has negotiated an agreement with Tenneco, Inc., subject to the approval of the Echlin Board of Directors, to purchase certain assets of its wholly-owned subsidiary, The Mechanex Corporation, a manufacturer of heavy-duty wheel oil seals, for a cash price of approximately $3,700,000. Sales of Mechanex were approximately $6,000,000 for the year ended December 31, 1980. The acquisition of Mechanex would not be significant to the operations of Echlin.

ACCOUNTANTS' REPORT

The Board of Directors
Borg-Warner Corporation

We have examined the combined balance sheet of the Automotive Aftermarket Operations of Borg-Warner Corporation as of December 31, 1980 and the related statements of combined income before income taxes and changes in combined financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned combined financial statements present fairly the financial position of the Automotive Aftermarket Operations of Borg-Warner Corporation at December 31, 1980 and the results of their operations (without giving effect to income taxes) and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

Chicago, Illinois
March 27, 1981

AUTOMOTIVE AFTERMARKET OPERATIONS OF BORG-WARNER CORPORATION

COMBINED BALANCE SHEET

ASSETS

	February 28, 1981*	December 31, 1980
	(In Thousands)	
CURRENT ASSETS:		
Cash	$ 33	$ 355
Accounts and notes receivable:		
Trade (less allowance for doubtful accounts of $610 thousand at February 28, 1981 and $495 thousand at December 31, 1980)	20,842	19,044
Other	2,758	2,641
Affiliates	184	255
Inventories	30,974	29,582
Prepaid expenses	781	794
Total current assets	55,572	52,671
PROPERTY:		
Cost	13,709	13,638
Less accumulated depreciation	(6,658)	(6,511)
Net property	7,051	7,127
OTHER ASSETS	876	689
TOTAL	$63,499	$60,487

LIABILITIES AND EQUITY

	February 28, 1981*	December 31, 1980
CURRENT LIABILITIES:		
Accounts payable—trade	$ 8,759	$ 4,905
Accounts payable—affiliates	5,372	5,556
Current portion of capitalized lease liabilities	375	375
Accrued liabilities:		
Taxes other than income	337	385
Salaries, wages and related expenses	593	652
Other	1,249	1,057
Total current liabilities	16,685	12,930
LONG-TERM CAPITALIZED LEASE LIABILITIES	2,032	2,095
EQUITY OF BORG-WARNER CORPORATION	44,782	45,462
TOTAL	$63,499	$60,487

* Unaudited

See accompanying notes to combined financial statements.

AUTOMOTIVE AFTERMARKET OPERATIONS OF BORG-WARNER CORPORATION

STATEMENT OF CHANGES IN COMBINED FINANCIAL POSITION

	Six Months Ended		Year Ended December 31,				
	Feb. 28, 1981*	Feb. 29, 1980*	1980	1979*	1978*	1977*	1976*
WORKING CAPITAL PROVIDED:							
Operations:							
Income before income taxes	$ 4,797	$4,358	$ 10,502	$11,233	$11,575	$ 8,164	$ 9,170
Add charges not requiring use of working capital:							
Depreciation and amortization	521	487	952	904	816	458	418
Other, net	41	34	58	93	23	144	158
Working capital provided by operations	5,359	4,879	11,512	12,230	12,414	8,766	9,746
Transfers from Borg-Warner Corporation, net	—	1,107	—	—	—	—	—
Proceeds from sales of property	4	23	13	32	54	29	2
Other, net	—	—	—	—	—	1,233	822
Total working capital provided	5,363	6,009	11,525	12,262	12,468	10,028	10,570
WORKING CAPITAL APPLIED:							
Property additions	421	490	676	753	862	1,939	1,336
Increases in other assets, net	232	12	259	37	48	143	441
Transfers to Borg-Warner Corporation, net	8,906	—	20,330	5,984	5,785	856	1,476
Other, net	207	178	388	395	242	3	54
Total working capital applied	9,766	680	21,653	7,169	6,937	2,941	3,307
INCREASE (DECREASE) IN WORKING CAPITAL	$(4,403)	$5,329	$(10,128)	$ 5,093	$ 5,531	$ 7,087	$ 7,263
CHANGES IN WORKING CAPITAL:							
Increase (decrease) in current assets:							
Cash	$ (16)	$ (16)	$ 242	$ 46	$ 21	$ 11	$ 21
Accounts and notes receivable:							
Trade	(1,669)	3,073	(3,255)	2,223	1,270	4,054	2,648
Other	858	(231)	75	28	2,181	194	16
Inventories	(3,566)	(264)	(4,299)	2,551	4,671	218	4,621
Prepaid expenses	(176)	(45)	(429)	(73)	264	118	417
Decrease (increase) in current liabilities:							
Accounts payable	(2,257)	2,075	(2,535)	650	(2,319)	2,439	(391)
Accrued liabilities	2,423	737	73	(332)	(557)	—	(66)
Other	—	—	—	—	—	53	(3)
INCREASE (DECREASE) IN WORKING CAPITAL	$(4,403)	$5,329	$(10,128)	$ 5,093	$ 5,531	$ 7,087	$ 7,263

* Unaudited

See accompanying notes to combined financial statements.

AUTOMOTIVE AFTERMARKET OPERATIONS OF BORG-WARNER CORPORATION

NOTES TO COMBINED FINANCIAL STATEMENTS

(Information for the years ended December 31, 1976 through 1979 and the six-month periods ended February 28, 1981 and February 29, 1980 is unaudited)

1. Summary of Accounting Policies

Principles of Combination

The accompanying financial statements represent the combined accounts of the Automotive Aftermarket Operations of Borg-Warner Corporation. All significant transactions among members of the combination have been eliminated. The divisions and subsidiaries included are those to be acquired by The Echlin Manufacturing Company upon consummation of the transaction described elsewhere in this Proxy Statement.

Inventories

Inventories are valued at the lower of cost or market. Cost is generally determined on the first-in, first-out (FIFO) basis.

Property and Depreciation

Property is valued at cost less accumulated depreciation. Expenditures for maintenance, repairs and renewals of relatively minor items generally are charged to income as incurred. Renewals of significant items are capitalized.

Depreciation has been calculated using principally the straight-line method based on the following estimated useful lives:

	Years
Buildings and improvements	10 to 20
Machinery and equipment	5 to 20
Automobiles and trucks	2 to 5
Office furniture and equipment	4 to 10
Tooling	2 to 5

Cost of assets, sold, retired or fully depreciated and the related amounts of accumulated depreciation are eliminated from the accounts, and the resulting gains or losses on disposal of assets are credited or charged to income.

Stock Returns and Warranties

No amounts are accrued for future stock returns or warranties, except for approximately $340 thousand related to one of the units of the Automotive Aftermarket Operations. Charges for such amounts are generally recognized as incurred.

Income Taxes

The Automotive Aftermarket Operations are included in the U.S. federal, state and foreign income tax returns of Borg-Warner Corporation and its subsidiaries. No charges have been made by Borg-Warner Corporation to the Automotive Aftermarket Operations for income tax liabilities. Thus, no provision has been made for taxes based upon income.

2. Operations Outside The United States

Equity in the net assets of combined operations located in Canada is summarized as follows (in thousands):

	February 28, 1981	December 31, 1980
Current assets	$ 1,395	$ 1,469
Non-current assets	36	36
Total assets	1,431	1,505
Current liabilities	81	73
Equity in net assets	$ 1,350	$ 1,432

3. Inventories

Inventories are as follows (in thousands):

	February 28, 1981	December 31, 1980
Raw Material	$ 3,696	$ 3,319
Work in process	313	308
Finished goods	26,965	25,955
Total	$30,974	$29,582

4. Property

Property is summarized as follows (in thousands):

	February 28, 1981	December 31, 1980
Land	$ 93	$ 93
Buildings and improvements	3,340	3,313
Machinery and equipment	6,038	6,004
Capitalized leases	4,238	4,228
	13,709	13,638
Less accumulated depreciation and amortization	6,658	6,511
Property—net	$ 7,051	$ 7,127

Amortization of capital lease assets has been included in depreciation expense. Accumulated capital lease amortization amounted to $1,993 thousand at December 31, 1980 and $2,062 thousand at February 28, 1981.

5. Equity of Borg-Warner Corporation

Borg-Warner's equity in the combined Automotive Aftermarket Operations is summarized as follows for the periods indicated (in thousands):

	Six Months Ended		Year Ended December 31,				
	Feb. 28, 1981	Feb. 29, 1980	1980	1979	1978	1977	1976
Balance, beginning of period	$48,891	$49,429	$ 55,290	$50,041	$44,251	$36,943	$29,249
Income before income taxes	4,797	4,358	10,502	11,233	11,575	8,164	9,170
Transfers from (to) Borg-Warner Corporation, net	(8,906)	1,107	(20,330)	(5,984)	(5,785)	(856)	(1,476)
	$44,782	$54,894	$ 45,462	$55,290	$50,041	$44,251	$36,943

6. Retirement Benefit Plans

Substantially all U.S. employees of the Automotive Aftermarket Operations are covered by non-contributory retirement benefit plans providing life insurance and medical benefits, under which plans benefits are charged to earnings as claims are paid. A number of these employees are also covered by non-contributory plans which provide pension benefits and these plans are funded currently, including amortization of prior service costs over periods not exceeding 40 years. As of the date of the most recent valuation (December 31, 1980), assets of each pension plan exceeded the actuarially computed value of vested benefits.

7. Lease Commitments

The Automotive Aftermarket Operations are committed at December 31, 1980 (not significantly different at February 28, 1981) to make payments on non-cancellable leases as summarized below (in thousands):

	Operating Leases	Capital Leases		
		Principal	Interest	Total
1981	$ 833	$ 375	$142	$ 517
1982	634	268	124	392
1983	446	262	107	369
1984	373	275	92	367
1985	347	288	76	364
1986-1990	1,013	702	194	896
1991-1995	48	300	34	334
	$3,694	$2,470	$769	$3,239

Capitalized leases are primarily for buildings and machinery and bear an average interest rate of 6.1% in 1980.

8. Contingent Compensation Plan

Certain employees of the Automotive Aftermarket Operations participate in Borg-Warner's Contingent Compensation Plan. Bonuses awarded under the program are payable currently or may be deferred at the option of the participant. Compensation expense related to deferred portions of the award has not been reflected in the combined financial statements due to the policy of funding by Borg-Warner corporate of this expense. Such expenses for the five years ended December 31, 1980 were (in thousands) $32, $34, $47, $34, and $32, respectively. Expenses for the six-month periods ended February 28, 1981 and February 29, 1980 were not significant.

9. Segment Data

Segment data is not provided as the Automotive Aftermarket Operations is engaged in one business and operate solely in North America.

10. Contingencies

It is the opinion of counsel and the management of Borg-Warner Corporation that various claims and litigation in which the Automotive Aftermarket Operations is currently involved will not materially affect the combined financial position or combined income before income taxes of the Automotive Aftermarket Operations.

Exhibit A

AGREEMENT FOR SALE OF ASSETS

Agreement made as of the 28th day of February, 1981, between Borg-Warner Corporation, a Delaware corporation, (hereinafter referred to as "Borg-Warner") and The Echlin Manufacturing Company, a Connecticut corporation, (hereinafter referred to as "Echlin");

WITNESSETH:

WHEREAS, Borg-Warner is the owner of certain assets employed in the manufacture and sale of automotive products; and

WHEREAS, Echlin desires to acquire all of such assets in exchange for Echlin Common Stock, par value $1.00 per share.

NOW, THEREFORE, in consideration of the representations, warranties, covenants, agreements and undertakings hereinafter made, the parties hereto have agreed as follows:

Section 1. *Assets to be Purchased.*

1.1 *Transfer of Assets.* Borg-Warner shall, subject to the terms and conditions hereof, sell, transfer, convey, assign and deliver to Echlin at the closing hereunder all of the assets and business as a going concern of its Ottawa Division, Automotive Parts Division, Automotive Parts Division International, Ballwin/Washington Division and the Automotive Parts Division of Borg-Warner (Canada) Limited, (hereinafter collectively referred to as the "Automotive Aftermarket Operations"), of every kind and character, whether real or personal, intangible (where attributable to and used exclusively by or in connection with the Automotive Aftermarket Operations) or tangible, known or unknown, and wherever situated, including without limitation, all lands, factories, plants, buildings, (together with appurtenances, licenses and permits) machinery and equipment, molds, tools, automobiles and trucks, furniture and fixtures, inventories, supplies, cash, bank accounts, accounts and notes receivable, contracts, leases, unfilled orders, securities, claims and all other choses in action, prepaid expenses, patents and patent applications, inventions, discoveries and improvements, patent, trademark and trade name licenses and shop rights, processes and formulae, trade secrets, proprietary and technical information, know-how, trademarks, trade names, and any applications for any thereof, copyrights, labels and other trade rights, and any and all right to or application for any of the foregoing. Such assets shall include, without limitation, those reflected in the Balance Sheet (as hereinafter defined in Section 3 hereof), with only such changes therein and as have occurred in the ordinary course of business between December 31, 1980 (the "Balance Sheet Date") and the Effective Date hereunder, or otherwise as may be consented to or approved by Echlin in writing. Prior to the Closing, Borg-Warner shall cause to be transferred all of the assets of the Automotive Parts Division, Borg-Warner (Canada) Limited to a new corporation to be organized under the laws of Canada and, at the Closing all of the capital stock of said corporation shall be assigned and transferred to Echlin. At the Closing hereunder, Borg-Warner shall deliver to Echlin such special warranty deeds, bills of sale with covenants of special warranty, endorsements, assignments, and other good and sufficient instruments of transfer, assignment, and conveyance, in form satisfactory to Echlin and its counsel, as shall be effective to vest in Echlin good and marketable title to all of the properties and assets of the Automotive Aftermarket Operations, all as provided in this Agreement.

Borg-Warner shall also convey or cause to be conveyed to Echlin at Closing, subject only to the warranty that Borg-Warner has good and marketable title, all of the outstanding shares of Borg-Warner International GmbH, 390,000 shares of B-W Automotive of Puerto Rico, Inc., representing sixty percent (60%) of the outstanding stock of said Company, and all of the assets (excluding cash and accounts receivable), of the slack adjuster product line now manufactured by the Borg & Beck Division at its

Sterling Heights, Michigan facility, including but not limited to the inventories, tooling, engineering drawings, machinery and equipment, marketing data and process flow data used exclusively in the manufacture and sale of that product line. If Borg-Warner is unable to cause the existing license agreement between Borg-Warner and Svenska Aktiebolaget Bromsregulator ("SAB") to be assigned to Echlin on no less favorable terms than those that presently exist, Borg-Warner shall take steps to sell such assets to a third person and, upon such sale, shall pay to Echlin, in cash, an amount equal to the book value of such assets at the Effective Date. If, however, Borg-Warner is unable to obtain the assignment of the license or sell such assets, Borg-Warner shall convey such assets to Echlin and the parties will enter into an agreement expiring on the same date as the SAB license agreement whereby Borg-Warner will have Echlin manufacture slack adjusters on Borg-Warner's behalf and Borg-Warner will appoint Echlin as its sole distributor for the sale of such slack adjusters within the territory set forth in the SAB license agreement. The price to Echlin under that agreement will be its manufacturing cost plus the royalties payable by Borg-Warner to SAB under the SAB license agreement.

With respect to the transfer of the stock of B-W Automotive of Puerto Rico, Inc., as referred to in the foregoing paragraph, the parties recognize that such transfer is subject to a right of first refusal running in favor of the other shareholders in such company all as set forth in more detail in an agreement of September 14, 1966. Therefore it is agreed that such transfer is subject to Borg-Warner's, within ten (10) days after the signing of this Agreement, informing the other shareholders of the proposed transfer, and tendering to them the right of first refusal as required by the said agreement. If any shareholder exercises the right to purchase the shares in accordance with the terms of the said agreement, it is agreed that Borg-Warner at closing will compensate Echlin in cash, an amount equal to the book value as of February 28, 1981 of the 390,000 shares of outstanding stock of B-W Automotive of Puerto Rico, Inc. owned by Borg-Warner.

With respect to the transfer of the shares of Borg-Warner International GmbH, as referred to in the above paragraph, such transfer will be subject to any required consents by any governmental authority of Germany. Borg-Warner shall use its best efforts to obtain any consents or approval under any applicable German statutes where such consents shall be required in order to permit the consummation of the transaction contemplated herein.

All assets referred to in the foregoing three paragraphs are called "Additional Assets."

1.2 *Name and Trademark—Borg-Warner.* Borg-Warner and Echlin covenant and agree that at or prior to the Closing the parties will enter into a Trademark License Agreement in the form attached hereto as Exhibit A.

1.3 *Further Assurances.* Borg-Warner shall from time to time at Echlin's request and without further consideration, execute and deliver such instruments of transfer, conveyance and assignment, and take such other action as Echlin may require to effectively transfer, convey, and assign to and vest in Echlin, and to put Echlin in possession of, any and all property to be transferred, conveyed, assigned and delivered hereunder.

1.4 *Total Consideration.* The total consideration deliverable to Echlin by Borg-Warner hereunder is based upon the net operating investment ("NOI") as shown on the books of Borg-Warner with respect to the Automotive Aftermarket Operations as of the Effective Date, as determined by Peat, Marwick, Mitchell & Co., independent certified public accountants ("Peat, Marwick"). To the extent that the NOI as of the Effective Date exceeds $55.0 million, an amount equal to such excess shall be payable, in cash, by Echlin to Borg-Warner; if the NOI as of the Effective Date is less than $55.0 million, Borg-Warner shall deliver to Echlin in the form of an inventory credit the amount by which $55.0 million exceeds the NOI as of the Effective Date, such credit to be used by Echlin only for the purchase of products from Borg-Warner under provisions of the Supply Agreement (Exhibit L). The amount so payable by Echlin or the inventory credit deliverable by Borg-Warner shall be paid or delivered in accordance with Section 5.4(a). Net Operating Investment is defined as the total assets of the Automotive Aftermarket Operations less operating liabilities, such amount also being equal to Borg-Warner's equity in the Automotive Aftermarket Operations plus capitalized lease obligations and the amount attributable to intercompany profit eliminations. Such amount shall be determined in accordance with generally accepted accounting principles consistently applied to such operations by Borg-Warner. Specifically, (a) inventories are reflected at the lower of FIFO cost or market, and (b) no amounts are accrued for future customer changeovers or future stock returns except for approximately $340,000 related to the Ballwin/Washington Division. Borg-Warner shall also deliver the Additional Assets, as defined in Section 1.1, including all of the outstanding shares of common stock of Borg-Warner International GmbH, sixty percent of the outstanding shares of common stock of B-W Automotive of Puerto Rico, Inc., and the slack adjuster product line now manufactured at the Borg & Beck, Sterling Heights, Michigan facility, subject to the provisions of Section 1.1.

Section 2. *Consideration for Such Transfer.*

2.1 *Echlin Common Stock.* In consideration for the transfer of assets delivered in Section 1, Echlin, in reliance upon the representations, warranties, covenants and agreements of Borg-Warner as set forth herein, and upon and subject to the terms and conditions and provisions of this Agreement, hereby agrees to transfer, assign and deliver to Borg-Warner at the Closing Date (as hereinafter defined in Section 5.1 hereof), a certificate representing 4,500,000 shares of Echlin common stock, par value $1.00 (the "Shares"), issued in the name of Borg-Warner. Such Shares shall, in all respects, be subject to the terms of a Restricted Securities Agreement to be executed by Echlin and Borg-Warner at the Closing in the form and upon the terms set forth in Exhibit B. Echlin will pay any transfer or similar tax which may be payable on the transfer of the Shares.

2.2 *Assumptions of Liabilities.* Echlin, at the Closing, shall deliver to Borg-Warner, an undertaking or undertakings whereby Echlin assumes and agrees to pay, perform and discharge the following, and only the following, liabilities and obligations of Borg-Warner pertinent to the assets and business of the Automotive Aftermarket Operations:

(a) Liabilities of the Automotive Aftermarket Operations as of the Balance Sheet Date, whether accrued, absolute, contingent or otherwise, which are reflected or reserved against in the Balance Sheet (but only to the extent so reflected or reserved against) plus such liabilities as may have been incurred in the ordinary course of business between the Balance Sheet Date and the Effective Date. In addition, Echlin assumes other liabilities of the Automotive Aftermarket Operations not reflected on the Balance Sheet or reserved against but which were incurred prior to the Balance Sheet Date in the ordinary course of business, provided, however, that Echlin's assumption of such liabilities under this paragraph shall not exceed $50,000.

(b) Obligations of the Automotive Aftermarket Operations in respect of the leases, contracts and other commitments of Borg-Warner and Borg-Warner (Canada) Limited (or the new Canadian subsidiary), related to the Automotive Aftermarket Operations, including but not limited to, obligations under purchase orders, sales orders and leases of real or personal property; provided, however, that Echlin shall not assume liability for, or be in any way obligated in any respect for any breach or of any failure of performance in respect of any such leases, contracts or commitments of Borg-Warner or Borg-Warner (Canada) Limited on or prior to Effective Date.

(c) The obligations of the Automotive Aftermarket Operations for (i) claims for injuries or damages occurring after the Effective Date involving products manufactured by the Ottawa Division and the Ballwin/Washington Division of the Automotive Aftermarket Operations; (ii) damaged or defective goods within the warranty policy and practices of the Automotive Aftermarket Operations; and (iii) returned goods in accordance with the prior practices of the Automotive Aftermarket Operations.

Notwithstanding anything herein contained, the liabilities and obligations which are to be assumed and which Echlin has agreed to perform and discharge under this paragraph 2.2, shall not include (i) any tax liabilities attributable to the operations of the Automotive Aftermarket Operations which were due and payable, or accrued prior to the Effective Date or (ii) claims for injuries or damages involving products manufactured by Borg-Warner Divisions other than the Ottawa and Ballwin/Washington Divisions.

Section 3. *Financial Statements to be Delivered by Borg-Warner.*

3.1 *Financial Statements.* Borg-Warner shall deliver (or has heretofore delivered to Echlin) the following:

(a) Borg-Warner has delivered to Echlin an unaudited combined balance sheet (the "Balance Sheet") of Borg-Warner with respect to the Automotive Aftermarket Operations as at December 31, 1980 (the "Balance Sheet Date") and for the four prior calendar years and the related combined statements of income and combined statements of changes in financial position for the periods then ended including notes thereto prepared in accordance with Regulations S-X and S-K as promulgated by the Securities and Exchange Commission with inventories reflected therein on a first-in, first-out basis. Not later than March 22, 1981, Borg-Warner will deliver to Echlin financial statements referred to above in this Section 3.1(a) as of and for the twelve months ended December 31, 1980, prepared by Borg-Warner and certified by Peat, Marwick. (b) on or before July 31, 1981, Borg-Warner shall deliver (if practicable) to Echlin combined balance sheets pertaining to the Automotive Aftermarket Operations as at December 31, 1979 and 1978, and the related combined statements of income and combined statements of changes in financial position for the periods then ended, prepared as set forth in Section 3.1(a) above, all of which shall have been certified by Peat, Marwick. "Combined" when used with any financial statement hereunder shall reflect the financial position of all of the divisions comprising the Automotive Aftermarket Operations after giving effect to inter-company transactions among such divisions.

Section 4. *Audit.*

As promptly as possible after the date hereof, Peat, Marwick shall examine, report on and certify to the combined balance sheet of the Automotive Aftermarket Operations of Borg-Warner as of the Effective Date, such balance sheet to have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with those used by Borg-Warner in the preparation of the financial statements of the Automotive Aftermarket Operations as of and for the year ended December 31, 1980, provided, however, that inventories shall be reflected therein on a first-in, first-out basis. Borg-Warner will prepare a calculation of the NOI as of the Effective Date in accordance with Section 1.4 herein. Peat, Marwick shall provide a report that the calculation of the NOI of Borg-Warner with respect to the Automotive Aftermarket Operations as of the Effective Date has been prepared in accordance with the provisions of Section 1.4 herein. Prior to the issuance of said report, Price Waterhouse & Co., independent accountants, shall be allowed to review the work papers supporting said report.

Section 5. *The Closing.*

5.1 *Closing Date.* Delivery of the documents required to convey, sell, transfer and deliver to Echlin the assets described in Section 1, and the delivery by Echlin of the Shares (the "Closing"), shall take place on July 10, 1981, or on such other date to which the parties may agree in writing (the "Closing Date"), provided the conditions to closing set forth in Section 11 of this Agreement have been satisfied.

5.2 *Time and Place of Closing.* The Closing shall take place, on the Closing Date at 11:00 a.m., Eastern time, at the offices of Echlin, 175 North Branford Road, Branford, Connecticut 06405, or at such other time and place as the parties shall mutually agree upon.

5.3 *Effective Date.* The transfer of the assets pursuant to Section 1.1, the assumption of liabilities pursuant to Section 2.2 and the other transactions contemplated herein shall be effective at the close of business on February 28, 1981 (the "Effective Date"). The business of the Automotive Aftermarket Operations shall be conducted by Borg-Warner after the Effective Date for the account of Echlin, subject to the condition that the sale is closed as provided herein.

5.4 *Payments.*

(a) *At the Closing.* Echlin shall pay to Borg-Warner (i) an amount equal to the amount that Borg-Warner would have received as a dividend if Borg-Warner had owned the Shares since the Effective Date; and (ii) the amount reserved or accrued for taxes, as of the Effective Date, as shown as part of the operating liabilities of the Automotive Aftermarket Operations provided, however, that real estate taxes on real property of the Automotive Aftermarket Operations conveyed to Echlin by Borg-Warner shall be prorated as of the Effective Date in accordance with the custom in the locality where the real property is located; and (iii) Echlin shall pay to Borg-Warner the cash payment, or Borg-Warner shall deliver to Echlin the inventory credit, as the case may be, as provided in Section 1.4.

(b) *Post Closing.* An amount equal to the difference in cash receipts and cash disbursements of the Automotive Aftermarket Operations between the Effective Date and the Closing Date shall be paid within thirty (30) days after the Closing (i) by Borg-Warner to Echlin if the cash receipts exceed the cash disbursements; and (ii) by Echlin to Borg-Warner if the cash disbursements exceed the cash receipts. Price Waterhouse & Co. shall be permitted to review the results of such computation prior to the payment to be made hereunder.

5.5 *Delayed Closing.* While it is the intent of the parties hereto that the transaction contemplated herein be effective as of the close of business of the Automotive Aftermarket Operations on February 28, 1981, it is recognized that the Closing could be delayed for reasons beyond the control of the parties past July 15, 1981. By that date it would not be possible to account for the transactions on the basis consistent with that intent. Therefore, if the Closing should be so delayed, the parties hereby agree that (i) the Effective Date will be May 31, 1981 and (ii) the Automotive Aftermarket Operations of Borg-Warner shall be audited as of May 31, 1981 in the same manner and on the same terms as set forth in Section 4 above with regard to the February 28, 1981 audit.

Section 6. *Indemnification.*

6.1 *By Borg-Warner.* Borg-Warner shall indemnify and hold harmless Echlin against and in respect of the following:

(a) all liabilities and obligations of, or claims against, Borg-Warner not expressly assumed by Echlin pursuant to Section 2.2 above;

(b) any loss, liability, damage or deficiency resulting from any misrepresentation, breach of warranty or nonfulfillment of any covenant or agreement on the part of Borg-Warner under this Agreement;

(c) all actions, suits, proceedings, claims, demands, assessments, judgments, reasonable attorney's fees, costs and expenses incident to any of the foregoing or incurred in investigating or attempting to avoid the same or to oppose the imposition thereof, or in enforcing this indemnity.

Echlin shall not be entitled to indemnification hereunder unless it shall have given timely notice to Borg-Warner of the assertion of a claim or demand or the institution of an action, suit or proceeding and provide Borg-Warner with an opportunity to conduct, or to participate in, the defense or settlement thereof. Borg-Warner shall have no obligation to indemnify Echlin or discharge a claim made by it hereunder in respect to any transaction or statement of facts disclosed to Echlin in this Agreement or in any Exhibit thereto, except to the extent otherwise set forth herein or therein.

6.2 *By Echlin.* Echlin shall indemnify and hold harmless Borg-Warner against and in respect of the following:

(a) all liabilities and obligations of, or claims against, Borg-Warner which are expressly assumed by Echlin pursuant to Section 2.2 hereof;

(b) any and all loss, liability, damage or deficiency to Borg-Warner resulting from any misrepresentation, breach of warranty or nonfulfillment of any covenant or agreement on the part of Echlin under this Agreement or from any misrepresentation in or omission from any Exhibit, certificate or other instrument furnished or to be furnished to Borg-Warner under this Agreement;

(c) all actions, suits, proceedings, claims, demands, assessments, judgments, reasonable attorney's fees, costs and expenses incident to any of the foregoing or incurred in investigating or attempting to avoid the same or to oppose the imposition thereof, or in enforcing this indemnity.

Borg-Warner shall not be entitled to indemnification hereunder unless it shall have given timely notice to Echlin of the assertion of a claim or demand or the institution of an action, suit or proceeding and provide Echlin with an opportunity to conduct, or to participate in, the defense or settlement thereof. Echlin shall have no obligation to indemnify Borg-Warner or discharge a claim made by it hereunder in respect of any transaction or statement of facts disclosed to Borg-Warner in this Agreement or in any Exhibit thereto, except to the extent otherwise set forth herein or therein.

6.3 *Limitations.* For the purposes of determining any right on the part of Echlin or Borg-Warner to terminate this Agreement on or prior to the Closing Date, each breach of any of the representations, warranties, covenants or agreements given or made by Borg-Warner or Echlin, as the case may be, in this Agreement, shall be aggregated to determine whether the aggregate amount is material to the business or financial condition of the Automotive Aftermarket Operations considered as a whole as at February 28, 1981, or to the business or financial condition of Echlin and its subsidiaries considered as a whole as at February 28, 1981, as the case may be. For the purposes of determining any right on the part of Echlin or Borg-Warner to indemnification or otherwise under Sections 6.1 or 6.2 of this Agreement, as the case may be, any loss or damage resulting from any misrepresentation, breach of warranty, or nonfulfillment of any covenant or agreement herein shall be aggregated, including only items of $5,000 or more, regardless of whether such breach is material; provided, however that no claim for indemnification or otherwise shall be made unless the aggregate of items of liability, cost and expenses exceeds $50,000. Echlin agrees that in respect to any claim arising out of a misrepresentation or breach of warranty relating to the physical state or condition of the tangible personal property transferred pursuant to this Agreement shall be made within one (1) year of the Closing.

Section 7. *Representations and Warranties of Borg-Warner.*

Borg-Warner represents and warrants to Echlin that:

7.1 *Standing and Power.* Borg-Warner is a corporation duly organized, existing and in good standing under the laws of the State of Delaware and is duly qualified to do business and is in good standing in each jurisdiction in which the operations of the Automotive Aftermarket Operations require such qualification. Borg-Warner has all requisite corporate power and authority to execute, deliver and perform this Agreement.

7.2 *Canadian Subsidiary.* A new Canadian subsidiary will be, on or prior to the Closing Date, a corporation duly organized, existing and in good standing under the laws of the Dominion of Canada, and all shares of the issued and outstanding capital stock of such subsidiary shall be validly issued, fully paid and non-assessable and are owned of record by Borg-Warner, free and clear of any liens or encumbrances.

7.3 *Authority.* The execution, delivery and performance of this Agreement by Borg-Warner and the sale contemplated hereby have been or will, prior to the Closing Date, be duly authorized or ratified by Borg-Warner's Board of Directors (no approval of the stockholders of Borg-Warner being required), and Borg-Warner will deliver to Echlin at or prior to the Closing Date, certified copies of the resolutions of its Board of Directors granting such authority.

7.4 *Financial Statements.* All of the financial statements referred to in 3.1(a) (including, but not limited to the Balance Sheet) are correct and complete in all material respects and present fairly, as of their respective dates, the combined financial position of Borg-Warner with respect to its Automotive Aftermarket Operations, and the results of their operations and the changes in financial position of the Automotive Aftermarket Operations for the periods then ended, and have been prepared in accordance with generally accepted accounting principles, consistently applied to such operations by Borg-Warner except as may be set forth in the notes to such financial statements.

7.5 *Restricted Securities Agreement.* The execution, delivery and performance of the Restricted Securities Agreement has been or will, prior to the Closing Date, be duly authorized or ratified by Borg-Warner's Board of Directors and when delivered will constitute a valid and binding obligation of Borg-Warner and will be enforceable against it and its successors and assigns in accordance with its terms.

7.6 *Absence of Certain Changes.* Since the Balance Sheet Date to the date hereof there has not been (i) any change in the financial condition of the Automotive Aftermarket Operations or the assets, liabilities, or operations underlying the Automotive Aftermarket Operations, other than changes in the ordinary course of business, none of which singly or in the aggregate has or have been materially adverse; (ii) any damage, destruction, or loss, whether or not covered by insurance, materially and adversely affecting assets, properties or operations underlying the Automotive Aftermarket Operations; (iii) any material increase in the compensation payable or to become payable by Borg-Warner to any of the officers or key personnel or any material increase in such compensation payable or to become payable to employees or agents, or any material increase in any bonus payment or an arrangement made to or with any thereof, insofar as any such increase in compensation or bonus payment or arrangement pertains to officers, key personnel, employees or agents engaged in the conduct of the Automotive Aftermarket Operations; (iv) any discharge or satisfaction of any lien, charge or encumbrance pertaining to the Automotive Aftermarket Operations other than those then required to be discharged or satisfied, or payment of any obligation or liability relating to the Automotive Aftermarket Operations, absolute, accrued, contingent or otherwise, whether due or to become due, other than liabilities shown on the Balance Sheet or incurred since the Balance Sheet Date, in the ordinary course of business and consistent with prior practice; (v) any mortgage, pledge, lien, charge, security interest or other encumbrance or restriction of a material nature imposed on any of the property, business or assets, intangible (where attributable to and used exclusively by or in connection with the Automotive Aftermarket Operations) or tangible; or (vi) any sale, transfer, lease, or other disposition of any of the assets, property or business of the Automotive Aftermarket Operations, except for inventory, or other assets not material in amount, sold in the ordinary course of business.

7.7 *Taxes.* Except for the payment by Echlin to Borg-Warner pursuant to Section 5.4(a)(ii), all taxes affecting the assets, property and business of the Automotive Aftermarket Operations with interest and penalties thereon, if any, and relating to any period prior to the Effective Date have been or will be paid by Borg-Warner. Borg-Warner agrees to indemnify and hold harmless Echlin against any and all claims, losses, damages or liabilities which it may incur or to which it may become subject, and to reimburse it for any legal or other expenses incurred by Echlin in connection with any investigation, proceeding or action, insofar as such claims, losses, damages, liabilities or expenses arise out of or are related to such taxes of the Automotive Aftermarket Operations and attributable to any period prior to the Effective Date.

7.8 *Title to Properties.* All of the property and assets of every kind and description, the costs of which are reflected on the Balance Sheet (other than property transferred by Borg-Warner in the ordinary course of business since the Balance Sheet Date or which relate to or are used in the Automotive Aftermarket Operations and were acquired since the Balance Sheet Date) and any other assets of the Automotive Aftermarket Operations which are owned by Borg-Warner or which Borg-Warner uses or has a right to use in the Automotive Aftermarket Operations are either (i) owned absolutely by Borg-Warner, free and clear of mortgages, pledges, security interests and other liens and encumbrances, other than (A) liens, security interests and encumbrances which are not substantial in amount and which do not materially affect the value of the assets subject thereto or impair their usefulness in the conduct of the Automotive Aftermarket Operations, (B) liens for taxes not yet due and payable, (C) as shown on the Balance Sheet or in the notes thereto as securing specified liabilities (with respect to which no default exists), or (D) as set forth in Exhibit C, or (ii) leased by Borg-Warner pursuant to leases set forth in Exhibit D delivered herewith, which Exhibit includes a brief description of the terms of all such leases and the remaining obligations of Borg-Warner thereunder. Reference should be made to such leases, however, for their exact terms as well as for the remaining obligations of Borg-Warner thereunder. All leases set forth in Exhibit D are valid, binding and in full force and effect, and there exists no material default under any thereof. All of such leases on the Closing Date will be assigned to Echlin. Borg-Warner has all easements and rights, including easements for power lines, water lines, roadways and other access, necessary to conduct the Automotive Aftermarket Operations as currently conducted.

7.9 *Realty and Plants.* Except for leased property, Exhibit E delivered herewith correctly sets forth an accurate list and summary description of all real property related to the Automotive Aftermarket Operations which was owned of record or beneficially or used in the Automotive Aftermarket Operations by Borg-Warner as of the Balance Sheet Date, together with any changes which in the aggregate are material, a brief description of all plants and buildings located thereon, a list of all other places of business maintained by Borg-Warner in connection with the Automotive Aftermarket Operations, and a description of Borg-Warner's right to occupy such places of business. All such plants and other buildings are, in all material respects, in good operating condition and repair, reasonable wear and tear excepted, and conform in all material respects with all applicable ordinances and regulations and building, zoning and other laws.

7.10 *Patents, Trademarks, Etc.* Exhibit F delivered herewith correctly sets forth all of the patents, patent applications, material unpatented inventions set forth or described in writing, trademarks, trademark applications, trade names and federally registered copyrights, and all licenses or other agreements in connection with the foregoing, attributable to or used exclusively by the Automotive Aftermarket Operations, all of which Borg-Warner believes to be valid and subsisting. Borg-Warner has good and marketable title to all of the patents, patent applications, unpatented inventions, trademarks, trademark applications, trade names, copyrights and licenses listed in Exhibit F, none of which Borg-Warner believes conflicts with the rights of others, except as set forth in Exhibit F. It is understood that any patents, patent applications, or unpatented inventions which are related to or currently used in or necessary to the Automotive Aftermarket Operations but which are also related to, being used by, or being practiced under at divisions of Borg-Warner other than the Automotive Aftermarket Operations are not a part of Exhibit F and are not conveyed to Echlin; but with respect to such patents, patent applications and unpatentable inventions, Borg-Warner hereby grants to Echlin a royalty free non-exclusive right to practice under same to the extent necessary to carry on the business of the Automotive Aftermarket Operations as it exists at the Effective Date provided, however, that no right or license is granted under such patents, patent applications and unpatented inventions to Echlin to manufacture, or have manufactured for it, any product which is not manufactured by the Automotive Aftermarket Operations as of the Effective Date. There are no licenses or commitments outstanding or effective concerning the patents, patent applications, unpatented inventions, trademarks, trademark applications, trade names, copyrights and licenses except as listed in Exhibit F. Borg-Warner to the best of its knowledge has not received any notice or claim of infringement of any patents, inventions, rights, trademarks, trade names or copyrights of others with respect to any processes, methods, formulae or procedures used by Borg-Warner in the Automotive Aftermarket Operations, and Borg-Warner does not know of any basis for any such claim.

7.11 *Contracts, Etc.* All material contracts and commitments of Borg-Warner relating to the Automotive Aftermarket Operations, as of the date hereof and as of the Effective Date, are and shall be valid and in full force and effect. No party is in default, and no event has occurred which, with notice and/or lapse of time, would constitute a default, under any such contract or commitment, all of which, subject to receiving any required consents pursuant to Section 7.14 hereof, will continue to be binding in accordance with their terms following the Effective Date and (if the same are to be assigned to the Buyer under this Agreement) their assignment to Echlin. Exhibit G delivered herewith lists:

(a) Each unfilled purchase order or purchasing commitment relating to Automotive Aftermarket Operations obligating Borg-Warner to pay an amount equal to $50,000 or more or which provides for performance, regardless of amount, over a period in excess of one year after the date of such order or commitment. None of such purchase orders or purchasing commitments is in excess of normal requirements of the Automotive Aftermarket Operations, nor are prices provided therein materially in excess of present market prices for the products or services to be provided thereunder.

(b) Each unfilled customer order or commitment relating to the Automotive Aftermarket Operations obligating Borg-Warner to produce products or perform services for a price equal to $50,000 or more or which provides for performance, regardless of amount, over a period in excess of one year after the date of such order or commitment.

(c) The Distributor Agreement form used by the Automotive Aftermarket Operations and all agreements and contracts which by their terms may not be terminated within one year.

(d) All employment and consulting agreements (except agreements, arrangements or understandings with any collective bargaining representative of employees), executive compensation plans, bonus plans, deferred compensation agreements, employee stock options or stock purchase plans and group life, health and accident insurance and other employee benefit plans, to which Borg-Warner is a party and which involve employees engaged in the conduct of the Automotive Aftermarket Operations. Borg-Warner has no petitions for union representation pending or, to the knowledge of Borg-Warner, threatened, or, to the knowledge of Borg-Warner, any other labor difficulties at any of Borg-Warner's plants engaged in the conduct of the Automotive Aftermarket Operations.

(e) The name of each bank in which Borg-Warner has an account or safe deposit box in which any assets of the Automotive Aftermarket Operations are deposited and the names of all persons authorized to draw thereon or have access thereto.

(f) All other material contracts and agreements of any nature, regardless of amount or subject matter, whether written or oral, relating to the Automotive Aftermarket Operations to which Borg-Warner is a party, entered into other than in the ordinary course of business and not elsewhere set forth in the Exhibits hereto.

7.12 *Litigation.* Except for suits of a character incident to the normal conduct of the Automotive Aftermarket Operations as described in Exhibit H delivered herewith, all of which shall remain the responsibility of Borg-Warner following the Closing, there is no litigation, proceeding or investigation pending, or to the knowledge of Borg-Warner threatened, against Borg-Warner in respect of the Automotive Aftermarket Operations, or relating to the Automotive Aftermarket Operations or any of the properties or assets underlying the Automotive Aftermarket Operations, nor does Borg-Warner know of any basis for any action or governmental investigation which, if adversely decided, might have a material adverse effect on the business, properties, operations or condition, financial or otherwise, of the Automotive Aftermarket Operations, and, to the best of Borg-Warner's knowledge, there is no basis for such litigation or proceeding. As of the date of this Agreement, there is no pending or, to the best of Borg-Warner's knowledge, threatened action, proceeding or investigation (or any material basis therefor known to Borg-Warner) which questions the validity of this Agreement.

7.13 *Business Permits.* To Borg-Warners' knowledge, Borg-Warner has secured all permits, licenses or other authorizations necessary from Federal, state, municipal and other governmental agencies to operate the Automotive Aftermarket Operations as presently conducted and will take all steps necessary to assign such permits, licenses or authorizations to Borg-Warner and cooperate in the issuance of new permits, licenses or authorizations.

7.14 *No Violation.* Borg-Warner is not in default under or in violation of any provision of its Articles or Certificate of Incorporation or By-Laws or in default or violation of any restriction, lien, encumbrance, indenture, contract, lease, sublease, loan agreement, note or other obligation or liability relating to or affecting the Automotive Aftermarket Operations or the properties or assets underlying the Automotive Aftermarket Operations. Except as set forth in Exhibit I delivered herewith, with respect to any required consents of third parties to the transactions contemplated by this Agreement, neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (i) result in the acceleration of, or the creation in any party of the right to accelerate, terminate, modify or cancel, any indenture, contract, lease, sublease, loan agreement, note or other obligation or liability relating to or affecting the Automotive Aftermarket Operations or the properties or assets underlying the Automotive Aftermarket Operations to which Borg-Warner is a party or by which it is bound or to which its assets are subject, or (ii) conflict with or result in a breach of or constitute a default under any provision of the Articles or Certificate of Incorporation or By-Laws of Borg-Warner, or a default or violation of any restriction, lien, encumbrance, indenture, contract, lease, sublease, loan agreement, note and other obligation or liability relating to or affecting the Automotive Aftermarket Operations or the properties or assets underlying the Automotive Aftermarket Operations to which it is a party or by which it is bound or to which its assets are subject, or result in the creation of any lien or encumbrance upon any of said assets. Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will violate or result in a breach of or constitute a default under any judgment, order, decree, rule or regulation of any court or governmental agency to Borg-Warner.

7.15 *Approvals and Consents.* No governmental authorization, approval, order, license, permit, franchise or consent, and no registration, declaration or filing with any governmental authority (other than pre-merger notification to the Federal Trade Commission), is required on the part of Borg-Warner in connection with the execution, delivery and performance of this Agreement by Borg-Warner, and Borg-Warner has obtained all consents, approvals, waivers and notifications of creditors, lessors, and other non-governmental persons, in connection with the execution and delivery of the Agreement and the transactions contemplated hereunder.

7.16 *Disclosure.* No representation or warranty by Borg-Warner in this Agreement, and none of the Exhibits hereto furnished or to be furnished to Echlin pursuant hereto, or in connection with the transactions contemplated hereby, including the information to be supplied by Borg-Warner in connection with the Proxy Statement referred to in Section 10.1 hereof, contains or will contain any untrue statement of material fact, or omits or will omit to state a material fact necessary to make the statements of facts contained therein not misleading.

7.17 *Compliance with Laws.* Borg-Warner has complied in all material respects with all applicable laws and regulations of Federal, state, local and foreign governments and all agencies thereof which affect the Automotive Aftermarket Operations or any owned or leased properties used in the Automotive Aftermarket Operations and to which Borg-Warner may be subject, and no claims have been filed against Borg-Warner with respect to the Automotive Aftermarket Operations alleging a violation of any such laws or regulations.

7.18 *Exclusion.* The warranties contained in this Section shall not be construed to apply to Borg-Warner's compliance with its agreed order entered into with the United States Federal Trade Commission in Docket No. C-2716.

Section 8. *Representations and Warranties of Echlin.*

Echlin represents and warrants to Borg-Warner that:

8.1 *Organization, Standing and Power.* Echlin is a corporation duly organized, validly existing and in good standing under the laws of the State of Connecticut, and has all requisite corporate power and authority to own, lease and operate its properties and to conduct the business presently being conducted by it.

8.2 *Capital Structure.* The authorized capital stock of Echlin consists of 33,000,000 shares of common stock, par value $1.00 per share ("Echlin Common Stock"), and 1,000,000 shares of preferred stock, without par value. As of February 28, 1981, 16,050,528 shares of Echlin Common Stock were issued and outstanding, 839,800 shares of Echlin Common Stock were reserved for issuance upon the exercise of outstanding stock options under the Echlin Stock Option Plan and no shares of its preferred stock were issued or outstanding. At such date, Echlin held 140,914 shares of Echlin Common Stock in its treasury. All the issued and outstanding shares of Echlin Common Stock are duly authorized, validly issued, fully-paid and nonassessable.

8.3 *Options, Warrants, Etc.* There are no options, warrants, calls, commitments or agreements of any character to which Echlin is a party or by which it is bound under which any party has the right to acquire any shares of capital stock of Echlin or any security representing the right to purchase or otherwise receive any such capital stock, except as provided for under this Agreement and by the Echlin Stock Option Plan.

8.4 *Valid Issuance.* The Shares to be issued hereunder have been duly authorized and, upon delivery to Borg-Warner in accordance with the provisions hereof, will be validly issued, fully-paid and nonassessable, free and clear of all liens, claims, charges and encumbrances.

8.5 *Financial Statements.* The August 31, 1980 consolidated financial statements of Echlin and its subsidiaries, together with the related notes, all as certified by Price Waterhouse & Co., Independent Accountants, were prepared in conformity with generally accepted accounting principles applied on a consistent basis, and fairly present the financial position of Echlin and its subsidiaries at August 31, 1980 and the results of operations of Echlin for the periods covered thereby.

8.6 *No Material Adverse Change.* Since August 31, 1980, there has not been any material adverse change in the condition (financial or otherwise), assets, liabilities, earnings or business of Echlin and its subsidiaries, taken as a whole, whether or not arising in the ordinary course of business, nor has there been any occurrence or circumstance which might be reasonably expected to result in any such change, except as disclosed in writing to Borg-Warner.

8.7 *Consents and Approvals.* No consent or approval by, or filing with, any governmental authority is required in connection with the execution and delivery by Echlin of this Agreement or for the consummation by Echlin of the transactions contemplated hereby or the issuance of the Shares to be issued hereunder other than the solicitation of proxies under the Securities Exchange Act of 1934, the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the Canadian Foreign Investment Review Act.

8.8 *Litigation.* Except as set forth in Exhibit J there is no civil, criminal, administrative, arbitration or other such proceeding or governmental investigation pending or, to the knowledge of Echlin, threatened, in which an adverse determination would materially and adversely affect the assets, properties, business or income of Echlin and its subsidiaries, taken as a whole, or which might jeopardize or adversely affect any of the transactions contemplated by this Agreement.

8.9 *Transaction not in Breach of other Agreements.* Except as disclosed in Exhibit K or cured prior to Closing, the execution and delivery by Echlin of this Agreement does not, and the consummation of the transactions contemplated hereby and the fulfillment of the terms and compliance with the provisions hereof will not, conflict with or result in a breach of any provision of its Certificate of Incorporation or By-Laws, conflict with or result in a breach of or a default under, or in an occurrence which a lapse of time or action by a third party would result in default, or give rise to any right of termination, cancellation or acceleration with respect to, any of the terms, conditions or provisions of any note, debenture, bond, mortgage, indenture, contract, lease, license, agreement or other instrument or obligation to which Echlin or any of its subsidiaries is a party or is subject or by which any of its properties or assets are bound, or violate any order, writ or decree applicable to Echlin or any of its subsidiaries or any of its properties or assets.

8.10 *Accuracy of Information.* None of the information regarding Echlin in the Proxy Statement will, at the date such Proxy Statement is mailed to the stockholders of Echlin, be false or misleading with respect to any material fact, contain an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein not misleading. If at any time prior to the Echlin Stockholders' Meeting any event relating to Echlin or any subsidiary should occur which should be set forth in an amendment of or supplement to the Proxy Statement, Echlin shall promptly so inform Borg-Warner.

8.11 *Validity and Due Authorization of this Agreement.* The execution and delivery by Echlin of this Agreement and, subject to the approval of this Agreement by the stockholders of Echlin, the consummation of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of Echlin and this Agreement will, upon execution and delivery thereof, be a valid and binding obligation of Echlin enforceable in accordance with its terms.

8.12 *Restricted Securities Agreement.* The execution, delivery and performance of the Restricted Securities Agreement has been or will, prior to the Closing Date, be duly authorized or ratified by Echlin's Board of Directors and when delivered will constitute a valid and binding obligation of Echlin and enforceable against it and its successors and assigns in accordance with its terms.

8.13 *Brokers or Finders.* Neither Echlin nor any of its officers, directors or employees has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated herein.

Section 9. *Conduct of Automotive Aftermarket Operations and Transactions Pending Closing.*

9.1 *Operations in the Ordinary Course of Business.* Borg-Warner and Echlin covenant that prior to the Closing Date:

(a) except (i) for transactions contemplated by this Agreement, (ii) for proposed transactions which have heretofore been disclosed in writing to Echlin by Borg-Warner and consent thereto has been granted by Echlin, and (iii) to the extent Echlin shall otherwise consent, in writing, Borg-Warner will operate the automotive Aftermarket Operations substantially as presently operated and only in the ordinary course and, consistent with such operation, use its best efforts to preserve intact its present business organization and its relationship with persons having business dealings with it and to retain the services of its key officers and operating employees. Without limiting the generality of the foregoing, Borg-Warner will operate the Automotive Aftermarket Operations so that the representations and warranties set forth in Section 7 to the extent within Borg-Warner's control shall be true and correct as of and on the Closing Date.

(b) Borg-Warner and Echlin each agree to give to the representatives of the other full access to all of the premises and books and records of Automotive Aftermarket Operations and Echlin and its subsidiaries, respectively, and to cause the officers and management of the Automotive Aftermarket Operations and the officers and management of Echlin and its subsidiaries, to furnish the other with such financial and operating data and other information with respect to the business and properties of Automotive Aftermarket Operations, and Echlin and its subsidiaries respectively as the other shall from time to time request; provided, however, that any such investigation shall be conducted in such manner as not to interfere unreasonably with the operations of the respective business of the other. In the event of the termination of this Agreement, Echlin and Borg-Warner will return to each other all documents, workpapers and other material (including all copies made thereof) obtained from the other at any time in connection with the transactions contemplated hereby and will use all reasonable efforts to keep confidential any such information so obtained unless such information is readily ascertainable from public or published information or trade sources.

9.2 *Consents.* Borg-Warner and Echlin shall use their best efforts to obtain the consent or approval of each person whose consent or approval shall be required in order to permit the consummation of the transaction contemplated herein, and to satisfy or cause to be satisfied each of the conditions to closing set forth in Section 11 hereof.

9.3 *Interim Financial Statements of Borg-Warner.* Borg-Warner will furnish to Echlin within 20 days after the end of each calendar month following December 31, 1980 and prior to the Closing Date (as soon as practicable with respect to months ended prior to the execution of this Agreement) balance sheets and income statements for each of the five divisions of the Automotive Aftermarket Operations. All such financial statements shall present fairly the financial position, and the results of the operations of each division of the Automotive Aftermarket Operations as at or for the periods indicated, in conformity with generally accepted accounting principles applied on a basis consistent with those used by Borg-Warner in the preparation of the Automotive Aftermarket Operations financial statements, provided that such financial statements shall reflect inventories on a first-in, first-out basis.

9.4 *Letters of Peat, Marwick, Mitchell & Co.* Borg-Warner shall cause to be delivered to Echlin letters of Peat, Marwick, Mitchell & Co., dated within two business days before the date on which the Proxy Statement is mailed to the stockholders of Echlin and two days before the Closing Date, respectively, and addressed to Borg-Warner and Echlin in form and substance satisfactory to Echlin to the effect that:

(a) they are public accountants, independent with respect to Borg-Warner within the meaning of the Securities Exchange Act of 1934 ("Securities Exchange Act") and the applicable published rules and regulations thereunder;

(b) the combined financial statements of the Automotive Aftermarket Operations of Borg-Warner examined by them and included in the Proxy Statement comply as to form in all material respects with the applicable accounting requirements of the Securities Exchange Act and the applicable published rules and regulations thereunder with respect to proxy statements on Schedule 14A; and

(c) at the request of Borg-Warner and Echlin, they have carried out procedures with respect to the combined financial statements of the Automotive Aftermarket Operations to a specified date not more than five business days prior to the dates on which the letters are to be delivered, which do not constitute an examination in accordance with generally accepted auditing standards, as follows: they have (1) read the unaudited combined financial statements of the Automotive Aftermarket Operations of Borg-Warner for the years ended December 31, 1976, 1977, 1978 and 1979 included in the Proxy Statement, (2) read the unaudited financial statements of the Automotive Aftermarket Operations for the period from the date of the most recent financial statements included in the Proxy Statement through the date of the latest available interim statements, (3) consulted with certain officers and employees of Borg-Warner responsible for financial and accounting matters as to whether there has been any decrease in the equity of Borg-Warner in Automotive Aftermarket Operations, or any decrease in combined net current assets, net sales or in the total amount of combined net income of Automotive Aftermarket Operations, and (4) performed such other procedures and made such other inquiries as may be specified in such letter, and, based on such procedures performed and inquiries made, nothing has come to their attention which would cause them to believe that (A) the unaudited combined financial statements of the Automotive Aftermarket Operations of Borg-Warner for the years ended December 31, 1976, 1977, 1978 and 1979 do not comply as to form in all material respects with the applicable accounting requirements of the Securities Exchange Act and the applicable published rules and regulations thereunder with respect to Proxy Statements on Schedule 14A, or are not fairly presented in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements of the Automotive Aftermarket Operations of Borg-Warner included in the Proxy Statement, or (b) as of said date not more than five business days prior to the date on which the letters are to be delivered, there was, except for changes or decreases which the Proxy Statement discloses have occurred or may occur, any (i) decrease in the equity of Borg-Warner in the Automotive Aftermarket Operations, or (ii) decrease in net current assets of the Automotive Aftermarket Operations, in each case as compared with the amounts shown in the Automotive Aftermarket Operations balance sheet, at the date of the most recent financial statements included in the Proxy Statement, or (C) as of said date not more than five business days prior to the date on which the letters are to be delivered, for the period from the date of the most recent financial statements included in the Proxy Statement, there were, except as aforesaid, any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or consolidated net income.

9.5 *Supply Agreement.* Echlin and Borg-Warner shall execute a Supply Agreement in the form and upon the terms set forth in Exhibit L.

9.6 *Employee Benefit Plans.* Echlin and Borg-Warner shall execute an Employee Benefit Plans Agreement in the form and upon the terms set forth in Exhibit M.

9.7 *Pre-approval of Proxy Statement.* Borg-Warner has furnished and will furnish Echlin information as to the Automotive Aftermarket Operations' business, operations, history, capitalization, financial information and statements, and other material as required for inclusion in the Proxy Statement.

9.8 *Title Insurance.* Borg-Warner shall have furnished preliminary title reports covering the real property to be conveyed by Borg-Warner to Echlin, and Borg-Warner shall furnish at the Closing title insurance policies covering such properties.

Section 10. *Conduct of Echlin Business Pending Closing.*

10.1 *Undertakings of Echlin.* Echlin covenants that from the date hereof to the Closing:

(a) Echlin will not issue or make any commitment to issue any additional shares of its capital stock except as contemplated by the provisions of this Agreement or upon the exercise of options to purchase Echlin Common Stock under its stock option plan.

(b) Echlin will cooperate fully with Borg-Warner and will promptly take all action appropriate to the consummation of this Agreement, including without limitation, the preparation of a proxy statement (the "Proxy Statement") in connection therewith and the calling of a special meeting of stockholders as soon as practicable at which meeting it will recommend: (a) approval of this Agreement and the transactions contemplated hereby, (b) an amendment to its Articles of Incorporation increasing the size of its board of directors from 11 to 12 members, and (c) the election to the directorship created by such increase a person designated by Borg-Warner and reasonably acceptable to the board of directors of Echlin. Echlin will (i) not do anything; or (ii) refrain from doing anything that will cause, directly or indirectly, any of its representations and warranties made herein to become untrue.

10.2 *Approval.* Echlin agrees that it shall obtain Borg-Warner's approval of the proxy material or any amendments or supplements thereto which Echlin proposes to mail to its stockholders, to the extent it relates to, or is supplied by, Borg-Warner before the same shall be mailed to Echlin's stockholders.

10.3 *Listing on NYSE.* Echlin agrees to apply for and to use its best effort to obtain the listing of the Shares to be issued hereunder, subject to official notice of issuance, with the New York Stock Exchange, Inc.

10.4 *No Stock Splits Prior to Closing.* Echlin agrees that from the date hereof to the Closing Date, it will not (a) increase or decrease the number of shares of issued Echlin Common Stock by means of subdivision or consolidation of shares through reorganization, recapitalization, stock split-up or combination of shares, or the payment of a stock dividend, or effect any other increase in such shares without receipt of consideration by Echlin, or (b) acquire directly or indirectly any such Common Stock. Nothing herein contained shall prevent Echlin from issuing Echlin Common Stock pursuant to the exercise of options to purchase Echlin Common Stock under Echlin's Stock Option Plan.

Section 11. *Conditions of Closing.*

11.1 *Conditions to Obligations of Echlin.* The obligations of Echlin to perform this Agreement are subject to the satisfaction of each of the following conditions unless waived by Echlin:

(a) the representations and warranties of Borg-Warner set forth in this Agreement shall be true and correct in all material respects on and as of the date of this Agreement and on and as of the Closing Date as though made on and as of the Closing Date. Borg-Warner shall have performed all agreements and conditions required to be performed or complied with by it under this Agreement prior to or on the Closing Date; and Echlin shall have received a certificate, dated the Closing Date, executed on behalf of Borg-Warner by its President or Chief Executive Officer and by its Treasurer or Chief Financial Officer to that effect.

(b) all actions necessary to authorize the execution, delivery and performance of this Agreement by Borg-Warner and the consummation of the other transactions contemplated herein shall have been duly and validly taken by the Board of Directors of Borg-Warner and by the stockholders of Echlin.

(c) Echlin shall have received an opinion of Russell J. Parsons, Senior Vice President, General Counsel and Secretary of Borg-Warner, dated the Closing Date, satisfactory in scope and substance to Echlin to the effect that:

(1) Borg-Warner has good and marketable title to the Automotive Aftermarket Operations assets, property and business, has the right and power to sell, assign and transfer such assets and that the transfer, assignment and delivery to Echlin of the Automotive Aftermarket Operations assets pursuant to this Agreement will vest in Echlin a good, valid, marketable and indefeasible title to the Automotive Aftermarket Operations' assets, free of any mortgage, lien, claim, charge, pledge or encumbrance whatever other than those created by or in Echlin or except as disclosed in this Agreement or any Exhibit thereto, or liens, security interests, encumbrances which are not substantial in amount and which do not materially affect the value of the assets subject thereto or impair their usefulness in the conduct of the Automotive Aftermarket Operations and liens for taxes not yet due and payable;

(2) Borg-Warner is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, has all requisite power to own, lease and operate its properties and to conduct the business presently being conducted by the Automotive Aftermarket Operations;

(3) Borg-Warner has full corporate power to carry out the transactions provided for in this Agreement; all corporate and other proceedings required to be taken by or on the part of Borg-Warner to authorize it to execute and deliver this Agreement and to consummate the transactions contemplated herein have been duly and validly taken; and this Agreement has been duly and validly authorized, executed and delivered by Borg-Warner and constitutes a valid and binding obligation of Borg-Warner enforceable against it and its successors and assigns in accordance with its terms;

(4) Borg-Warner is duly qualified to do business and in good standing as a foreign corporation in each jurisdiction in which the operations of the Automotive Aftermarket Operations are doing business which would require such qualification;

(5) The new Canadian subsidiary is a corporation duly organized and existing and in good standing under the laws of the Dominion of Canada, has all requisite Corporate power to own, lease and operate its properties and to conduct its business as presently being conducted and as proposed to be conducted, and all shares of the capital stock of such corporation are validly issued, fully paid and non-assessable, and all such shares are owned of record by Borg-Warner, free and clear of any liens or encumbrances;

(6) The execution and delivery of this Agreement, the consummation by Borg-Warner of the transaction contemplated hereby and the fulfillment of the terms and compliance with the provisions hereof will not conflict with or result in a breach of any provision of its Certificate of Incorporation or bylaws or conflict with or result in a breach of or default under (or in an occurrence which with the lapse of time or action by a third party could result in a default under), or give rise to a right of termination, cancellation or acceleration with respect to, the terms, conditions, or provisions of, any note, bond, mortgage, indenture, license, agreement or any other instrument or obligation to which Borg-Warner is a party or is subject or by which the Automotive Aftermarket Operations or any of its properties or assets are bound, of which counsel has knowledge after making inquiry with respect thereto, or violate any court order, writ, injunction or decree applicable to Borg-Warner, or any of its Automotive Aftermarket Operations properties or assets, of which such counsel has knowledge;

(7) Borg-Warner has full corporate power to carry out the transactions as provided in the Restricted Securities Agreement; all corporate and other proceedings required to be taken by or on the part of Borg-Warner to authorize it to execute, deliver and perform the Restricted Securities Agreement have been duly and validly taken; and the Restricted Securities Agreement has been duly and validly authorized, executed and delivered by Borg-Warner and constitutes a valid and binding obligation of Borg-Warner enforceable against Borg-Warner and its successors and assigns in accordance with its terms;

(8) any consent or approval by any governmental authority which is required in connection with the consummation by Borg-Warner of the transactions contemplated hereby has been obtained, and Borg-Warner has obtained all consents, approvals, waivers and notifications of creditors, lessors, and other non-governmental persons, in connection with the execution and delivery of the Agreement and transactions contemplated thereby;

(9) such counsel does not know of any litigation, proceeding or investigation that is pending or threatened against Borg-Warner except as set forth in Exhibit H in which an adverse determination would have a material adverse effect on the properties, business, operations or condition (financial or otherwise) of the Automotive Aftermarket Operations, taken as a whole, or which might jeopardize or have a material adverse effect on any of the transactions contemplated by this Agreement;

(10) such counsel does not know of any item called for by the Exhibits hereto which is not disclosed therein or any material default under any outstanding lease, contract, promissory note, license or other agreement listed in any such Exhibit;

(11) such counsel has no reason to believe that (except as to financial statements and other financial data or as to material relating to or supplied by Echlin for inclusion in the Proxy Statement, as to which no opinion need be expressed) the "Business and Property of Borg-Warner's Aftermarket Operations", section of the Proxy Statement (as amended or supplemented, if so amended or supplemented), at the time of the Echlin Stockholders Meeting, was false or misleading with respect to any material fact, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading as of the date of such meeting; and

(12) such other matters incident to the transactions contemplated by this Agreement as Echlin or its counsel may reasonably request.

In rendering such opinion such counsel may rely to the extent recited therein on certificates of other officers of Borg-Warner as to matters of fact and, as to any matter contained in such opinion, such counsel may rely upon the opinion of local counsel of established reputation, whether or not employed by Borg-Warner. It is further understood that in rendering the opinion called for by Section 11.1(c) above, counsel may state that enforcement of the indemnification provisions of such Agreement, insofar as they relate to liabilities arising under the Federal securities laws, or are subject to the effect of bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting the rights of creditors generally, may be limited under such laws.

(d) Echlin shall have listed the Shares, subject to official notice of issuance, with the New York Stock Exchange, Inc.

(e) Echlin shall have received the letters of Peat, Marwick, Mitchell & Co. called for by Section 9.4 of this Agreement.

(f) The form and substance of all legal matters contemplated hereby and of all papers delivered hereunder shall be acceptable to David H. Spiller, Vice President, Secretary and General Counsel of Echlin.

(g) At the Closing Date there shall not have been instituted or be pending or threatened any suit, action or other proceeding by any governmental agency, commission, bureau or body in which it is sought to restrain or prohibit the transactions contemplated by this Agreement, and all waiting periods prescribed under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 shall have expired.

(h) Borg-Warner shall have executed and delivered the agreements called for by Sections 1.2, 2.1, 9.5 and 9.6 of this Agreement.

(i) All actions necessary to authorize the execution, delivery and performance of the Restricted Securities Agreement by Borg-Warner shall have been duly and validly taken by the Board of Directors of Borg-Warner, and such Agreement shall have been executed by Borg-Warner and Echlin.

11.2 *Conditions to Obligations of Borg-Warner.* The obligations of Borg-Warner to perform this Agreement are subject to the satisfaction of the following conditions unless waived by Borg-Warner:

(a) The representations and warranties of Echlin set forth in this Agreement shall be true and correct in all material respects on and as of the date of this Agreement and on and as of the Closing Date as though made on and as of the Closing Date. Echlin shall have performed all agreements and conditions required to be performed by it under this Agreement prior to or on the Closing Date; and Borg-Warner shall have received a certificate, dated the Closing Date, executed on behalf of Echlin by its President or Chief Executive Officer and by its Treasurer or Chief Financial Officer to that effect.

(b) All actions necessary to authorize the execution, delivery and performance of this Agreement by Echlin and the issuance of the Shares and the consummation of the other transactions contemplated herein shall have been duly and validly taken by the Board of Directors of Echlin and by the stockholders of Echlin.

(c) All actions necessary to authorize the execution, delivery and performance of the Restricted Securities Agreement by Echlin shall have been duly and validly taken by the Board of Directors of Echlin, and such Agreement shall have been executed by Echlin and Borg-Warner.

(d) Borg-Warner shall have received an opinion of David H. Spiller, Vice President, Secretary and General Counsel, dated the Closing Date, satisfactory in scope and substance to Russell J. Parsons, Senior Vice President, General Counsel and Secretary of Borg-Warner, to the effect that:

(1) Echlin is a corporation duly organized, validly existing and in good standing under the laws of the State of Connecticut, and has all requisite corporate power to own, lease and operate its properties and to carry on its business as presently being conducted as described in the Proxy Statement;

(2) Each of its subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all requisite corporate power to own, lease and operate its properties and to conduct its business as presently being conducted as described in the Proxy Statement;

(3) All the outstanding shares of Echlin Common Stock have been duly authorized and are validly issued, fully paid and non-assessable;

(4) To the best knowledge of such counsel, Echlin is not a party to or bound by any outstanding option or agreement to sell, issue, buy or otherwise dispose of or acquire any shares of capital stock or other security of Echlin other than pursuant to its Stock Option Plans;

(5) Echlin has full corporate power to carry out the transactions provided for in this Agreement; all corporate and other proceedings required to be taken by or on the part of Echlin to authorize it to execute and deliver this Agreement, to issue the Shares and to consummate the other transactions contemplated herein have been duly and validly taken; and this Agreement has been duly and validly authorized, executed and delivered by Echlin and constitutes a valid and binding obligation of Echlin enforceable against Echlin and its successors and assigns in accordance with its terms;

(6) Echlin has full corporate power to carry out the transactions as provided in the Restricted Securities Agreement; all corporate and other proceedings required to be taken by or on the part of Echlin to authorize it to execute, deliver and perform the Restricted Securities Agreement have been duly and validly taken; and the Restricted Securities Agreement has been duly and validly authorized, executed and delivered by Echlin and constitutes a valid and binding obligation of Echlin enforceable against Echlin and its successors and assigns in accordance with its terms.

(7) the Shares to be issued hereunder are duly authorized and, when issued in exchange for the Automotive Aftermarket Operations assets pursuant to this Agreement, will be validly issued, fully paid and nonassessable;

(8) the execution and delivery by Echlin of this Agreement, the consummation by Echlin of the transactions contemplated hereby and the fulfillment of the terms and compliance by Echlin with the provisions hereof will not conflict with or result in a breach of any provision of its Certificate of Incorporation or By-laws or conflict with or result in a breach or default under (or an occurrence which with the lapse of time or action by a third party could result in a default under), or give rise to a right of termination, cancellation or acceleration with respect to, the terms, conditions, or provisions of, any note, bond, mortgage, indenture, license, agreement or any other instrument or obligation to which Echlin or any of its subsidiaries is a party or is subject or by which they or any of their properties or assets are bound, of which such counsel has knowledge, or violate any court order, writ, injunction or decree applicable to Echlin, any of its subsidiaries or any of their properties or assets, of which counsel has knowledge;

(9) it is not necessary in connection with the issuance and delivery of the Shares hereunder to register any of the Shares under the Securities Act of 1933, as amended;

(10) any consent or approval by any governmental authority which is required in connection with the consummation by Echlin of the transactions contemplated hereby has been obtained;

(11) such counsel does not know of any litigation, proceeding or investigation that is pending or threatened against Echlin (except as disclosed in filings by Echlin under the Securities Exchange Act prior to the date of this Agreement) in which an adverse determination would materially and adversely affect the assets, properties, business or income of Echlin and its subsidiaries, taken as a whole, or which might jeopardize or adversely affect any of the transactions contemplated by this Agreement;

(12) such other matters incident to the transactions contemplated by this Agreement as Borg-Warner or its counsel may reasonably request.

In rendering such opinion such counsel may rely to the extent recited therein on certificates of other officers of Echlin as to matters of fact and, as to any matter contained in such opinion, such counsel may rely upon the opinion of local counsel of established reputation, whether or not employed by Echlin. It is further understood that in rendering the opinion called for by Section 11.2(d)(5) above, counsel may state that enforcement of the indemnification provisions of such Agreement, insofar as they relate to liabilities arising under the Federal securities laws, or are subject to the effect of bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting the rights of creditors generally, may be limited under such laws.

(e) Echlin shall have listed the Shares to be issued hereunder, subject to official notice of issuance, with the New York Stock Exchange, Inc.

(f) The form and substance of all legal matters contemplated herein and of all papers delivered hereunder shall be acceptable to Russell J. Parsons, Senior Vice President, General Counsel and Secretary of Borg-Warner.

(g) At the Closing Date, there shall not have been instituted or be pending or threatened any suit, action or other proceeding by any governmental agency, commission, bureau or body in which it is sought to restrain or prohibit the transactions contemplated by this Agreement, and all waiting periods prescribed under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 shall have expired.

(h) Echlin shall have executed and delivered the agreements called for by Sections 1.2, 2.1, 9.5 and 9.6 of this Agreement.

Section 12. *Survival of Representations and Warranties; Indemnification; Termination.*

12.1 *Survival of Representations and Warranties.* All of the representations, warranties, covenants and agreements made by Borg-Warner and Echlin, respectively, in this Agreement or pursuant hereto shall be continuing and shall survive the Closing Date, notwithstanding any investigation at any time made by or on behalf of Borg-Warner, provided that any claim in respect of any representation or warranty contained in Sections 7 or 8 hereof must be asserted in writing within five (5) years from the Closing Date.

12.2 *Indemnification.*

(a) *Securities Laws Indemnification by Borg-Warner.* Borg-Warner agrees to indemnify and hold harmless Echlin, its officers and directors and each person who controls Echlin within the meaning of Section 20 of the Securities Exchange Act against any and all losses, claims, damages or liabilities (including the amount of any settlement approved by Borg-Warner), joint or several, to which any of them may become subject under the Securities Exchange Act, the Securities Act of 1933 or any other statute or common law, and to reimburse them for any legal or other expenses incurred by them in connection with the investigating of any claims and defending any actions, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon (i) any false, misleading or untrue statement or alleged false, misleading or untrue statement of a material fact contained in the "Business and Property of Borg-Warner Aftermarket Operations" and in the financial statements of the Automotive Aftermarket Operations in the Proxy Statement, or any amendment thereof or supplement thereto, with respect to any information supplied by Borg-Warner for inclusion in the Proxy Statement, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, provided that the content thereof shall have been approved by Borg-Warner pursuant to Section 9.7 above, or (ii) any untrue statement or alleged untrue statement of a material fact contained in any filing made by Borg-Warner under the Securities Exchange Act in connection with the transactions contemplated by this Agreement, or the omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of circumstances under which they were made, not misleading.

(b) *Securities Laws Indemnification by Echlin.* Echlin agrees, in the manner and to the same extent as set forth in paragraph (a) above, to indemnify and hold harmless Borg-Warner, its officers and directors, and each person, if any, who controls Borg-Warner within the meaning of Section 20 of the Securities Exchange Act, with respect to any statement in or omission from the Proxy Statement or any amendment thereof or supplement thereto, except as to any such statement or omission with respect to which Borg-Warner has agreed to indemnify Echlin under Section 12.2(a) hereof.

(c) *Products Liability Indemnification by Borg-Warner.* Borg-Warner agrees to indemnify and hold harmless Echlin against any and all losses, damages or liabilities (including the amount of any settlement approved by Borg-Warner) which it may incur to which it may become subject, and to reimburse it for any legal or other expenses incurred by Echlin in connection with investigating any claims and defending any actions, insofar as such losses, damages, liabilities or actions arise out of or are based upon products liability claims relating to products sold by Borg-Warner's Automotive Aftermarket Operations in respect of accidents, losses or injuries occurring prior to the Effective Date.

(d) *Products Liability and Warranty Indemnification by Echlin.* Echlin agrees to indemnify and hold harmless Borg-Warner against any and all losses, damages or liabilities (including the amount of any settlement approved by Borg-Warner) which it may incur or to which it may become subject, and to reimburse it for any legal or other expenses incurred by it in connection with investigating any claims or defending any actions, insofar as such losses, damages, liabilities or actions arise out of or are based upon (i) warranty claims in respect of products manufactured and sold by Automotive Aftermarket Operations, whether before or after the Effective Date, to the extent that such claims are assumed by Echlin pursuant to Section 2.2(c), or (ii) products liability claims in respect of accidents, losses or injuries occurring after the Effective Date involving products manufactured by the Ottawa or Ballwin/Washington Divisions.

(e) *General.* Each idemnified party will, promptly after the receipt of notice of the commencement of any action against such indemnified party in respect of which indemnity may be sought from an indemnifying party on account of an indemnity agreement contained in this Section 12.2, notify the indemnifying party in writing of the commencement thereof. The omission of any indemnified party so to notify an indemnifying party of any such actions shall relieve the indemnifying party from any liability in respect of such action which it may have to such indemnified party on account of the indemnity agreement contained in this Section 12.2, but shall not relieve the indemnifying party from any other liability which it may have to such indemnified party. In case any such action shall be brought against any indemnified party and it shall notify an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and to the extent it may wish, jointly with any other indemnifying party similarly notified to assume the defense thereof with counsel satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section 12.2 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable cost of investigation.

12.3 *Termination.* This Agreement shall be terminated if the stockholders of Echlin shall not have approved the transaction as required by Section 11.1 hereof. Notwithstanding such approval by such stockholders, this Agreement may be terminated at any time prior to the Closing Date by:

(a) the mutual consent of Borg-Warner and Echlin;

(b) Borg-Warner or Echlin at any time after September 20, 1981;

(c) Echlin, if the conditions set forth in Section 11.1 hereof shall not have been met by the Closing Date and Borg-Warner if the conditions set forth in Section 11.2 hereof shall not have been met by the Closing Date;

(d) Borg-Warner or Echlin, if the Board of Directors of either Borg-Warner or Echlin shall have determined in its sole discretion exercised in good faith that the transaction contemplated by this Agreement has become inadvisable or impracticable by reason of the threat or the institution of any litigation, proceeding or investigation to restrain or prohibit the consummation of the transactions contemplated by this Agreement or to obtain other relief in connection with this Agreement.

(e) Borg-Warner, if it shall have received notice from the United States Federal Trade Commission that the Commission deems the agreed order entered into between the Commission and Borg-Warner in Docket No. C-2716 applicable to the transactions contemplated by this agreement or, if no opinion is forthcoming by the Commission 7 days prior to Closing, or if the Commission has not given its consent to the transaction as it relates to the consent order in No. C-2716, unless 7 days prior to Closing, Echlin shall have ceased all rebuilding operations and Borg-Warner receives a certification at Closing from the Chairman of the Board and Chief Executive Officer of Echlin, reading as follows:

> This is to certify that on , 1981, The Echlin Manufacturing Company ceased its rebuilding operations at each of the facilities where such operations were previously conducted. From that date, Echlin has not been engaged in the rebuilding of automotive parts for direct sales of those rebuilt parts in the United States. Further, Echlin has no present intention of re-entering the discontinued operations of rebuilding such automotive parts at any time prior to August 20, 1985.

12.4 *Effect of Termination.* In the event of the termination of this Agreement, this Agreement shall become void and have no effect, without any liability on the part of any party or its directors, officers or stockholders, except as provided in Sections 9.1 and 16.1.

12.5 *Waiver and Amendment.* Any term or provision of this Agreement may be waived at any time by the party which is entitled to the benefits thereof and this Agreement may be amended or supplemented at any time, whether before or after the approval thereof by Echlin's stockholders; provided, however, that the number of shares of Echlin Common Stock to be issued to Borg-Warner may not be changed after the final adjournment of the Echlin Stockholders' Meeting.

Section 13. *Post-Closing Agreements.*

13.1 *Access to Records Following the Closing Date.* Echlin and Borg-Warner agree that following the Closing (i) each will promptly provide the other with such information and data relating to the business and properties of Automotive Aftermarket Operations prior to the Closing Date as the other may from time to time reasonably request, and the party requesting any such information will promptly reimburse the other for its cost incurred in providing same, including but not limited to salary, fringe benefits and reasonable overhead costs attributable to its employees; and (ii) for a period of five (5) years following the Closing Date each will retain and permit the other party reasonable access to its respective books and records, insofar as such relate to the business and properties of Automotive Aftermarket Operations prior to the Closing Date.

Section 14. *Non-Competition.*

For a period of five (5) years from and after the Closing Date, Borg-Warner will not, directly or indirectly, in any manner, enter into or engage in (i) the business of manufacturing and/or selling the products, or variations thereof, presently being manufactured and sold by the Ottawa Division or the

Ballwin/Washington Division of Borg-Warner in the United States and Canada; or (ii) the business of selling automotive products directly to warehouse distributors in the United States and Canada, provided that this paragraph shall not be construed to prohibit the continued manufacture or sale of existing product lines and variations thereof and the continued customer relationships between any Borg-Warner division. subsidiary or affiliate not transferred to Echlin under this Agreement and the class of customers to whom it sells such products directly at the Closing Date. The foregoing provisions shall not prevent Borg-Warner from owning securities of corporations or from acquiring and operating a business which as a small part thereof is engaged in the business of manufacturing and/or selling such products. Borg-Warner agrees that the remedy at law for any breach by it of the foregoing provisions of this Section will be inadequate and that Echlin will be entitled to injunctive relief in case of any such breach.

Section 15. *Bulk Sales Act.*

Echlin hereby waives compliance by Borg-Warner with the provisions of any applicable bulk sales or transfer law. Borg-Warner agrees to indemnify Echlin and hold it harmless from and against any loss, damage, cost, liability, or expense (including, without limitation, costs and expenses of litigation and reasonable attorney's fees) incurred by Echlin as a result of non-compliance with such law.

Section 16. *Miscellaneous.*

16.1 *Expenses.* Whether the transaction contemplated hereunder is consummated or not consummated, Borg-Warner and Echlin shall each pay its own expenses separately incurred in connection with this Agreement and the transactions contemplated hereby.

16.2 *Entire Agreement.* This Agreement, and the Supplementary Agreements referred to herein, to be executed at the Closing Date, constitute the entire agreement between Borg-Warner and Echlin with respect to the sale of the Automotive Aftermarket Operations assets in exchange for Echlin Common Stock and the related transactions and supersedes all prior arrangements or understandings with respect thereto.

16.3 *Descriptive Headings.* Descriptive headings are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

16.4 *Counterparts.* For the convenience of the parties, any number of counterparts of this Agreement may be executed by one or more parties hereto and each such executed counterpart of this Agreement shall be, and shall be deemed to be, an original instrument.

16.5 *Notices.* All notices, consents, requests, instructions, approvals and other communications provided for herein and all legal process in regard hereto shall be validly given, made or served, if in writing and delivered personally, by telex (except for legal process) or sent by registered mail, postage prepaid, if to:

ECHLIN

The Echlin Manufacturing Company
175 North Branford Road
Branford, Connecticut 06405
Attention: General Counsel
Telex No. 963519

BORG-WARNER

Borg-Warner Corporation
200 South Michigan Avenue
Chicago, Illinois 60604
Attention: General Counsel
Telex No. 25-3450

or to such other address and telex numbers as any party hereto may, from time to time, designate in a written notice given in a like manner. Notice given by telex shall be deemed delivered on the day the sender receives a telex confirmation that such notice was received at the telex number of the addressee. Notice given by mail as set out above shall be deemed delivered three days after the date the same is postmarked.

16.6 *Successors and Assigns.* This Agreement and the agreements related thereto shall be binding upon and shall inure to the benefit of and be enforceable by the successors and assigns of the parties hereto.

16.7 *Law Applicable.* This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Connecticut.

Section 17. *Approval of the Echlin Board.*

This Agreement for Sale of Assets and all related agreements are subject to the ratification by the Board of Directors of Echlin. In the event it is not so ratified, then the Agreement for Sale of Assets and all related agreements shall be null and void and without effect.

Section 18. *Approval of Borg-Warner Board or Executive Committee.*

This Agreement for Sale of Assets and all related agreements are subject to the ratification by the Board of Directors or Executive Committee of Borg-Warner. In the event it is not so ratified, then the Agreement for Sale of Assets and all related agreements shall be null and void and without effect.

IN WITNESS WHEREOF, Echlin and Borg-Warner have caused this Agreement to be duly executed in their respective corporate names by their respective officers, each of whom is duly and validly authorized and empowered, and their respective corporate seal to be affixed hereunto and attested by their respective Secretaries, all as of the day and year first above written.

THE ECHLIN MANUFACTURING COMPANY

By JOSEPH V. SCOTT
Joseph V. Scott
President and Chief Operating Officer

ATTEST:

DAVID H. SPILLER
David H. Spiller
Vice President, Secretary and General Counsel

BORG-WARNER CORPORATION

By DONALD C. TRAUSCHT
Donald C. Trauscht
Vice President—Business Development & Acquisitions

ATTEST:

RUSSELL J. PARSONS
Russell J. Parsons
Senior Vice President, General Counsel and Secretary

RESTRICTED SECURITIES AGREEMENT

This Agreement made this day of , 1981, by and between Borg-Warner Corporation (herein "Borg-Warner"), a Delaware corporation and The Echlin Manufacturing Company (herein "Echlin"), a Connecticut corporation;

WITNESSETH:

WHEREAS, Borg-Warner and Echlin have entered into an Agreement for Sale of Assets pursuant to which Echlin will issue 4,500,000 shares of Echlin Common Stock, par value $1.00 ("Echlin Common Stock"); and

WHEREAS, to induce Echlin to enter into the Agreement for Sale of Assets and this Agreement, Borg-Warner is willing to subject the Echlin Common Stock, and any other shares of Echlin Common Stock, or other Echlin securities entitled to vote generally for the election of directors, or any security convertible into or exchangeable for Echlin Common Stock or other Echlin Securities entitled to vote generally for the election of directors ("Echlin Voting Securities"), that Borg-Warner may acquire during the life of this Agreement to certain restrictions as set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants, agreements and undertakings hereafter made, the parties hereto have agreed as follows:

Section 1. *Covenants of Borg-Warner with Respect to Echlin Voting Securities.*

1.1 *Restrictions on Resale or Other Distribution.*

Borg-Warner covenants and agrees that the Echlin Voting Securities that are acquired under this Agreement will be acquired for the purpose of investment and not with a view to distribution, except in accordance with the terms and conditions of this Agreement, and Borg-Warner further covenants and agrees that for so long as it owns any of the Echlin Voting Securities issued hereunder, or any other Echlin voting security, however acquired, it will not sell, transfer any beneficial interest in, hypothecate or otherwise dispose of any Echlin Voting Securities, except as provided under Section 1.1(g) below, without the prior written consent of Echlin. After two years following the effective date of the Agreement for Sale of Assets (the close of business on February 28, 1981, herein the "Effective Date"), such consent shall be conclusively presumed and may not be withdrawn by Echlin if the proposed sale, transfer, hypothecation or disposition is to occur pursuant to:

(a) a firm commitment underwritten public offering of the Echlin Voting Securities, registered under the Securities Act of 1933, as amended (the "Securities Act"); or

(b) a firm commitment underwritten public offering of Borg-Warner securities convertible into Echlin Voting Securities, registered under the Securities Act; or

(c) a rights offering, pro rata, or pro rata distribution, to all holders of Borg-Warner common stock, provided reasonable controls are arranged and observed to insure that as a result thereof, no one person, firm, corporation or other entity, or any combination of persons, firms, corporations or other entities which would constitute a "person" within the meaning of Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act"), as in effect on the date hereof, shall thereby acquire securities having more than two and four-tenths of one percent (2.4%) of the total combined voting power of all classes of Echlin Voting Securities (except that Borg-Warner's Incentive Investment Plan, adopted on April 25, 1969, and its Employees' Investment Plan, adopted on November 24, 1969, or, with the consent of Echlin, any other stock investment plan of Borg-Warner, may acquire in any such rights offering or other pro rata distribution an aggregate of up to three and fifteen hundredths of one percent (3.15%) of the total combined voting power of all classes of Echlin Voting Securities); or

(d) Rule 144 of the General Rules and Regulations under the Securities Act, provided that Borg-Warner shall notify Echlin five (5) days prior to the date of entering any sale or transfer order of Echlin Voting Securities pursuant to Rule 144, and provided that, if Echlin shall thereupon notify Borg-Warner of the pendency of any underwritten offering by it of Echlin Voting Securities, Borg-Warner shall not effect any sales under Rule 144 within 10 days prior to the commencement of or during such offering; or

(e) a consolidation or a merger in which Borg-Warner is not the surviving corporation, or a sale of all or substantially all of its assets (any of such events being deemed to involve a disposition by Borg-Warner of Echlin Voting Securities for the purposes of this subsection), if the resulting, surviving or acquiring corporation or other party, as the case may be (the "Successor"), shall, prior thereto, have delivered its written agreement to Echlin satisfactory in form and substance to counsel for Echlin, wherein the Successor shall agree to be subject to and bound by the provisions of this Agreement and to dispose of that number of shares, if any, of the Echlin Voting Securities necessary to reduce to not more than ten percent (10%) the ownership of the Successor and its affiliates, as that term is defined in Rule 12b-2, as in effect on the date hereof, under the Securities Exchange Act (and assuming the exercise of any conversion or other right by which it or it and such affiliates have the right to acquire Echlin securities) of the total combined voting power of all classes of securities of Echlin entitled to vote generally for the election of directors, within five (5) years of the consummation of such consolidation, merger or sale, in a transaction or transactions described in Section 1.1(a) or (d) above, or in a pro rata distribution to stockholders of the Successor in accordance with the requirements of Section 1.1(c) above, in which event Echlin shall agree to grant the Successor the registration rights set forth in Sections 3.1 and 3.2 below (compliance with the percentage of ownership test set forth above shall be determined as of the date of the last such transaction); or

(f) a pledge of or the granting of a security interest in Echlin Voting Securities, provided that the party or parties receiving such pledge or security interest therein (the "Pledgee") shall, prior thereto, have delivered a written agreement to Echlin satisfactory in form and substance to counsel for Echlin, wherein the Pledgee shall agree (i) to conduct any foreclosure sale of the Echlin Voting Securities in accordance with the method described in Section 1.1(a) hereof and (ii) to dispose of all Echlin Voting Securities then held by the Pledgee pursuant to the method described in Section 1.1(a) above within one (1) year of the first to occur of: (x) the exercise by the Pledgee of voting rights, if any, the Pledgee may have been granted in such shares, (y) the filing of suit by the Pledgee against Borg-Warner for the collection of any indebtedness secured in whole or in part by the Echlin Voting Securities or (z) the initiation of any action in the nature of foreclosure relating to any other assets which secure the indebtedness secured by the Echlin Voting Securities, in which event Echlin shall agree to grant to the Pledgee the registration rights set forth in Sections 3.1 and 3.2 below; or

(g) legislation, a final decree of a court of competent jurisdiction or a governmental order or demand, which may not, in the opinion of counsel for Borg-Warner, be successfully resisted, appealed or defended, requiring divestiture of the Echlin Voting Securities. In the event of any such required divestiture, Borg-Warner shall agree, to the extent consistent with the terms of the legislation, decree, order or demand requiring such divestiture, to dispose of the Echlin Voting Securities required to be divested by a method described in Section 1.1(a), (b) or (c) above.

1.2 *Undertaking to File Reports and Cooperate in Rule 144 Transactions.* For as long as Borg-Warner shall continue to hold any Echlin Voting Securities, Echlin shall file on a timely basis, all annual, quarterly and other reports required to be filed by it under Section 13 and 15(d) of the Securities Exchange Act, and the Rules and Regulations of the Commission thereunder, as amended from time to time. In the event of any proposed sale of Echlin Voting Securities by Borg-Warner pursuant to the method described in Section 1.1(d) above, Echlin shall cooperate with Borg-Warner so as to enable such sales to be made in accordance with applicable laws, rules and regulations, the requirements of Echlin's transfer agents, and the reasonable requirements of the broker through which the sales are proposed to be executed, and shall, upon request, furnish unlegended certificates representing Echlin Voting Securities in such numbers and denominations as Borg-Warner shall reasonably require for delivery pursuant to such sales.

Section 2. *Voting, Ownership and Other Restrictions.*

2.1 *Voting Restrictions.* Borg-Warner covenants and agrees that during the term of the restrictions as provided for in Section 4.1 of this Agreement, it will not, unless the prior written consent of the Echlin Board of Directors has been obtained (and then only to the extent express written consent has been obtained):

(a) engage in a "solicitation" of proxies, under any circumstances or become a "participant" in any contested election relating to the election of directors, as such terms are defined in Rule 14a-1 and Rule 14a-11, respectively, of Regulation 14A under the Securities Exchange Act in respect of any Echlin Voting Securities that may be outstanding and entitled to vote at any time during such period; or

(b) deposit any Echlin Voting Securities in a voting trust or subject them to a voting agreement or other arrangement of similar effect; or

(c) permit any entity under Borg-Warner's control (including but not limited to subsidiaries and employee pension, profit sharing or other trusts, except in connection with a stock dividend by Echlin or a pro rata distribution by Borg-Warner to holders of its outstanding securities effected under Section 1.1(c) above), to acquire by purchase or otherwise, any Echlin Voting Securities;

(d) acquire by purchase or otherwise (except shares issued to it in respect of shares acquired by it in compliance with the limitations set forth in this subsection (d) below in connection with (i) a stock split, reverse split or other reclassification affecting outstanding securities of Echlin, or (ii) a stock dividend or other pro rata distribution by Echlin to holders of its outstanding securities), any Echlin Voting Securities if after such acquisition (and assuming the exercise of any conversion or other right by which Borg-Warner or entities under its control have the right to acquire Echlin Voting Securities) Borg-Warner, in the aggregate, would hold more than twenty-four percent (24.0%) of the total combined voting power of all classes of Echlin Voting Securities; or

(e) join or permit any entity under Borg-Warner's control to join a partnership, limited partnership, syndicate, or other group for the purpose of acquiring, holding or disposing of Echlin Voting Securities within the meaning of Rule 14(d)(2) under the Securities Exchange Act;

2.2 *Voting.* Borg-Warner covenants and agrees that, for the term of the restrictions as provided for in Section 4.1 of this Agreement, it will vote its Echlin Voting Securities for the election of directors in the same proportion as the shares of Echlin Common Stock held by others are voted.

2.3 *Certain Repurchase Rights of Echlin.* Borg-Warner covenants and agrees, that for so long as Borg-Warner owns any Echlin Voting Securities, it will furnish to Echlin a statement, within 10 calendar days after the end of each month in which any Echlin Voting Securities are acquired, showing the number of shares of Echlin Voting Securities acquired during that period and the aggregate number of shares of Echlin Voting Securities currently held by Borg-Warner at the end of such period. Echlin will furnish Borg-Warner a statement not less than monthly showing the number of issued and outstanding shares of Echlin Voting Securities. In the event any such acquisition should cause the aggregate holdings of all Echlin Voting Securities by Borg-Warner based upon the most recent report of issued and outstanding shares issued by Echlin prior to such acquisition or acquisitions, to exceed the limitation set forth in Section 2.1(d) hereof, Echlin (or any person, corporation, entity or group designated by Echlin) shall have the right, but shall not be required, to purchase from Borg-Warner, and Borg-Warner shall have the obligation to sell, such number of Echlin Voting Securities as it acquired in violation of Section 2.1(d) of this Agreement or such number of securities owned by it as is necessary to reduce the total combined voting power of all Echlin Voting Securities owned by Borg-Warner to 24.0% of the total voting power of all classes of Echlin Voting Securities, whichever amount is the lesser. Any Echlin Voting Securities purchased by Echlin or its designee pursuant to this Section 2.3 shall be purchased for cash at a price per share or other security equal to the lower of (i) the average cost per share or other security to Borg-Warner of the Echlin Voting Securities being purchased (it being conclusively presumed that the securities last acquired which exceeded the limitation are the securities being purchased), (ii) the average of the Closing Market Prices of the Echlin Voting Securities for the 30 consecutive trading days preceding the date on which

Echlin or its designee gives written notice to Borg-Warner of its intent to exercise its option under this Section 2.3, or (iii) the Closing Market Price of such securities on the last trading day prior to the date on which such notice is given. "Closing Market Price" shall mean the last reported sale price of the Echlin Voting Securities being purchased on the New York Stock Exchange-Composite Tape, or if such securities are not so listed, then the last reported sales price on the largest exchange on which such securities are listed or traded, or if such securities are not listed or traded on any securities exchange, then the highest bid quotation in the over-the-counter market. This right is exercisable by Echlin's delivery of written notice to Borg-Warner within 30 days after Echlin first learns of such violation, specifying the number of Echlin Voting Securities to be purchased, the date on which said purchase shall occur (which date shall be not more than 90 days after the date on which such notice was delivered to Borg-Warner) and the place designated for such transaction to take place. The right contained in this paragraph shall not be deemed to be the exclusive remedy for violation of Section 2.1(d) nor shall such right be deemed to prejudice, or to operate as a waiver of, any remedy contained in Section 5.2 or any other remedy to which Echlin may be entitled at law or equity.

Notwithstanding the foregoing, if the limitation set forth in Section 2.1(d) is exceeded by an error committed in good faith, and if as a result of such error Borg-Warner has exceeded such limitation by a number of shares equal to no more than one percent (1%) of the Echlin Voting Securities then outstanding, and if Borg-Warner shall furnish Echlin an affidavit of Borg-Warner's chief executive officer describing such error and avowing that such error was committed in good faith, Borg-Warner shall have 90 days from the date of the monthly report on which such mistake is reflected to sell, only in ordinary brokerage transactions, or in block trades approved by Echlin, the number of shares acquired in excess of such limitation.

2.4 *Legend and Stop Transfer Order.* To assist in effectuating the provisions of this Agreement, Borg-Warner hereby consents:

(a) to the placement of the following legend on all certificates evidencing ownership of the Echlin Voting Securities issued in connection with the Agreement for Sale of Assets until such shares of Echlin Voting Securities have been sold, transferred or disposed of pursuant to the requirements of Section 1.1 hereof:

> The shares represented by this certificate have not been registered under the Securities Act of 1933 and may not be sold or transferred in the absence of such registration or an exemption therefrom under said Act. In addition, said shares are subject to the provisions of an Agreement between The Echlin Manufacturing Company and Borg-Warner Corporation, and may not be sold, transferred, pledged, hypothecated or otherwise disposed of except in accordance therewith. A copy of said Agreement is on file at the office of the Secretary of The Echlin Manufacturing Company.

(b) to present promptly all certificates representing ownership of Echlin Voting Securities hereafter acquired by Borg-Warner, for the placement thereon of the following legend which shall remain thereon until such shares have been sold, transferred or disposed of pursuant to the requirements of Section 1.1 hereof:

> The shares represented by this certificate are subject to the provisions of an Agreement between The Echlin Manufacturing Company and Borg-Warner Corporation, and may not be sold, transferred, pledged, hypothecated or otherwise disposed of except in accordance therewith. A copy of said Agreement is on file at the office of the Secretary of The Echlin Manufacturing Company.

(c) to the entry of a stop transfer order with the transfer agent or agents of Echlin securities against the transfer of Echlin Voting Securities except in compliance with the requirements of this Agreement, or, if Echlin is its own transfer agent with respect to any Echlin Voting Securities, to the refusal by Echlin to transfer any such securities except in compliance with the requirements of this Agreement.

Section 3. *Registration Rights.*

3.1 *Demand Registration Covenant.* Echlin covenants and agrees that if at any time Borg-Warner requests Echlin in writing to register under the Securities Act any of the Echlin Voting Securities (which request shall specify the shares intended to be offered and sold, shall specify a proposed date for the filing of the registration statement in respect of such offering and sale, which proposed date shall not be less than 15 nor more than 60 days after the date of such request, shall express Borg-Warner's present intent to offer such shares for distribution. shall describe the nature or method of the proposed offer and sale thereof and shall contain the undertaking of Borg-Warner to provide all such information and materials and take all such action as may be required in order to permit Echlin to comply with all applicable requirements of the Securities and Exchange Commission (the "Commission") and to obtain acceleration of the effective date of such registration statement). Echlin will use all reasonable efforts to cause the offering of the shares so specified in such request to be registered so as to permit the sale or other distribution by Borg-Warner of the Echlin Voting Securities specified in its request, and in connection therewith prepare and file on an appropriate form, as Echlin in its sole discretion shall determine, a registration statement under the Securities Act to effect such registration; provided, however, that the obligations of Echlin to register shares of Echlin Voting Securities on demand under this Section 3.1 shall expire after registration statements filed by reason of such obligation have become effective on five occasions; and provided further that Borg-Warner may not request registration of any of the Echlin Voting Securities until two years have passed from the Effective Date, except pursuant to Section 1.1(g) hereof.

3.2 *Participation Registration Covenant.* If Echlin shall at any time propose the registration under the Securities Act of an offering of its Common Stock, Echlin shall give notice as promptly as possible of such proposed registration to Borg-Warner and Echlin will use all reasonable efforts to cause the offering of such number of shares of the Echlin Voting Securities as Borg-Warner shall request within ten (10) days after the receipt of such notice to be included, upon the same terms (including the method of distribution), in any such offering, provided that: (a) Echlin shall not be required to give notice or include such shares in any such registration if the proposed registration is primarily (i) a registration of stock option or compensation plan or of securities issued and issuable pursuant to any such plan, or (ii) a registration of securities proposed to be issued in exchange for securities or assets of, or in connection with a merger or consolidation with, another corporation; (b) Echlin shall not be required to include such shares in any such registration if Echlin is advised in writing by its investment banking firm that the inclusion of such shares would in its opinion have an adverse effect on such proposed offering of its Common Stock; (c) the offering of such shares by Borg-Warner would comply in all respects with the terms, provisions and requirements set forth in Section 1.1 above; (d) Echlin may, without the consent of Borg-Warner, withdraw such registration statement and abandon the proposed offering in which Borg-Warner had requested to participate; and provided further that Borg-Warner may not request registration of any of the Echlin Voting Securities hereunder until two years have passed from the Effective Date, except pursuant to Section 1.1(g) hereof; and (e) Echlin shall not be required to offer such participation on more than five occasions.

3.3 *Limitations, Conditions and Qualifications to Obligations of Echlin under Registration Covenants.* The obligations of Echlin to use all reasonable efforts to cause Echlin Voting Securities to be registered under the Securities Act are subject to each of the following limitations, conditions and qualifications:

(a) Except as provided in Sections 1.1(g) and 4.1, Echlin shall not be obligated in any calendar year to file more than one registration statement pursuant to the provisions for registration contained in Section 3.1 hereof;

(b) Subject to the provisions of Section 1.1(g) above, Echlin shall be entitled to postpone for a reasonable period of time the filing of any registration statement otherwise required to be prepared and filed by it pursuant to Section 3.1 if Echlin is, at the time it receives a request for registration pursuant to Section 3.1, conducting or about to conduct an offering of its securities and Echlin is advised in writing by its investment banking firm that such offering would in its opinion be adversely affected by the registration so demanded or is engaged in negotiations for the acquisition or disposition of a company or a material amount of assets, which have not theretofore been publicly disclosed, and (i) is advised by its counsel that the proposed transaction would be required to be disclosed in such registration statement, and (ii) in the opinion of management of Echlin, such disclosure would have an adverse effect of such negotiations;

(c) In the case of an underwritten public offering pursuant to Section 3.1 or 3.2 above, Echlin shall use all reasonable efforts to cause the registration statement to remain current for sixty (60) days following its effective date; in the case of a rights offering or other distribution of Echlin Restricted Securities to Borg-Warner's stockholders pursuant to Section 3.1 Echlin shall use all reasonable efforts to cause the registration statement to remain current during the period commencing on the initial effective date of such registration statement and ending on the earlier of (i) the date on which the last of such shares is purchased by or distributed to Borg-Warner's stockholders, or (ii) the nintieth (90th) day after such initial effective date;

(d) In the case of an underwriter public offering pursuant to Section 1.1(b) above, Echlin shall use all reasonable efforts to cause the registration statement to be amended annually or at such other intervals as may be necessary to keep the registration of the offering of the Echlin Voting Securities underlying the Borg-Warner securities convertible into Echlin Voting Securities continuously effective for the period during which such Borg-Warner securities may be so convertible;

(e) Any registration request made by Borg-Warner under Section 3.1 or 3.2 above shall request the registration of the offering and sale or other distribution by Borg-Warner of a minimum 1,000,000 shares of Echlin Common Stock or the economic equivalent thereof;

(f) Borg-Warner shall, subject to Echlin's approval which shall not be unreasonably withheld, have made all arrangements for and shall administer, or cause to be administered, any offering of Echlin Voting Securities to Borg-Warner's stockholders and, in the case of any offering or distribution pursuant to a firm commitment underwriting, the managing underwriter shall be a nationally recognized investment banking firm acceptable to Echlin;

(g) In connection with any registration of Echlin Voting Securities undertaken by Echlin hereunder, Echlin shall:

(1) furnish to Borg-Warner or its underwriter such number of copies of any prospectus (including any preliminary prospectus) as Borg-Warner may reasonably request in order to effect the offering and sale of the shares to be offered and sold by Borg-Warner, but only while Echlin is required under the provisions hereof to cause the registration statement to remain current;

(2) use its best efforts to qualify the offering under applicable Blue Sky laws or such other state securities laws as may be necessary to enable Borg-Warner to offer and sell the shares; provided, however, that Echlin shall not be obligated to qualify as a foreign corporation to do business under the laws of any jurisdiction in which it is not then qualified or to file any general consent to service of process;

(3) pay all Commission and Blue Sky registration and filing fees, underwriting discounts and commissions other than those attributable to Echlin Voting Securities, printing and engraving expenses, fees and disbursements of legal counsel for Echlin and Blue Sky counsel, transfer agents' and registrars' fees, fees and disbursements of experts used by Echlin in connection with such registration, expenses of any special audits of Echlin (excluding additional audit expenses incurred due to a registration more than six months after the date of Echlin's last audited financial statements) incidental to or required by such registration, and expenses incidental to any post-effective amendment to any registration statement. Borg-Warner shall bear all other expenses, including underwriting discounts and commissions attributable to Echlin Voting Securities included in the registration, fees and disbursements of its counsel and accountants, and any expenses and fees attributable to the administration of any rights offering or other distribution to its own stockholders; provided, however, that in the event Echlin shall have incurred out-of-pocket expenses in connection with the preparation of any registration statement

which shall not be filed, or which shall be withdrawn prior to its effective date at the request of Borg-Warner, Borg-Warner shall promptly reimburse Echlin for all out-of-pocket expenses incurred by Echlin in connection with such preparation (including any filing thereof) and an additional ten percent (10%) of such amount as a reasonable payment for the expenditure of time and effort by Echlin management; and provided further that, in the event of a registration of an offering pursuant to Section 1.1(b) hereunder, no underwriting discounts or commissions shall be paid by Echlin and only that portion of the Commission and Blue Sky registration and filing fees, printing and engraving expenses, fees and disbursements of Blue Sky counsel and transfer agents' and registrars' fees directly attributable to the offering of the Echlin Voting Securities shall be paid by Echlin;

(4) furnish Borg-Warner with unlegended certificates representing ownership of such Echlin Voting Securities in such numbers and denominations as Borg-Warner shall reasonably request, meeting the requirements of such national securities exchange, if any, upon which such securities are listed or are proposed to be listed, at the expense of Echlin; and

(h) Echlin may require, as a condition to fulfilling its obligations under the registration covenants in this Section 3, the indemnification agreements described in paragraph (b) of Section 3.4 hereof from Borg-Warner.

3.4 *Indemnification.*

(a) *By Echlin.* In the case of each registration effected by Echlin pursuant to this Section 3, Echlin agrees to indemnify and hold harmless Borg-Warner (or any party which shall have succeeded to Borg-Warner's registration rights pursuant to the provisions of this Section 3), its officers and directors, each underwriter of the shares so registered and each person who controls Borg-Warner and any such underwriter within the meaning of Section 15 of the Securities Act, against any and all losses, claims, damages or liabilities to which they or any of them may become subject under the Securities Act or any other statute or common law, including any amount paid in settlement of any litigation, commenced or threatened, if such settlement is effected with the written consent of Echlin and to reimburse them for any legal or other expenses incurred by them in connection with investigating any claims and defending any actions (subject to subparagraph (c) below), insofar as any such losses, claims, damages, liabilities or actions arise out of or are based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the registration statement relating to the sale of such shares, or any post-effective amendment thereof, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, if used prior to the effective date of such registration statement, or contained in the prospectus (as amended or supplemented if Echlin shall have filed with the Commisssion any amendment thereof or supplement thereto) if used within the period during which Echlin is required to keep the registration statement to which such prospectus relates current pursuant to the terms of this Section 3, or the omission or alleged omission to state therein (if so used) a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that the indemnification agreement contained in this paragraph (a) shall not (x) apply to such losses, claims, damages, liabilities or actions arising out of, or based upon, any such untrue statement or alleged untrue statement, or any such omission or alleged omission, if such statement or omission was made in reliance upon and in conformity with information furnished in writing to Echlin by Borg-Warner or such underwriter for use in connection with the preparation of the registration statement or any preliminary prospectus or prospectus contained in the registration statement or any such amendment thereof or supplement thereto, or (y) inure to the benefit of any underwriter from whom the person asserting any such losses, claims, damages, expenses or liabilities purchased the securities which are the subject thereof (or to the benefit of any person controlling such underwriter), if such underwriter failed to send or give a copy of the prospectus to such person at or prior to the written confirmation of the sale of such securities to such person.

(b) *By Borg-Warner and the Underwriters.* In the case of each registration effected by Echlin pursuant to this Section 3, Borg-Warner (or any party which shall have succeeded to Borg-Warner's registration rights pursuant to the provisions of this Section 3) and each underwriter of the shares to be registered (each such party and such underwriters being referred to severally in this subsection (b) as the "indemnifying party") shall agree, in the same manner and to the same extent as set forth in paragraph (a) of this Section 3.4, to indemnify and hold harmless Echlin and each person, if any, who controls Echlin within the meaning of Section 15 of the Securities Act, its directors and those officers of Echlin who shall have signed any such registration statement, with respect to any statement in or omission from such registration statement or any post-effective amendment thereof or any preliminary prospectus or prospectus (as amended or as supplemented, if amended or supplemented as aforesaid) contained in such registration statement, if such statement or omission was made in reliance upon and in conformity with information furnished in writing to Echlin by such indemnifying party for use in connection with the preparation of such registration statement or any preliminary prospectus or prospectus contained in such registration statement or any such amendment thereof or supplement thereto.

(c) *General.* Each indemnified party will, promptly after the receipt of notice of the commencement of any action against such indemnified party in respect of which indemnity may be sought from an indemnifying party on account of an indemnity agreement contained in this Section 3.4 notify the indemnifying party in writing of the commencement thereof. The omission of any indemnified party so to notify an indemnifying party of any such action shall relieve the indemnifying party from any liability in respect of such action which it may have to such indemnified party on account of the indemnity agreement contained in this Section 3.4, but shall not relieve the indemnifying party from any other liability which it may have to such indemnified party. In case any such action shall be brought against any indemnified party and it shall notify an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and to the extent it may wish, jointly with any other indemnifying party similarly notified to assume the defense thereof with counsel satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation.

Section 4. *Extension of Term of Certain Restrictions.*

4.1 *Term of Certain Retrictions and Extension.* The covenants and agreements of Borg-Warner contained in Sections 2.1, 2.2 and 2.3 with respect to Echlin Voting Securities will continue in full force and effect until February 28, 1991 unless earlier terminated pursuant to Section 4.2 below, subject to being extended, by successive five year periods as hereinafter provided (such date, as it may be extended, being referred to herein as the "Termination Date"):

(a) On or prior to the day one year prior to the Termination Date, Borg-Warner, in its sole discretion, may deliver to Echlin a written notice offering to extend the Termination Date for five years;

(b) Within thirty (30) business days of the receipt of such notice, Echlin, in its sole discretion, may accept or reject such offer to extend the Termination Date, it being understood that failure to reply shall be deemed a rejection;

(c) If Echlin shall agree to accept such offer, the parties will promptly execute an appropriate document amending this Agreement to extend the Termination Date for five years;

(d) If Echlin refuses to accept such offer, the Echlin Voting Securities will be deemed to be free of all restriction contained in Sections 2.1, 2.2 and 2.3 at the Termination Date;

(e) If Borg-Warner does not offer to extend the Termination Date on or prior to the date above stated, Borg-Warner will be deemed to have agreed to dispose of and will dispose of, pursuant to the provisions of Section 1.1, all of the Echlin Voting Securities prior to the Termination Date. For purposes of effectuating this Section 4.1, the limitations of Sections 3.3(a) and (e) shall not apply, and any postponement under Section 3.3(b) of a registration or registrations requested by Borg-Warner for dispositions required by this subparagraph shall be deemed to extend the Termination Date for a period of time equal to the time any such registration or registrations were so postponed;

(f) If Borg-Warner does not dispose of all Echlin Voting Securities by the Termination Date as required by Section 4.1(e). Echlin (or any person, corporation, entity or group designated by Echlin) shall have the right, but shall not be required, to purchase from Borg-Warner any or all Echlin Voting Securities then held by Borg-Warner. Any Echlin Voting Securities purchased by Echlin or its designee pursuant to Section 4.1 shall be purchased for cash at a price per share or other security equal to the lower of (i) the average of the Closing Market Prices of the Echlin Voting Securities for the 30 consecutive trading days preceding the date on which Echlin or its designee gives written notice to Borg-Warner of its intent to exercise its option under this Section 4.1, or (ii) the Closing Market Price of such securities on the last trading day prior to the date on which such notice is given. This right is exercisable by Echlin's delivery of written notice to Borg-Warner, within 60 days after the Termination Date, specifying the number of Echlin Voting Securities to be purchased, the date on which said purchase shall occur (which date shall not be more than 120 days after the date on which such notice is given to Borg-Warner) and the place designated for such transaction to take place. The right contained in this paragraph shall not be deemed to be the exclusive remedy for violation of this Section 4.1 nor shall such right be deemed to prejudice, or to operate as a waiver of, any remedy contained in Section 5.2, or any other remedy to which Echlin may be entitled at law or equity.

4.2 *Early Termination.* If Borg-Warner shall, at any time prior to the Termination Date, sell or otherwise dispose of all right, title and interest in Echlin Voting Securities owned by them in compliance with the terms and provisions of this Restricted Securities Agreement, this Agreement shall terminate.

Section 5. *General.*

5.1 *Construction, Intent and Remedies.* Borg-Warner and Echlin stipulate and acknowledge that Echlin made, prior to the acquisition of the Automotive Aftermarket Operations, a careful evaluation of Borg-Warner's management, its intent to hold the Echlin Voting Securities solely as an investment and the compatibility of such management and objectives with the management and objectives of Echlin; that such factors were critical to Echlin in the decision to issue a large block of equity securities to a single holder, and are critical to Echlin's decision to allow such holder to acquire additional Echlin Voting Securities to maintain its investment position in Echlin; that, under certain circumstances, such block of securities could represent practical control of Echlin; that Echlin might have reached a different decision with regard to acquiring the Automotive Aftermarket Operations, had the owner of the Automotive Aftermarket Operations been corporations other than Borg-Warner; therefore, that the restrictions set forth in Sections 1 and 2 of this Agreement were a material part of the consideration received by Echlin for the issuance of the Echlin Voting Securities issued in exchange for the Automotive Aftermarket Operations; and that the primary intent of such restriction is to insure that the Echlin Voting Securities do not come to rest in the hands or under the control of any single holder or group of holders other than Borg-Warner without the consent of Echlin and that Borg-Warner does not itself control Echlin. Borg-Warner acknowledges and agrees that such purpose and intent are reasonable, and that the restrictions set forth above are reasonable in view of such purpose and intent. Further, Borg-Warner and Echlin agree that, should any disagreement arise in the interpretation of any such restriction as applied to any set of facts, such disagreement shall be resolved by interpreting and applying each restriction in the manner that will most nearly effectuate the purpose and intent of such restrictions as here stated.

5.2 *Specific Enforcement.* Borg-Warner acknowledges and agrees that Echlin would be irreparably damaged in the event any of the provisions of this Agreement were not performed by Borg-Warner in accordance with their specific terms or were otherwise breached. It is accordingly agreed that Echlin shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to specifically enforce the terms and provisions thereof in any court of the United States or any state thereof having jurisdiction, in addition to any other remedy to which Echlin may be entitled at law or equity.

5.3 *Severability.* If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the terms, provisions, covenants and restrictions shall remain in full force and effect and shall in no way be affected, impaired or invalidated. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such which may be hereafter declared invalid, void or unenforceable.

5.4 *Amendments.* This Agreement contains the entire understanding of the parties with respect to Echlin Voting Securities, and may be amended only by an agreement in writing.

5.5 *Descriptive Headings.* Descriptive headings are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

5.6 *Counterparts.* For the convenience of the parties, any number of counterparts of this Agreement may be executed by one or more parties hereto and each such executed counterpart shall be, and shall be deemed to be, an original instrument.

5.7 *Notices.* All notices, consents, requests, instructions, approvals and other communications provided for herein and all legal process in regard hereto shall be validly given, made or served, if in writing and delivered personally, by telex (except for legal process) or sent by registered mail, postage prepaid, if to:

ECHLIN

The Echlin Manufacturing Company
175 North Branford Road
Branford, Connecticut 06405
Attention: General Counsel
Telex No. 963519

BORG-WARNER

Borg-Warner Corporation
200 South Michigan Avenue
Chicago, Illinois 60604
Attention: General Counsel
Telex No. 25-3450

or to such other address and telex numbers as any party hereto may, from time to time, designate in a written notice given in a like manner. Notice given by telex shall be deemed delivered on the day the sender receives telex confirmation that such notice was received at the telex number of the addressee. Notice given by mail as set out above shall be deemed delivered three days after the date the same is postmarked.

5.8 *Representative Director.*

(a) Echlin will nominate for election to its board of directors a person designated by Borg-Warner and reasonably acceptable to Echlin at each meeting of Echlin stockholders at which directors are elected.

(b) If, at any time during the term of office of a director of Echlin designated by Borg-Warner, such office should become vacant for any reason, the board of directors of Echlin will fill such vacancy with a person designated by Borg-Warner and reasonably acceptable to Echlin at the first meeting of directors held after such vacancy is created.

Echlin's obligations under this Section 5.8 shall terminate if Borg-Warner shall sell or otherwise dispose of Echlin Voting Securities whereby, as a result of such disposition, Borg-Warner holds less than 10% of the total combined voting power of all classes of Echlin Voting Securities.

5.9 *Law Applicable.* This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Connecticut.

5.10 *Successors and Assigns.* This Agreement shall be binding upon and inure to the benefit of and be enforceable by the successors and assigns of the parties hereto.

EXHIBIT B

DEAN WITTER REYNOLDS INC.
130 Liberty Street, New York, NY 10006 Telephone (212) 524-2222

June 4, 1981

The Board of Directors
The Echlin Manufacturing Company
175 North Branford Road
Branford, Connecticut 06405

Gentlemen:

The Echlin Manufacturing Company (the "Company") has entered into agreements (the "Agreements") with Borg-Warner Corporation (the "Seller"), pursuant to which the Company will purchase from the Seller all of the assets of the Automotive Parts Division, the Automotive Parts Division International, the Ballwin-Washington Division, the Ottawa Division and the Automotive Parts Division of Borg-Warner (Canada) Limited (the "Divisions"), as well as certain additional interests of Borg-Warner comprising certain assets of its slack adjuster business and its stockholdings in Borg-Warner International GmbH and B-W Automotive of Puerto Rico, Inc. (the "Additional Interests"). Such purchase (the "Purchase") is subject to the approval of the shareholders of the Company at a special shareholders' meeting intended to be held on July 7, 1981. In connection with the Purchase, the Seller will receive 4,500,000 shares of Common Stock of the Company. You have asked us whether, in our opinion, the terms of the proposed Purchase are fair to the shareholders of the Company from a financial point of view.

In connection with our review of the financial terms of the Purchase and as a basis for our opinion, we have, among other things, reviewed: Annual Reports, Forms 10K, 10Q and 8K and other reports and documents filed by the Company with the Securities and Exchange Commission from 1976 to the present date; the Agreements; the most recent draft of the Proxy Statement of the Company, and other documents related to the Purchase; historical, pro forma and projected financial statements relating to the Divisions including financial statements for the fiscal year ended December 31, 1980, certified by the Seller's independent auditors; information relating to the Additional Interests comprising certain financial statements and information relating to the assets of the slack adjuster business; publicly available information, including market information, concerning the Company and various other companies in similar businesses to the Company and the Divisions whose securities are publicly traded; publicly available information concerning certain recent business combinations; and such additional financial and other information as we have deemed necessary. We have held discussions with certain officers of the Company and of the Divisions concerning the business history, current operations and future outlook of the Company and the Divisions. We have also held discussions with the Seller's independent auditors relating to their audit of the Divisions' financial statements. With respect to the Additional Interests, which comprise less than five per cent of the total book value of the Purchase, independently audited information was not available in most cases and we have not held discussions with the officers responsible for these units.

In conducting our review, we have relied on the accuracy, fairness and completeness of all information supplied or otherwise made available to us by the Company and the Seller and we have not independently verified such information nor undertaken an independent appraisal of the assets of the Company, the Divisions or the Additional Interests.

IN WITNESS WHEREOF, Echlin and Borg-Warner have caused this Agreement to be duly executed by their respective officers, each of whom is duly and validly authorized and empowered, and attested by their respective Secretaries, all as of the day and year first above written.

THE ECHLIN MANUFACTURING COMPANY

By ______________________________
Frederick J. Mancheski
Chairman of the Board and
Chief Executive Officer

ATTEST:

____
David H. Spiller
Vice President, Secretary
and General Counsel

BORG-WARNER CORPORATION

By ______________________________
James F. Beré
Chairman and Chief Executive Officer

ATTEST:

____
Russell J. Parsons
Senior Vice President, General
Counsel and Secretary

Based upon the foregoing and other factors we consider relevant, including our assessment of general economic, market, and monetary conditions, it is our opinion that the proposed Purchase is fair from a financial point of view to the shareholders of the Company.

Very truly yours,

DEAN WITTER REYNOLDS INC.

Borg-Warner Corporation

200 South Michigan Avenue
Chicago, Illinois 60604
Telephone 312/322-8500

January 20, 1981

The Echlin Manufacturing Company
175 North Branford Road
Branford, Connecticut

Gentlemen:

The purpose of this letter is to set forth our intentions with respect to the proposed agreement between The Echlin Manufacturing Company ("Echlin") and Borg-Warner Corporation ("BW") under the terms of which all of the assets of BW's aftermarket operations, as specified in paragraph 1 below, would be sold to Echlin in exchange for a limited number of Echlin shares to be held by BW as an investment. This sale of assets would involve the following basic terms and would be consummated subject to the following principal conditions:

1. BW will sell to Echlin on a "going business" basis, all of the assets of Ottawa Division, located at Ottawa, Illinois, Automotive Parts Division, headquartered in Franklin Park, Illinois, Automotive Parts Division International, also headquartered in Franklin Park, Illinois, Automotive Parts Division, Borg-Warner Canada, Limited, headquartered in Mississauga, Ontario, Canada, and Ballwin/Washington Division, headquartered in Ballwin, Missouri.

2. The term a "going business" in paragraph 1 is intended to mean that certain non-balance sheet as well as balance sheet assets and liabilities will be transferred to and assumed by Echlin. Subject to further negotiation, the liabilities assumed by Echlin with respect to the foregoing divisions, would include, but not be limited to, accounts payable, including trade balances to other BW units, plant and office leases, equipment leases, sales and distributor agreements, collective bargaining agreements together with obligations of BW with respect to pension, retirement income plans, welfare benefit plans, vacation obligations and other obligations of BW with respect to its employees and former employees on a basis consistent with the business being transferred to Echlin on a "going business" basis.

liabilities to be assumed by Echlin

3. In consideration for the conveyance to Echlin of the assets described in paragraph 1, Echlin will issue to BW a number of shares of Echlin common stock having a par value of $1 per share (the "shares"), which, after issuance thereof, will represent 4.5 million of the outstanding shares of Echlin common stock. Echlin will grant to BW such registration rights relating to the shares as are reasonable and appropriate in view of the restrictions set forth herein, the investment objectives of BW, and the interest of Echlin. None of the shares may be transferred or sold by BW to any single holder or group of holders for a period of two (2) years from the date of consummation of this transaction. BW will sell only in such quantities as shall assure an orderly market for Echlin common stock. In connection with the acquisition or sale of Echlin common stock, BW will comply with all applicable federal and state securities laws.

4. BW will agree not to acquire, by purchase or otherwise, additional Echlin voting stock if such acquisition results in BW holding more than twenty-four percent (24%) of such outstanding voting stock.

5. BW will not seek representation on The Echlin Board.

6. Echlin will agree to provide BW with timely financial information to permit BW to account for its ownership of the Echlin common stock on an equity accounting basis.

7. Prior to the date of the consummation of the transaction, Echlin will have ceased all rebuilding operations and will not then be engaged in any business that involves rebuilding of automotive parts.

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8. BW will agree that for a period of five (5) years after the closing of this transaction, it will not compete in the manufacture and sale in the United States of any product being manufactured and sold on the closing date by Ottawa Division or Ballwin/Washington Division.

9. BW and Echlin will each agree that should the proposed transaction not be consummated for any reason, each will return to the other all non-public documents and other materials obtained from the other party, without retaining copies thereof, and will use its best effort to keep confidential all non-public information obtained.

The intent of the parties as set forth in this letter is subject to the negotiation and execution of a definitive Agreement, and the approval of the Agreement by the Boards of Directors of BW, Echlin, and the stockholders of Echlin.

It is understood that this letter merely constitutes a statement of our mutual understanding, does not constitute an obligation binding on either side, and creates no rights in favor of either party. A binding commitment will result only from execution of a definitive agreement, subject only to the conditions expressed therein.

Donald C. Trauscht
Vice President - Business Development & Acquisitions
Borg-Warner Corporation

David H. Spiller
Vice President, Secretary, and General Counsel
The Echlin Manufacturing Company