
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2001

Commission File Number: 1-12162

BorgWarner Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

13-3404508
(I.R.S. Employer Identification No.)

200 South Michigan Avenue
Chicago, Illinois 60604
(312) 322-8500
(Address and telephone number of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.01 per share	New York Stock Exchange

Securities registered Pursuant to Section 12(g) of the Act: None

Indicate by check-mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

The aggregate market value of the voting stock of the registrant held by stockholders (not including voting stock held by directors and executive officers of the registrant) on March 8, 2002 was approximately \$1.82 billion. As of March 8, 2002, the registrant had 26,453,131 shares of Common Stock outstanding.

Indicate by check-mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated herein by reference into the Part of the Form 10-K indicated.

<u>Document</u>	<u>Part of Form 10-K into which incorporated</u>
BorgWarner Inc. 2001 Annual Report to Stockholders	Parts I, II and IV
BorgWarner Inc. Proxy Statement for the 2002 Annual Meeting of Stockholders	Part III

BORGWARNER INC.

FORM 10-K

YEAR ENDED DECEMBER 31, 2001

INDEX

<u>Item Number</u>		<u>Page</u>
PART I		
1.	Business	3
2.	Properties	10
3.	Legal Proceedings	11
4.	Submission of Matters to a Vote of Security Holders	12
PART II		
5.	Market for the Registrant's Common Equity and Related Stockholder Matters	12
6.	Selected Financial Data	12
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
7a.	Market Risk Disclosure	12
8.	Financial Statements and Supplementary Data	13
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	13
PART III		
10.	Directors and Executive Officers of the Registrant	13
11.	Executive Compensation	13
12.	Security Ownership of Certain Beneficial Owners and Management	13
13.	Certain Relationships and Related Transactions	14
PART IV		
14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	14

PART I

Item 1. Business

BorgWarner Inc. (the “Company”), a Delaware corporation, was incorporated in 1987. The Company is a leading, global Tier I supplier of highly engineered systems and components, primarily for vehicle powertrain applications. These products are manufactured and sold worldwide, primarily to original equipment manufacturers (“OEMs”) of passenger cars, sport utility vehicles, trucks, commercial transportation products and industrial equipment. The Company operates manufacturing and technical facilities in 50 locations in 14 countries serving customers in North America, South America, Europe and Asia, and is an original equipment supplier to every major automotive OEM in the world.

Financial Information About Segments

Incorporated herein by reference is Note 13 of the Notes to the Consolidated Financial Statements on pages 46 through 48 of the Company’s Annual Report for the year ended December 31, 2001 (the “Company’s Annual Report”) filed as an exhibit to this report.

Narrative Description of Operating Segments

The Company’s products fall into five reportable operating segments: Air/Fluid Systems, Cooling Systems, Morse TEC, TorqTransfer Systems and Transmission Systems. Net revenues by segment for the three years ended December 31, 2001, 2000 and 1999, are as follows (in millions of dollars):

	Year Ended December 31,		
	2001	2000	1999
Air/Fluid Systems	\$ 357.8	\$ 427.8	\$ 413.9
Cooling Systems	220.5	281.3	142.8
Morse TEC	869.4	885.8	796.9
TorqTransfer Systems	500.1	526.7	563.3
Transmission Systems	428.8	437.5	413.4
Divested operations and businesses held for sale	18.0	132.9	178.0
Interbusiness eliminations	(43.0)	(46.1)	(49.7)
Net sales.....	<u>\$2,351.6</u>	<u>\$2,645.9</u>	<u>\$2,458.6</u>

The sales information presented above excludes the sales by the Company’s unconsolidated joint ventures. See “Joint Ventures.” Such sales totaled approximately \$300 million in 2001, \$348 million in 2000 and \$287 million in 1999. Divested operations and businesses held for sale includes the fuel systems business which was sold in April 2001, the HVAC business which was sold in 2000, and the forged powdered metal race business sold in 1999.

Air/Fluid Systems

Air/Fluid Systems designs and manufactures sophisticated electro-mechanical, mechanical and electronic components and systems used for automated transmissions, fluid pumps, engine air intake modules, engine emission controls and actuation systems. Key products for transmission controls include single function solenoids, complex solenoids and multi-function modules. The Company also manufactures a wide variety of fluid pumps, including engine hydraulic pumps for variable cam timing and engine lubrication. Key products for engine air intake management include throttle bodies, intake manifolds, throttle position sensors and complete engine induction systems. The Company also designs and manufactures products to control emissions and improve gas mileage such as electric air pumps, air control valves and exhaust gas recirculation valves. These products are provided from facilities in the United States and France.

Cooling Systems

Cooling Systems, the Company's newest segment, is a combination of the cooling systems businesses acquired from Eaton Corporation and the Schwitzer group, which was acquired as part of the Kuhlman Corporation acquisition in 1999. Cooling Systems is a global provider of engine cooling solutions. The group manufactures and markets air sensing fan drives that can be mechanically or electronically controlled, and also manufactures and markets polymer fans for engine cooling systems. Product features provide improved vehicle fuel economy and reduced engine emissions while minimizing parasitic horsepower loss. These advanced cooling systems products are manufactured by QS Quality Certified facilities in the U.S., Germany, U.K., Brazil, Korea and China. The Company is a leading global provider of such products, but competes with other large independent producers as well as divisions of its OEM customers. This business serves the global light, medium, and heavy vehicle markets, as well as selected off-highway applications.

Morse TEC

Morse TEC manufactures chain and chain systems, including HY-VO® front-wheel drive ("FWD") transmission chain and four-wheel drive ("4WD") chain, MORSE GEMINI® Chain Systems, timing chain and timing chain systems, crankshaft and camshaft sprockets, chain tensioners and snubbers and turbochargers for passenger car and commercial vehicle applications. These products are provided from facilities in North America, South America, Europe and Asia.

HY-VO® chain is used in transmissions and for 4WD transfer case applications. Transmission chain is used to transfer power from the engine to the transmission. The Company's MORSE GEMINI® Chain System emits significantly less chain pitch frequency noise than conventional transmission chain systems. The chain in a transfer case distributes power between the front and rear output shafts which, in turn, drive the front and rear wheels. The Company believes it is the world's leading manufacturer of chain for FWD transmissions and 4WD transfer cases.

The Company's timing chain system is used on Ford's family of overhead cam engines, including the Duratech and Triton and new in-line 4 cylinder engines, as well as Chrysler's 2.7 liter, 3.7 liter and 4.7 liter overhead cam engines. The Company has been selected to provide timing systems for a number of Japanese and European applications. The Company believes that it is the world's leading manufacturer of timing chain systems.

Morse TEC also provides turbochargers for passenger car, commercial vehicle and industrial applications for diesel and gasoline engine manufacturers in Europe, North America, South America and Asia. A turbocharger is a device designed to force additional intake air into the engine to create a cleaner and more powerful ignition. Benefits of turbocharging in both passenger car and commercial vehicle applications include greater power for a given engine size, improved fuel economy and significantly reduced emissions. The Company believes it is a leading manufacturer of turbochargers worldwide.

TorqTransfer Systems

TorqTransfer Systems' products include 4WD and all-wheel drive transfer cases and torque management systems to transfer torque within the drivetrain for rear wheel drive and FWD based vehicles. The main focus is on electronically controlled torque management devices and systems. TorqTransfer Systems' products are manufactured in North America, Asia and Europe.

Transfer cases are installed primarily on light trucks and sport-utility vehicles. A transfer case attaches to the transmission and distributes torque to the front and rear axles for 4WD, improving vehicle control during off-road use and in a variety of road conditions. The Company has designed and developed an exclusive 4WD TORQUE-ON-DEMAND® ("TOD") transfer case system, which allows vehicles to automatically shift from two-wheel drive to 4WD when electronic sensors indicate it is necessary. The TOD® transfer case is available on the Ford Explorer, the best selling sport-utility

vehicle in the United States in 2000, 1999 and 1998, and the Ford Expedition, Lincoln Navigator, Isuzu Trooper and SsangYong Musso. In 2001, this technology was also adopted by Hyundai for its Terracan SUV, and will be launched on the Kia Sorento in 2002.

Sales of 4WD transfer cases represented 20%, 19% and 22% of the Company's total revenues for 2001, 2000 and 1999, respectively. The Company believes it is the world's leading independent manufacturer of 4WD transfer cases, producing approximately one million transfer cases in 2001. The Company's largest customer of 4WD transfer cases is Ford Motor Company. The Company supplies the majority of the 4WD transfer cases for Ford, including those installed in the Ford Explorer, the Ford Expedition, the Ford F-150 and Ranger pick-up trucks, the Mercury Mountaineer and the Lincoln Navigator.

Our newest four-wheel drive product is the INTERACTIVE TORQUE MANAGEMENT™ system. This product was introduced on the Acura MDX in 2000 and will be launched on the New Honda Pilot in 2002. This product uses electronically controlled clutches to distribute power to the individual rear wheels when traction is required. The Company is actively involved in developing this technology for new applications in both front wheel drive based crossover vehicles and passenger cars. A variant of this product, ITM 1,™ which features a single clutch pack in front of the rear axle differential, will be launched on the Hyundai Santa Fe in 2002.

Transmission Systems

The Company engineers and manufactures components for automatic transmissions and the systems that combine such components in North America, Asia and Europe. Principal product lines include friction plates, one-way clutches, transmission bands and torque converter lock-up clutches for automatic transmissions. The Company is a supplier to virtually every major automatic transmission manufacturer in the world. The Company's 50%-owned joint venture in Japan, NSK-Warner Kabushiki Kaisha ("NSK-Warner"), is a leading producer of friction plates and one-way clutches in Japan.

Joint Ventures

As of December 31, 2001, the Company had six joint ventures in which it has a less-than-100% ownership interest. Results from four of these ventures, in which the Company is the majority owner, are consolidated as part of the Company's results. The Company's ownership interest in NSK-Warner and Hitachi Warner is 50% each. This is reported using the equity method of accounting.

Management of the unconsolidated joint ventures is shared with the Company's respective joint venture partners. Certain information concerning the Company's joint ventures is set forth below:

<u>Joint Venture</u>	<u>Products</u>	<u>Year Organized</u>	<u>Percentage Owned by the Company</u>	<u>Location of Operation</u>	<u>Joint Venture Partner</u>	<u>Fiscal 2001 Sales (\$ in millions)</u>
Unconsolidated						
NSK-Warner K.K	Friction products	1964	50%	Japan	Nippon Seiko K.K.	\$300
Hitachi Warner Turbo Systems, Ltd.	Turbochargers	2001	50%	Japan	Hitachi	\$ 1
Consolidated						
Borg-Warner Automotive Korea, Inc.	Friction products	1987	60% (a)	Korea	NSK Warner K.K.	\$ 57
Divgi-Warner Limited	Transfer cases, manual transmissions and automatic locking hubs	1995	60%	India	Divgi Metalwares, Ltd.	\$ 5
Borg-Warner Shenglong (Ningbo) Co. Ltd. . . .	Fans, fan drives	1999	70%	China	Ningbo Shenglong Group Co., Ltd.	\$ 5
TTS Beijing	Transfer cases	2000	80%	China	BAIC(b)	\$ 1

-
- (a) BorgWarner Inc. owns 50% of NSK-Warner, giving the Company an effective ownership interest of 80%.
- (b) BAIC is Beijing Automotive Industry Corporation

See Note 13 of the Notes to Consolidated Financial Statements on pages 46 through 48 of the Company's Annual Report for geographic information.

Customers

Approximately 77% of the Company's total sales in 2001 were to automotive OEMs, with the remaining 23% of the Company's sales to a diversified group of industrial, construction and agricultural vehicle manufacturers, auto part manufacturers and to distributors of automotive aftermarket and replacement parts.

The Company's worldwide sales in 2001 to Ford, DaimlerChrysler Corporation and General Motors Corporation constituted approximately 30%, 21% and 12%, respectively, of its 2001 consolidated sales. Approximately 28% of consolidated sales for 2001 were outside the United States, including exports. However, a substantial portion of such sales were to foreign OEMs of vehicles that are, in turn, exported to the United States. See Note 13 of the Notes to Consolidated Financial Statements on pages 46 through 48 of the Company's Annual Report.

The Company's automotive products are generally sold directly to OEMs substantially pursuant to either negotiated long term supply agreements or terms and conditions as may be modified by the parties. Deliveries are subject to periodic authorizations based upon the production schedules of the OEMs. The Company ships its products directly from its plants to the OEMs.

Sales and Marketing

Each of the Company's operating segments has its own sales function headed by a vice president of sales. Account executives for each group are assigned to serve specific OEM customers for one or more of a business group's products. Such account executives spend the majority of their time in direct contact with OEM purchasing and engineering employees and are responsible for servicing existing business and for identifying and obtaining new business. Because of their close relationship with the OEMs, account executives are able to identify and meet customers' needs based upon their knowledge of the Company's products and design and manufacturing capabilities. Upon securing a new order, account executives participate in product launch team activities as a key interface to the customers.

Research and Development

Each of the Company's operating segments has its own research and development ("R&D") organization. Four hundred and eighty-seven employees, including engineers, mechanics and technicians, are engaged in R&D activities at Company facilities worldwide. The Company also operates testing facilities such as prototype, measurement and calibration, life testing and dynamometer laboratories.

By working closely with the OEMs and anticipating their future product needs, the Company's R&D personnel conceive, design, develop and manufacture new proprietary automotive components and systems. R&D personnel also work to improve current products and production processes. The Company believes its commitment to R&D will allow it to obtain new orders from its OEM customers.

Consistent with its strategy of developing technologically innovative products, the Company spent approximately \$104.5 million, \$112.0 million and \$91.6 million in 2001, 2000 and 1999, respectively, on R&D activities. Not included in the reported R&D activities were customer-sponsored R&D activities that were approximately \$20.0 million, \$12.5 million and \$9.4 million in 2001, 2000 and 1999, respectively.

Patents and Licenses

The Company has approximately 2,800 active domestic and foreign patents and patent applications pending or under preparation, and receives royalties from licensing patent rights to others. While it considers its patents on the whole to be important, the Company does not consider any single patent, group of related patents or any single license essential to its operations in the aggregate or to the operations of any of the Company's business groups individually. The expiration of the patents individually and in the aggregate is not expected to have a material effect on the Company's financial position or future operating results. The Company owns numerous trademarks, some of which are valuable but none of which are essential to its business in the aggregate.

The Company owns the "BorgWarner" and "Borg-Warner Automotive" trade names and housemarks, and variations thereof, which are material to the Company's business.

Competition

Each of the Company's operating segments competes worldwide with a number of other manufacturers and distributors which produce and sell similar products. Price, quality and technological innovation are the primary elements of competition. Competitors include vertically integrated units of the Company's major OEM customers, as well as a large number of independent domestic and international suppliers (some of which were formerly part of our OEM customers). Many of these companies are larger and have greater resources than the Company.

A number of the Company's major OEM customers manufacture, for their own use and for others, products which compete with the Company's products. Although these OEM customers have indicated that they will continue to rely on outside suppliers, the OEMs could elect to manufacture products to meet their own requirements or to compete with the Company. There can be no assurance that the Company's business will not be adversely affected by increased competition in the markets in which it operates.

The competitive environment has changed dramatically over the past few years as the Company's traditional United States OEM customers, faced with intense international competition, have expanded their worldwide sourcing of components. As a result, the Company has experienced competition from suppliers in other parts of the world that enjoy economic advantages such as lower labor costs, lower health care costs and, in some cases, export subsidies and/or raw materials subsidies.

Employees

As of December 31, 2001, the Company and its consolidated subsidiaries had approximately 13,000 salaried and hourly employees (as compared with approximately 14,000 employees at December 31, 2000), of which approximately 8,100 were U.S. employees. Approximately 40% of the Company's domestic hourly workers are unionized. The hourly workers at the Company's European facilities are also unionized. The Company believes its present relations with employees to be satisfactory.

Raw Materials

Each of the Company's operating segments believes that its supplies of raw materials for manufacturing requirements in 2002 are adequate and are available from multiple sources. It is common, however, for customers to require their prior approval before certain raw materials or components can be used, thereby reducing sources of supply that would otherwise be available. Manufacturing operations for each of the Company's operating segments are dependent upon natural gas, fuel oil, propane and electricity.

Environmental Regulation and Proceedings

The Company's operations are subject to federal, state, local and foreign laws and regulations governing, among other things, emissions to air, discharge to waters and the generation, handling,

storage, transportation, treatment and disposal of waste and other materials. The Company believes that it has operated its business and facilities in compliance in all material respects with applicable environmental and health and safety laws and regulations, many of which provide for substantial fines and criminal sanctions for violations. However, the operation of automotive parts manufacturing plants entails risks in these areas even for a company complying with all laws, and there can be no assurance that the Company will not incur material costs or liabilities. In addition, through various acquisitions over the years, the Company has acquired a number of manufacturing facilities and there can be no assurance that the Company will not incur material costs and liabilities relating to activities which predate the Company's ownership. In addition, potentially significant expenditures could be required in order to comply with evolving environmental and health and safety laws, regulations or requirements that may be adopted or imposed in the future.

The Company believes that the overall impact of compliance with regulations and legislation protecting the environment will not have a material effect on its financial position or future operating results, although no assurance can be given in this regard. Capital expenditures and expenses in 2001 attributable to compliance with such legislation were not material.

The Company and certain of its current and former direct and indirect corporate predecessors, subsidiaries and divisions have been identified by the United States Environmental Protection Agency and certain state environmental agencies and private parties as potentially responsible parties ("PRPs") at various hazardous waste disposal sites under the Comprehensive Environmental Response, Compensation and Liability Act ("Superfund") and equivalent state laws and, as such, may presently be liable for the cost of cleanup and other remedial activities at 43 such sites. Responsibility for cleanup and other remedial activities at a Superfund site is typically shared among PRPs based on an allocation formula.

Based on information available to the Company which, in most cases, includes: an estimate of allocation of liability among PRPs; the probability that other PRPs, many of whom are large, solvent public companies, will fully pay the costs apportioned to them; currently available information from PRPs and/or federal or state environmental agencies concerning the scope of contamination and estimated remediation costs; remediation alternatives; estimated legal fees; and other factors, the Company has established a reserve for indicated environmental liabilities in the aggregate amount of approximately \$25.5 million at December 31, 2001. The Company expects this amount to be expended over the next three to five years.

The Company believes that none of these matters, individually or in the aggregate, will have a material adverse effect on its financial position or future operating results, generally either because estimates of the maximum potential liability at a site are not large or because liability will be shared with other PRPs, although no assurance can be given with respect to the ultimate outcome of any such matter.

In connection with the sale of Kuhlman Electric Corporation, the Company agreed to indemnify the buyer and Kuhlman Electric for certain environmental liabilities relating to the past operations of Kuhlman Electric. During 2000, Kuhlman Electric notified the Company that it discovered potential environmental contamination at its Crystal Springs, Mississippi plant while undertaking an expansion of the plant.

The Company has been working with the Mississippi Department of Environmental Quality and Kuhlman Electric to investigate the extent of the contamination. The investigation has revealed the presence of PCBs in portions of the soil at the plant and neighboring areas. In mid 2001, Kuhlman Electric Corporation and others, including the Company, were sued by 26 plaintiffs in several lawsuits, which claim personal and property damage. The Company has moved to be dismissed from these lawsuits.

The Company has filed a lawsuit against Kuhlman Electric seeking a declaration of the scope of the Company's contractual indemnity. The Company believes that the reserve for environmental liabilities is sufficient to cover any liability associated with this matter.

Executive Officers

Set forth below are the names, ages, positions and certain other information concerning the executive officers of the Company as of March 8, 2002.

<u>Name</u>	<u>Age</u>	<u>Position With Company</u>
John F. Fiedler	63	Chairman and Chief Executive Officer
Timothy M. Manganello	52	President and Chief Operating Officer
George E. Strickler	54	Executive Vice President and Chief Financial Officer
William C. Cline	52	Vice President
Kimberly Dickens	40	Vice President
Gary P. Fukayama	54	Executive Vice President
Laurene H. Horiszny	46	Vice President
John A. Kalina	56	Vice President
John J. McGill	47	Vice President
Jeffrey L. Obermayer	46	Vice President
Ronald M. Ruzic	63	Executive Vice President
Robert D. Welding	53	Executive Vice President
F. Lee Wilson	47	Vice President
Roger Wood	39	Vice President

Mr. Fiedler has been Chairman of the Board of Directors since March 1996 and has been Chief Executive Officer of the Company since January 1995. He was President from June 1994 to March 1996. Mr. Fiedler is the spouse of Geraldine Kinsella, who retired as Vice President, Human Resources of the Company effective February 28, 2002.

Mr. Manganello was recently named President and Chief Operating Officer of the Company. He was Executive Vice President from June 2001 until February, 2002. He was Vice President of the Company from February 1999 to June 2001 and President and General Manager of BorgWarner TorqTransfer Systems Inc. from February 1999 until February 2001. He was Vice President, Operations of BorgWarner TorqTransfer Systems Inc., Muncie Plant from December 1995 until January 1999.

Mr. Strickler has been Executive Vice President and Chief Financial Officer of the Company since March 2001. He was Executive Vice President and Chief Financial Officer of Lake West Group, a retail consulting firm, from December 1999 to March 2001. He was Corporate Vice President of Goodyear Tire & Rubber Co. and Vice President—Finance of the North America Tire Division from 1996 to September 1999.

Mr. Cline has been Vice President and Controller of the Company since May 1993.

Ms. Dickens was recently named Vice President, Human Resources of the Company. She was Vice President, Human Resources, BorgWarner Transmission Systems Inc. from June 1999 until February 2002. She was Manager, Human Resources, of BorgWarner Transmission Systems Inc.'s Bellwood Plant from June 1994 until June 1999.

Mr. Fukayama has been Executive Vice President of the Company since November 1992. He has been Group President of BorgWarner Air/Fluid Systems Inc. since May 1996. He was President and General Manager of BorgWarner Transmission Systems Inc. from January 1995 to April 1996.

Ms. Horiszny has been Vice President, Secretary and General Counsel of the Company since May 1993.

Mr. Kalina has been Vice President, Chief Information Officer of the Company since January 1999. He was an Executive IT Consultant for IBM from August 1997 until January 1999 and was Chief Information Officer for Walbro Corporation from September 1995 until December 1996.

Mr. McGill has been Vice President of the Company and President and General Manager of BorgWarner Cooling Systems Inc. since October 1999. He was General Manager of Eaton's Fluid Power Division from January 1998 to October 1999. He was General Manager of Eaton's Torque Control Products from April 1996 to January 1998 and was Operations Manager of Eaton's Engine Components Division from April 1994 to April 1996.

Mr. Obermayer has been Vice President and Treasurer of the Company since December 1999. He was Acting Treasurer from June 1999 until December 1999 and Vice President, Finance & Business Development—BorgWarner Transmission Systems Inc. from April 1999 until December 1999. He was Vice President and Controller of BorgWarner Transmission Systems Inc. from October 1996 until April 1999 and was Director, Financial Planning & Investments of the Company from January 1994 until September 1996.

Mr. Ruzic has been Executive Vice President of the Company and Group President of BorgWarner Morse TEC Inc. since October 1992, Chairman of 3K-Warner Turbosystems since September 1998 and Vice Chairman of AG Kuhnle since September 1997.

Mr. Welding has been Executive Vice President of the Company since November 1999 and has been President of BorgWarner Transmission Systems Inc. since May 1996. He was Vice President of the Company from May 1996 until October 1999 and was Vice President—Operations of BorgWarner Transmission Systems Inc., Bellwood Plant, from November 1993 to May 1996.

Mr. Wilson has been Vice President of the Company and President and General Manager of BorgWarner Turbo Systems Inc. since January 2000. He was a Director for Allied Signal Aerospace (n/k/a Honeywell) for various product lines from October 1997 to December 1999. From January 1996 until September 1997, he was Product Director—Commercial Diesel Turbochargers Worldwide for Allied Signal Aerospace.

Mr. Wood has been Vice President of the Company and President of BorgWarner Morse TEC Inc. since January 2001. He was Vice President of Business Development of BorgWarner TorqTransfer Systems Inc. from September 1999 to January 2001. From January 1999 until September 1999, he was Vice President—Operations, Transmission Components of BorgWarner Morse TEC Inc. and from January 1996 until December 1998, he was Vice President—Operations, Engine Timing Components of BorgWarner Morse TEC Inc.

Item 2. Properties

As of December 31, 2001, the Company had 43 manufacturing facilities strategically located throughout the United States and worldwide. In addition to its domestic manufacturing facilities, the Company has four facilities in Germany, three facilities in Japan and India, two facilities in each of China, England, Korea and Brazil and one facility in each of Canada, Hungary, Italy, Mexico, Wales, France and Taiwan. The Company also has several sales offices, warehouses and technical centers. The Company's executive offices, which are leased, are located in Chicago, Illinois. In general, the Company believes that its properties are in good condition and are adequate to meet its current and reasonably anticipated needs.

The following is additional information concerning the headquarters and the major manufacturing plants operated by the Company and its consolidated subsidiaries. Unless otherwise noted, these plants are owned by the Company.

<u>Locations</u>	<u>2001 Percent of Capacity Utilization (1) (2)</u>
<i>Air/Fluid Systems</i>	75.0%
Headquarters: Warren, Michigan Dixon, Illinois; Rothbury, Michigan; Spring Lake, Michigan; Sallisaw, Oklahoma; Tulle, France; Water Valley, Mississippi	
<i>Cooling Systems</i>	69.3%
Headquarters: Marshall, Michigan Bradford, England (leased); Cadillac, Michigan; Markdorf, Germany; Changwon, South Korea (leased); Fletcher, North Carolina; Gainesville, Georgia (leased); Ningbo, China; Sao Jose dos Campos, Brazil (leased); Chennai, India	
<i>Morse TEC</i>	96.6%
Headquarters: Ithaca, New York; Kirchheimbolanden, Germany Arcore, Italy; Asheville, North Carolina; Bradford, England; Campinas Sao Paolo, Brazil; Guadalajara, Mexico; Cortland, New York; Ithaca, New York; Nabari City, Japan; Oroszlany, Hungary; Simcoe, Ontario, Canada; Tainan Shien, Taiwan	
<i>TorqTransfer Systems</i>	93.1%
Headquarters: Sterling Heights, Michigan (leased) Livonia, Michigan; Longview, Texas (leased); Margam, Wales; Muncie, Indiana; Pune, India (60% JV); Seneca, South Carolina; Sirsi, India (60% JV); Beijing, China (80% JV)	
<i>Transmission Systems</i>	109.9%
Headquarters: Lombard, Illinois (leased) Bellwood, Illinois; Eumsung, Korea (80% JV); Frankfort, Illinois; Heidelberg, Germany; Ketsch, Germany; Sterling Heights, Michigan (leased)	

- (1) The figure shown in each case is a weighted average of the percentage utilization of each major plant within the category, with an individual plant weighted in proportion to the number of employees employed when such plant runs at 100% capacity. With the exception of the Company's Bellwood, Illinois plant, capacity utilization at the 100% level is defined as operating five days per week, with two eight-hour shifts per day and normal vacation hours. Capacity utilization at the 100% level at the Company's Bellwood, Illinois plant is defined as operating five days per week, with three eight-hour shifts per day and normal vacation hours.
- (2) The table excludes joint ventures owned 50% or less.

Item 3. Legal Proceedings

There have been no significant developments in the legal proceedings disclosed in the Company's Form 10-Q for the quarter ended March 31, 2001. The Company is presently, and is from time to time, subject to other claims and suits arising in the ordinary course of its business. In certain such actions, plaintiffs request punitive or other damages that may not be covered by insurance. The Company believes that it has established adequate provisions for litigation liabilities in its financial statements in accordance with generally accepted accounting principles in the U.S. These provisions include both legal fees and possible outcomes of legal proceedings.

It is the opinion of the Company that the various asserted claims and litigation in which the Company is currently involved will not materially affect its financial position or future operating results, although no assurance can be given with respect to the ultimate outcome for any such claim or litigation.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to the security holders of the Company during the fourth quarter of 2001.

PART II

Item 5. Market for the Registrant’s Common Equity and Related Stockholder Matters

The Company’s Common Stock is listed for trading on the New York Stock Exchange. As of March 8, 2002, there were approximately 3,150 holders of record of Common Stock.

The Company has paid cash dividends of \$0.15 per share on its Common Stock during each quarter for the last two fiscal years. While the Company currently expects that comparable quarterly cash dividends will continue to be paid in the future, the dividend policy is subject to review and change at the discretion of the Board of Directors.

High and low sales prices (as reported on the New York Stock Exchange composite tape) for the Common Stock for each quarter in 2000 and 2001 were:

<u>Quarter ended</u>	<u>High</u>	<u>Low</u>
March 31, 2000	\$39.437	\$30.062
June 30, 2000	\$44.125	\$35.125
September 30, 2000	\$37.000	\$31.562
December 31, 2000	\$40.000	\$33.000
March 31, 2001	\$45.810	\$38.900
June 30, 2001	\$49.620	\$39.600
September 30, 2001	\$54.500	\$36.490
December 31, 2001	\$52.250	\$39.880

Item 6. Selected Financial Data

The Selected Financial Data for the five years ended December 31, 2001 with respect to the following line items set forth on page 50 of the Company’s Annual Report is incorporated herein by reference and made a part of this report: net sales; net earnings; net earnings per share; total assets; total debt; and cash dividend declared per share. See the material incorporated herein by reference in response to Item 7 of this report for a discussion of the factors that materially affect the comparability of the information contained in such data.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The Management’s Discussion and Analysis of Financial Condition and Results of Operations set forth on pages 23 through 30 in the Company’s Annual Report are incorporated herein by reference and made a part of this report.

Item 7a. Market Risk Disclosure

Information with respect to interest rate risk and foreign currency exchange risk is contained on page 30 of the Company’s Annual Report and is incorporated herein by reference. Information with respect to the levels of indebtedness subject to interest rate fluctuation is contained in Note 6 of the

Notes to Consolidated Financial Statements on page 40 of the Company's Annual Report and is incorporated herein by reference. Information with respect to the Company's level of business outside the United States which is subject to foreign currency exchange rate market risk is contained in Note 13 of the Notes to Consolidated Financial Statements on page 48 under the caption "Geographic Information" and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements (including the notes thereto, except as noted below) of the Company and the Independent Auditors' Report as set forth on pages 31 through 50 in the Company's Annual Report are incorporated herein by reference and made a part of this report. Supplementary financial information regarding quarterly results of operations (unaudited) for the years ended December 31, 2001 and 2000 is set forth on page 49 of the Company's Annual Report. For a list of financial statements filed as part of this report, see Item 14, "Exhibits, Financial Statement Schedules, and Reports on Form 8-K" beginning on page 14.

Footnote 14 — New Accounting Pronouncements (unaudited)

The Company is finalizing its assessment of the transitional provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." Based upon the assessment of the fair values of each of its reporting units, the Company anticipates that it will record a charge of \$250 to \$280 million, net of tax in the first quarter of 2002, to adjust the carrying value of goodwill in the Cooling Systems and Air/Fluid Systems businesses. The charge will be classified as a cumulative effect of a change in accounting principle.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information with respect to directors and nominees for election as directors of the Company under the caption "Election of Directors" on pages 1 through 4 of the Company's Proxy Statement and information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" on page 5 of the Company's Proxy Statement is incorporated herein by reference and made a part of this report. Information with respect to executive officers of the Company is set forth in Part I of this report.

Item 11. Executive Compensation

Information with respect to compensation of executive officers and directors of the Company under the captions "Compensation of Directors" on page 4 of the Company's Proxy Statement and "Executive Compensation," "Stock Options," "Long-Term Incentive Plans," and "Employment Agreements" on pages 6 through 9 of the Company's Proxy Statement is incorporated herein by reference and made a part of this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information with respect to security ownership by persons known to the Company to beneficially own more than five percent of the Company's Common Stock, by directors and nominees for directors of the Company and by all directors and executive officers of the Company as a group under the caption "Stock Ownership" on page 5 of the Company's Proxy Statement is incorporated herein by reference and made a part of this report.

Item 13. Certain Relationships and Related Transactions

Information with respect to certain relationships and related transactions under the caption “Certain Relationships and Related Transactions” on page 15 of the Company’s Proxy Statement is incorporated herein by reference and made a part of this report.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports On Form 8-K

(a) 1. The following consolidated financial statements of the Company on pages 31 through 50 of the Company’s Annual Report are incorporated herein by reference:

Independent Auditors’ Report

Consolidated Statements of Operations—years ended December 31, 2001, 2000 and 1999

Consolidated Balance Sheets—December 31, 2001 and 2000

Consolidated Statements of Cash Flows—years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Stockholders’ Equity—years ended December 31, 2001, 2000 and 1999

Notes to Consolidated Financial Statements

2. Certain schedules for which provisions are made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

3. The exhibits filed in response to Item 601 of Regulation S-K are listed in the Exhibit Index on page A-1.

(b) Reports on Form 8-K.

None.

Signature

Title

 /s/ JOHN RAU
 John Rau

Director

 /s/ JOHN F. FIEDLER
 John F. Fiedler

As attorney-in-fact for the directors marked by an asterisk.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Document Description</u>
*3.1	Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit No. 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993).
*3.2	By-laws of the Company (incorporated by reference to Exhibit No. 3.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993).
*3.3	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock (incorporated by reference to Exhibit 3.3 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
*3.4	Certificate of Ownership and Merger Merging BorgWarner Inc. into Borg-Warner Automotive, Inc. (incorporated by reference to Exhibit 99.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).
*4.1	Indenture, dated as of November 1, 1996, between Borg-Warner Automotive, Inc. and The First National Bank of Chicago (incorporated by reference to Exhibit No. 4.1 to Registration Statement No. 333-14717).
*4.2	Indenture, dated as of February 15, 1999, between Borg-Warner Automotive, Inc. and The First National Bank of Chicago (incorporated by reference to Exhibit No. 4.1 to Amendment No. 1 to Registration Statement No. 333-66879).
*4.3	Rights Agreement, dated as of July 22, 1998, between Borg-Warner Automotive, Inc. and ChaseMellon Shareholder Services, L.L.C. (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form 8-A filed on July 24, 1998).
*10.1	Credit Agreement dated as of July 21, 2000 among BorgWarner Inc., as Borrower, the Lenders Party Hereto, The Chase Manhattan Bank, as Administrative Agent, Bank America, N.A., as Syndication Agent and Bank One, N.A. as Documentation Agent (incorporated by reference to Exhibit No. 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
*10.2	First Amendment, dated as of August 3, 2000 to the Credit Agreement, dated as of July 21, 2000 among BorgWarner Inc., as Borrower, the Several Lenders From Time to Time Party Thereto, The Chase Manhattan Bank, as Administrative Agent for the Lenders, Chase Securities Inc. and Banc of America Securities LLC, as Co-Arranger, Bank of America, N.A., as Syndication Agent and Bank One, N.A. as Documentation Agent.
*10.3	Distribution and Indemnity Agreement dated January 27, 1993 between Borg-Warner Automotive, Inc. and Borg-Warner Security Corporation (incorporated by reference to Exhibit No. 10.2 to Registration Statement No. 33-64934).
*10.4	Tax Sharing Agreement dated January 27, 1993 between Borg-Warner Automotive, Inc. and Borg-Warner Security Corporation (incorporated by reference to Exhibit No. 10.3 to Registration Statement No. 33-64934).
†*10.5	Borg-Warner Automotive, Inc. Management Stock Option Plan, as amended (incorporated by reference to Exhibit No. 10.6 to Registration Statement No. 33-64934).
†10.6	BorgWarner Inc. 1993 Stock Incentive Plan as amended.
*10.7	Receivables Transfer Agreement dated as of January 28, 1994 among BWA Receivables Corporation, ABN AMRO Bank N.V. as Agent and the Program LOC Provider and Windmill Funding Corporation (incorporated by reference to Exhibit No. 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993).
*10.8	Amended and Restated Receivables Loan Agreement dated as of December 23, 1998 among BWA Receivables Corporation, as Borrower, Borg-Warner Automotive, Inc., as Collection Agent, ABN AMRO Bank N.V., as Agent, the Banks from time to time party hereto, ABN AMRO Bank N.V., as the Program LOC Provider and the Program LOC Provider and Windmill Funding Corporation (incorporated by reference to Exhibit No. 10.11 of the Company's Annual Report on Form 10-K for the year ended December 31, 1998).

<u>Exhibit Number</u>	<u>Document Description</u>
*10.9	First Amendment dated as of March 25, 1999 to Amended and Restated Receivables Loan Agreement dated as of December 23, 1998 (incorporated by reference to Exhibit No. 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999).
*10.10	Second Amendment dated as of December 22, 1999 to Amended and Restated Receivables Loan Agreement dated as of December 23, 1998 (incorporated by reference to Exhibit No. 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
*10.11	Third Amendment dated as of December 20, 2000 to Amended and Restated Receivables Loan Agreement dated as of December 23, 1998 (incorporated by reference to Exhibit No. 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
10.12	Fourth Amendment dated as of April 13, 2001 to Amended and Restated Receivables Loan Agreement dated as of December 23, 1998.
10.13	Fifth Amendment dated as of July 25, 2001 to Amended and Restated Receivables Loan Agreement dated as of December 23, 1998.
10.14	Sixth Amendment dated as of December 22, 2001 to Amended and Restated Receivables Loan Agreement dated as of December 23, 1998.
†*10.15	Borg-Warner Automotive, Inc. Transitional Income Guidelines for Executive Officers amended as of May 1, 1989 (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993).
†*10.16	Borg-Warner Automotive, Inc. Management Incentive Bonus Plan dated January 1, 1994 (incorporated by reference to Exhibit No. 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993).
†*10.17	BorgWarner Inc. 1993 Stock Incentive Plan, as amended.
†*10.18	Borg-Warner Automotive, Inc. Retirement Savings Excess Benefit Plan dated January 27, 1993 (incorporated by reference to Exhibit No. 10.20 of the Company's Annual Report on Form 10-K for the year ended December 31, 1993).
†*10.19	Borg-Warner Automotive, Inc. Retirement Savings Plan dated January 27, 1993 as further amended and restated effective as of April 1, 1994 (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995).
†*10.20	Borg-Warner Automotive, Inc. Deferred Compensation Plan dated January 1, 1994 (incorporated by reference to Exhibit No. 10.24 of the Company's Annual Report on Form 10-K for the year ended December 31, 1993).
†*10.21	Form of Employment Agreement for John F. Fiedler (incorporated by reference to Exhibit No. 10.0 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994).
†*10.22	Amended Form of Employment Agreement for John F. Fiedler dated January 27, 1998 (incorporated by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
†*10.23	Addendum to Employment Agreement between BorgWarner Inc. and John F. Fiedler dated November 8, 2000 (incorporated by reference to Exhibit No. 10.19 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
†*10.24	Form of Change of Control Employment Agreement for Executive Officers (incorporated by reference to Exhibit No. 10.1 to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 1997).
†*10.25	Amendment to the Change of Control Employment Agreement between the Company and John F. Fiedler dated effective January 30, 1998 (incorporated by reference to Exhibit 10.23 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

<u>Exhibit Number</u>	<u>Document Description</u>
*10.26	Assignment of Trademarks and License Agreement (incorporated by reference to Exhibit No. 10.0 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994).
*10.27	Amendment to Assignment of Trademarks and License Agreement (incorporated by reference to Exhibit No. 10.23 of the Company's Form 10-K for the year ended December 31, 1998).
†*10.28	Borg-Warner Automotive, Inc. Executive Stock Performance Plan, Revised and Re-approved February 2, 2000 (incorporated by reference to Appendix B of the Company's Proxy Statement dated March 22, 2000).
*10.29	Agreement of Purchase and Sale dated as of May 31, 1996 by and among Coltec Industries Inc., Holley Automotive Group, Ltd., Holley Automotive Inc., Coltec Automotive Inc., and Holley Automotive Systems GmbH and Borg-Warner Automotive, Inc., Borg-Warner Automotive Air/Fluid Systems Corporation and Borg-Warner Automotive Air/Fluid Systems Corporation of Michigan (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated as of June 17, 1996).
*10.30	Agreement and Plan of Merger dated as of December 17, 1998 by and between Borg-Warner Automotive, Inc., BWA Merger Corp. and Kuhlman Corporation (incorporated by reference to Exhibit 2 of the Company's Current Report on Form 8-K dated as of December 21, 1998).
*10.31	Asset Purchase Agreement dated as of August 2, 1999 among Eaton Corporation, the Seller Subsidiaries, Borg-Warner Automotive, Inc. and the Buyer Subsidiaries (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
13.1	Annual Report to Stockholders for the year ended December 31, 2001 with manually signed Independent Auditors' Report. (The Annual Report, except for those portions which are expressly incorporated by reference in the Form 10-K, is furnished for the information of the Commission and is not deemed filed as part of the Form 10-K).
21.1	Subsidiaries of the Company.
23.1	Independent Auditors' Consent.
99.1	Cautionary Statements.

* Incorporated by reference.

† Indicates a management contract or compensatory plan or arrangement required to be filed pursuant to Item 14(c).