BORGWARNER INC
Form DEF 14A
March 17, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [x]
Filed by a party other than the Registrant

Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[x] Definitive Proxy Statement
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BorgWarner Inc.

(Name of Registrant as Specified In its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(3) Filing Party:

(4) Date Filed:

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BORGWARNER INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Auburn Hills, Michigan
March 18, 2011

Dear Stockholder:

BorgWarner Inc. will hold its annual meeting of stockholders at its headquarters located at 3850 Hamlin Road, Auburn Hills, Michigan, 48326, on April 27, 2011, at 9:00 a.m., local time, for the following purposes:

1. To elect four nominees for Class III Directors to serve for the next three years;

2. To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company for 2011;

3. To consider an advisory vote on compensation for our named executive officers;

4. To consider an advisory vote on the frequency of the advisory vote on compensation of our named executive officers; and

5. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Only stockholders of record at the close of business on March 1, 2011 are entitled to vote at the meeting or any adjournment or postponement thereof.

We have elected to furnish materials for the annual meeting via the internet. Beginning on or about March 18, 2011, we will mail a notice of internet availability to most of our stockholders containing instructions on how to access the proxy materials and vote online. All of our other stockholders will be sent a copy of our proxy materials by mail or e-mail on or about March 18, 2011. See the first page of the proxy statement and your proxy card for more information on how you can elect to receive your proxy materials over the internet or by e-mail if you received them by mail this year.

YOUR VOTE IS IMPORTANT! You can submit your proxy by telephone or the internet by following the instructions on page 1 of the proxy statement. If you received a paper copy of our proxy statement, you can vote by returning a proxy card. If you attend the meeting, you may vote in person if you wish to do so, even if you have previously submitted your proxy. Please read the attached proxy statement carefully as it describes in greater detail the matters to be acted upon and your voting rights with respect to those matters. The enclosed proxy card is solicited by the Board of Directors of the Company.

Along with the attached proxy statement, we are sending you our Annual Report on Form 10-K for our fiscal year ended December 31, 2010. Stockholders are not to regard our Annual Report on Form 10-K, which includes our audited financial statements, as proxy solicitation material.

By Order of the Board of Directors

/s/ John J. Gasparovic
John J. Gasparovic
Secretary

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR OUR ANNUAL MEETING TO BE HELD ON APRIL 27, 2011

Our proxy statement and our 2010 annual report to stockholders are available at http://www.proxyvote.com

YOUR VOTE IS IMPORTANT!
Please vote as promptly as possible by using the internet or telephone or
by signing, dating and returning the proxy card
mailed to those who receive paper copies of this proxy statement.

BORGWARNER INC.
3850 Hamlin Road
Auburn Hills, Michigan 48326

PROXY STATEMENT

March 18, 2011

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of BorgWarner Inc. ("BorgWarner" or the "Company") for the Company's 2011 Annual Meeting of Stockholders to be held at the Company's headquarters at 3850 Hamlin Road, Auburn Hills, Michigan 48326 on April 27, 2011 at 9:00 a.m., local time, or at any adjournment or postponement thereof.

Internet Availability of Proxy Materials

As permitted by rules adopted by the Securities & Exchange Commission ("SEC"), we are providing our proxy statement, the form of proxy and our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 to stockholders electronically via the internet. (Our Annual Report on Form 10-K for our fiscal year ended December 31, 2010, which includes our audited financial statements, is not to be regarded as proxy solicitation material.) Our proxy statement and our 2010 annual report to stockholders are available at http://www.proxyvote.com.

On or about March 18, 2011, we will initiate delivery of proxy materials to our stockholders of record as of the close of business on March 1, 2011 via (1) a notice containing instructions on how to access materials online, (2) a paper copy mailing or (3) e-mail distribution. If you received a notice by mail, you will not receive a printed copy of the proxy materials in the mail. Instead, the notice we sent provides instructions on how to access and review all of the important information contained in the proxy materials. The notice also provides instructions on how you can submit your proxy over the internet or by telephone. If you received a notice by mail and would like to receive a printed copy of our proxy materials or elect to receive the materials via e-mail in the future, please follow the instructions included in the notice. If you received a printed copy of proxy materials by mail and would like to register to receive a notice of internet availability of proxy materials in the future, you can do so by any of the methods that follow:

- Internet: Access the internet, go to www.proxyvote.com and follow the enrollment instructions.
- Telephone: Call us free of charge at 1-800-690-6903 from within the United States or Canada
- E-mail: Send us an e-mail at www.proxyvote.com, using the control number on your proxy card as the subject line, and state whether you wish to receive a paper or e-mail copy of our proxy materials and whether your request is for this meeting only or all future meetings

Record Date and Shares Outstanding

Only stockholders of record at the close of business on March 1, 2011 are entitled to vote at the meeting. As of such date, there were 111,771,743 outstanding shares of common stock. A list of all record holders of our stock will be available for examination by stockholders during normal business hours at 3850 Hamlin Road, Auburn Hills, Michigan 48326 at least ten days prior to the annual meeting and will also be available for examination at the annual meeting. On each matter considered at our annual meeting, you are entitled to one vote for each of your shares of common stock.

Voting

You have a choice of voting over the Internet, by telephone or by using a traditional proxy card.

- To vote by Internet, go to www.proxyvote.com and follow the instructions there. You will need the 12 digit number included on your proxy card, voter instruction form or notice.
- To vote by telephone, stockholders of record should dial 1-800-690-6903 and follow the instructions. Beneficial holders should dial the phone number listed on your voter instruction form. You will need the 12 digit number included on your proxy card, voter instruction form or notice.
- If you received a paper copy of a proxy card or voter instruction form, you can mark, sign and date the proxy card and return it in the envelope that was provided to you.

The deadline for voting by telephone or internet is 11:59 pm Eastern Time on April 26, 2011.

If you properly sign and return your signed proxy card or vote by telephone or by the Internet before the annual meeting, we will vote your shares as you direct. Any proxy returned without specification as to any matter will be voted as to each proposal in accordance with the recommendation of the Board of Directors.

If you hold your stock in street name, you may change or revoke your voting instructions by following the specific directions provided to you by your bank or broker. If you are a stockholder of record you may change or revoke your vote at any time before the vote is taken by delivering a written notice of revocation to the Secretary of the Company or by submitting another vote on or before April 27, 2011 (including a vote in person at the annual meeting). For all methods of voting, your last vote cast will supersede all of your previous votes.

The election inspectors will tabulate the votes cast prior to the meeting and at the meeting to determine whether a quorum is present. The presence in person or by proxy of the holders of a majority of common stock will constitute a quorum. A quorum is necessary to transact business at the annual meeting. Shares of common stock represented by proxies that reflect abstentions or "broker non-votes" (i.e., shares held by a broker or nominee which are represented at the annual meeting, but with respect to which such broker or nominee is not empowered to vote on a particular proposal) will be counted as present and entitled to vote for purposes of determining the presence of a quorum.

With respect to Proposal 1 and the election of directors, stockholders may (a) vote in favor of all nominees, (b) withhold votes as to all nominees, or (c) withhold votes as to specific nominees. In an uncontested director election, such as this year's election, a director nominee will be elected to serve on the board only if the votes cast "for" the election of that nominee exceed the votes cast "against" that nominee's election. In a contested election, directors are elected by a plurality vote. Withheld votes and broker non-votes will not affect the outcome of the election of directors.

If you hold your stock in "street name," then please note that the New York Stock Exchange ("NYSE") rules that guide how brokers vote your stock have changed. The election of directors is no longer considered a "routine" matter under the NYSE rules. Consequently, your brokerage firm or other nominee may no longer vote your shares with respect to Proposal 1 and the election of directors without specific instructions from you as to how to vote with respect to the election of each of the four nominees for director. Abstentions and broker non-votes represented by submitted proxies will not be taken into account in determining the outcome of the election of directors.

With respect to Proposal 2, and stockholder ratification of the selection of our auditors, ratification requires the affirmative vote of a majority of the votes present or represented at the meeting. Accordingly, an abstention or a broker nonvote will have the effect of a vote against this proposal.

Proposals 3 & 4

For Proposal 3, the affirmative vote of a majority of the votes cast is required to approve, on an advisory basis, the compensation of the Company's named executive officers as disclosed in this proxy statement.

With respect to Proposal 4, the option of three years, two years, or one year that receives the highest number of votes cast will be considered to have been approved by stockholders on an advisory basis.

Even though your vote with respect to Proposals 3 and 4 is advisory and therefore will not be binding on the Company, the Compensation Committee will review the voting results and take them into consideration when making future decisions regarding executive compensation.

Proposals 3 and 4 are not considered "routine" matters under NYSE rules. Therefore, your brokerage firm or other nominee may not vote your shares with respect to Proposals 3 or 4 without specific instructions from you as to how to vote. Abstentions and broker non-votes will have no affect on the outcome of Proposal 3 or 4.

Householding Information

We have adopted a procedure called "householding," which has been approved by the SEC. Under this procedure, a single copy of our annual report to stockholders, our proxy statement or our Notice of Internet Availability of Proxy materials, as applicable, will be sent to any household at which two or more stockholders reside, unless one of the stockholders at that address notifies us that they wish to receive individual copies. This procedure reduces our printing costs and fees. Stockholders who participate in householding will continue to receive separate proxy cards. Householding will not affect dividend check mailings, if any, in any way.

We will deliver promptly upon written or oral request a separate copy of our annual report to stockholders, our proxy statement or our Notice of Internet Availability of Proxy Materials, as applicable, to any stockholder at a shared address to which a single copy of those documents was delivered. If you share an address with another stockholder and you wish to receive a separate copy of any of those documents you may inform us of your wish by contacting Investor Relations, 3850 Hamlin Road, Auburn Hills, Michigan 48326 (tel: 248-754-0882). Similarly, if you share an address with another stockholder that is receiving multiple copies and wish to request that the number of copies of those documents being delivered to that address be reduced to a single copy, you may inform us of your wish by contacting Investor Relations at the above address and telephone number.

PROPOSAL 1 — ELECTION OF DIRECTORS

The Company's Board of Directors currently consists of twelve directors and is divided into three classes. Robin J. Adams, David T. Brown, Jan Carlson and Dennis C. Cuneo are the nominees for election as Class III Directors at this meeting. Following the election of directors at this annual meeting your Board of Directors will have twelve members and no vacancies. If elected, each nominee to Class III will serve for a term of three years or until their successor is elected and qualified. Class I Directors have terms expiring at the 2012 Annual Meeting of Stockholders and the Class II Directors have terms expiring at the 2013 Annual Meeting of Stockholders. Each of the nominees for election as a Class III Director has agreed to serve if elected. All of the Class III Directors are presently directors of the Company. In the event that any nominee should become unavailable for election, the Board of Directors may designate a substitute nominee, in which event the shares represented by proxies at the meeting will be voted for such substitute nominee unless an instruction to the contrary is indicated on the proxy card.

At the meeting, our stockholders will elect four directors to hold office until our 2014 Annual Meeting of Stockholders and until their respective successors have been duly elected and qualified. The directors whose terms of office expire at the meeting are Directors Robin J. Adams, David T. Brown, Jan Carlson and Dennis C. Cuneo.

Recommendation

YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF EACH OF THE NOMINEES FOR CLASS III DIRECTOR — ROBIN J. ADAMS, DAVID T. BROWN, JAN CARLSON AND DENNIS C. CUNEO.

Required Vote

To be elected, the votes cast "for" the election of that nominee must exceed the votes cast "against" that nominee's election.

Information on Nominees for Directors and Continuing Directors

The following table sets forth as of March 1, 2011, with respect to each of the Company's current directors continuing to serve, his or her name, the year in which he or she first became a director of the Company, age, principal occupation, and his or her current directorships in other entities; a narrative description of the directors' experience, qualifications, attributes and skills; all directorships at public companies and registered investment companies held since March 1, 2006; and a description of any relevant legal proceedings in which the director was involved since March 1, 2001.

Class	Age	Principal Occupation and Directorships
I Directors		
Phyllis O. Bonanno 1999	67	Ms. Bonanno retired from International Trade Solutions Inc. on September 1, 2009. She served as President and CEO of International Trade Solutions, Inc., an international trade consulting firm, since March 2002. She was the President of TradeBuilders, Inc. from October 2000 until October 2001. She was President of Columbia College from July 1997 until March 2000. She is also a director of Adams Express Company, Mohawk Industries, Inc. and Petroleum & Resources Corporation. Ms. Bonanno brings to the board management operational, academic and public policy knowledge. Ms. Bonanno's public policy expertise was gained through 10 years of service as the first director of the U.S. Trade Representative's Office of Private Sector Liaison in the Executive Office of Presidents Carter and Reagan. She developed global business knowledge in the manufacturing sector during her employment as Corporate Vice President of International Trade for Warnaco, Inc., a worldwide apparel manufacturer. Her

extensive international trade expertise including knowledge of trade rules and regulations benefits BorgWarner. Ms. Bonanno's experience as a director of other public companies in varied industries has resulted in her broad understanding of corporate governance.

Class I Directors	Age	Principal Occupation and Directorships
Alexis P. Michas 1993	53	Mr. Michas is the founder and Managing Partner of Juniper Investment Company, LLC, a private investment firm since 2008. Mr. Michas has also been the Managing Partner and a director of Stonington Partners, Inc., a private investment firm, since 1994. Prior to that, Mr. Michas was a partner of Merrill Lynch Capital Partners, Inc. ("MLCP"), a wholly owned subsidiary of Merrill Lynch & Co., Inc., from 1993 to 1994 and Senior Vice President of MLCP from 1989 to 1993. He served on the board of directors of MLCP from 1989 to 2001 and was a Consultant to MLCP from 1994 to 2001. Mr. Michas was also a Managing Director of the Investment Banking Division of Merrill Lynch, Pierce, Fenner & Smith Incorporated from 1991 to 1994. Mr. Michas received a Bachelor of Arts degree from Harvard College and a Master of Business Administration degree from Harvard Business School. Mr. Michas is the Chairman of the Board of Lincoln Educational Services Corporation, a director of PerkinElmer, Inc. and AirTran Airways, Inc. Mr. Michas brings 26 years of private equity experience across a wide range of industries, and a successful record of managing control investments in public companies. He also brings extensive transactional expertise including: mergers and acquisitions, IPOs, debt and equity offerings and bank financings. Mr. Michas has served on the compensation, governance, audit, finance and executive committees of boards of other public companies and has been on BorgWarner's board of directors since the Company became a public company in 1993. His knowledge of the Company and his thorough understanding of the role of the board of directors qualify him to serve on our board of directors and to serve as Lead Director.
Richard O. Schaum 2005	64	Mr. Schaum has been General Manager, 3rd Horizon Associates LLC, a technology assessment and development company, since May 2003. He was Vice President and General Manager of Vehicle Systems for WaveCrest Laboratories, Inc. from October 2003 until June 2005. Before that, for more than thirty years he was with DaimlerChrysler and its predecessor Chrysler Corporation, most recently as Executive Vice President, Product Development from January 2000 until his retirement in March 2003. Mr. Schaum is a fellow of the Society of Automotive Engineers and served as its President in 2007. Mr. Schaum is also a director of

Sterling Construction Co.

Mr. Schaum's nearly four decades of business experience in program management, product development and manufacturing in the global auto industry bring technological understanding, innovation expertise and extensive industry knowledge to BorgWarner's board. At WaveCrest Laboratories he oversaw development and commercialization of proprietary transportation systems. As Executive Vice President of Product Development at Chrysler, Mr. Schaum led all Powertrain Operations, a business with $7 billion in sales. He has intimate knowledge of the kinds of products BorgWarner must develop for the future of transportation.

Class I Directors	Age	Principal Occupation and Directorships
Thomas T. Stallkamp 2006	64	Mr. Stallkamp is the founder and principal of Collaborative Management LLC, a private supply chain consulting firm. From 2004 to 2010 he was an Industrial Partner in Ripplewood Holdings LLC, a New York private equity group. From 2003 to 2004, he served as Chairman of MSX International, Inc., a global provider of technology-driven engineering, business and specialized staffing services, and from 2000 to 2003 he served as its Vice Chairman and Chief Executive Officer. From 1980 to 1999, Mr. Stallkamp held various positions with DaimlerChrysler Corporation and its predecessor Chrysler Corporation, the most recent of which were Vice Chairman and President. Mr. Stallkamp also serves as a director of Baxter International, Inc., a global diversified healthcare company, and as a trustee of EntrepreneurShares Series Trust. Mr. Stallkamp's experience within and outside of the automotive industry, and his nearly 20 year tenure with DaimlerChrysler and Chrysler Corporation, important customers of BorgWarner, his international perspective and his financial acumen qualify him for membership on the Company's board. His service on the boards of Visteon (an automotive parts supplier) 2002-2005 and Asahi TEC Corporation (a manufacturer of automotive and other parts) 2008 to 2010 has given him additional insight into the priorities of and challenges confronting automotive suppliers. Mr. Stallkamp's perspective has been broadened by experience outside the auto industry and through his private equity financing experience.

Class II Directors	Age	Principal Occupation and Directorships
Jere A. Drummond 1996	71	Mr. Drummond retired from the BellSouth Corporation on December 31, 2001. He served as Vice Chairman of the BellSouth Corporation from January 2000 until his retirement. He was President and Chief Executive Officer of BellSouth Communications Group, a provider of traditional telephone operations and products, from January 1998 until December 1999. He was President and Chief Executive Officer of BellSouth Telecommunications, Inc. from January 1995 until December 1997 and was elected a director of BellSouth Telecommunications, Inc. in 1993. He is also a director of AirTran Holdings, Inc. and SAIC, Inc.

Having served as an officer of a Fortune 500 company, BellSouth Corporation, for 19 years, Mr. Drummond brings extensive management experience and the perspective of a former CEO to BorgWarner's board. His significant marketing experience adds to the board's range of knowledge. Mr. Drummond's service on boards of directors of other public companies, and specifically on the Compensation Committee of another public company, adds to his value on BorgWarner's board and as chair of our compensation committee. Mr. Drummond was also a director of Centilliam Communications, Inc. until 2009.

Class II Directors	Age	Principal Occupation and Directorships
Timothy M. Manganello 2002	61	Mr. Manganello has been Chairman of the Board and Chief Executive Officer of the Company since 2003. He was President and Chief Operating Officer from February 2002 until February 2003. He was Executive Vice President from June 2001 until February 2002. He was Vice President of the Company from February 1999 until June 2001 and President and General Manager of BorgWarner TorqTransfer Systems Inc. from February 1999 until February 2002. He was appointed a director of the Company in 2002. Mr. Manganello is also a director of Bemis Company, Inc. and Zep Inc. He also serves as the Board Chairman of the Federal Reserve Bank of Chicago, Detroit branch. Mr. Manganello began his career in the automotive industry in 1973. During his career at BorgWarner, he has held senior management positions in operations, sales, and business development. Before joining BorgWarner in 1989, Mr. Manganello held product engineering management positions at Chrysler Corporation from 1973 to 1981, and sales management positions at PT Components-Link Belt from 1981 to 1988. He is also a member of the University of Michigan College of Engineering's National Advisory Committee and is a past chairman of the Executive Committee of the Board of Trustees for the Manufacturer's Alliance (MAPI). Mr. Manganello's knowledge of all aspects of the Company's business and of the automotive industry position him well to serve as our Chairman and Chief Executive Officer.
John R. McKernan, Jr. 2009	62	Governor McKernan has been Chairman of the Board of Education Management Corporation, a large provider of private post-secondary education in North America, since December 2008. He was Executive Chairman of Education Management Corporation from February 2007 to December 2008 and Chief Executive Officer from September 2003 until February 2007. He previously held the offices of President and Vice Chairman and was a member of the Board of Directors since June 1999. Mr. McKernan also served as Governor of the State of Maine from 1987 to 1995. Governor McKernan brings to BorgWarner's board a blend of experience as a former Governor of Maine, a former US Congressman, a former State Legislator and former CEO of a public company. His knowledge of the

legislative process combined with his demonstrated leadership capabilities and CEO's perspective provide a valuable point of view on the BorgWarner board. Governor McKernan also has significant experience as a director. Governor McKernan's practice of corporate, regulatory and administrative law enables him to provide a legal perspective on issues facing the board and the Company in those areas and with respect to corporate governance.

Class II Directors	Age	Principal Occupation and Directorships
Ernest J. Novak, Jr. 2003	66	Mr. Novak retired as a Managing Partner from Ernst & Young in June 2003. He was a Managing Partner from 1986 until June 2003. Mr. Novak is also a director of A. Schulman, Inc. and FirstEnergy Corp. Mr. Novak's extensive knowledge of accounting and his financial expertise across a broad range of public companies make him well qualified as a member of our board and as chairman of the audit committee of our board. Mr. Novak spent over thirty years performing, reviewing and supervising audits of diverse public companies' financial statements and overseeing the filing of them with the Securities and Exchange Commission. He has a master's degree in accounting, is a Certified Public Accountant and currently chairs the audit committees of two other public companies.

Class III Directors	Age	Principal Occupation and Directorships
Robin J. Adams 2005	57	Mr. Adams has been Executive Vice President, Chief Financial Officer and Chief Administrative Officer since April 2004. He was Executive Vice President — Finance and Chief Financial Officer of American Axle & Manufacturing Holdings Inc. ("American Axle") from July 1999 until April 2004. Prior to joining American Axle, he was Vice President and Treasurer and principal financial officer of BorgWarner Inc. from May 1993 until June 1999. Mr. Adams is also a director of Carlisle Companies Inc. Mr. Adams has 35 years experience in the transportation industry. He has been the executive leader for the financial organizations of two publicly traded U.S. companies for the last 18 years where he has gained significant experience dealing with public company boards on a host of financial and strategic issues. He has experience and provided oversight in the areas of accounting, audit, corporate finance, treasury, tax, business development, investor relations and information technology. He has played a leadership role in financial transactions that include public debt and equity offerings, IPOs, securitizations and bank financings. Mr. Adams also contributes merger and acquisition experience, thorough knowledge of the Company's business and the automotive industry, as well as financial acumen.

Class III Directors	Age	Principal Occupation and Directorships
David T. Brown 2004	62	Mr. Brown retired from Owens Corning, a global leader in glass technology, on December 31, 2007. He was President and Chief Executive Officer of Owens Corning from April 2002 until his retirement. He was Executive Vice President and Chief Operating Officer from January 2001 to March 2002. He was Vice President of Owens Corning and President, Insulating Systems Business from January 1997 to December 2000. Mr. Brown is also a director of Franklin Electric Co., Inc. As President and Chief Executive Officer of Owens Corning, Mr. Brown led Owens Corning during a difficult period in that company's history associated with its asbestos-related liability dating back to 1958. He brings operational experience and the perspective of a former CEO to his service on BorgWarner's board. Mr. Brown was a director of Owens Corning until December 31, 2007. His experience serving on boards of other public companies in varied industries contributes to his knowledge of corporate governance.
Jan Carlson 2010	50	Mr. Carlson was appointed President and Chief Executive Officer and Director of Autoliv in early 2007. He joined Autoliv in 1999 as President of Autoliv Electronics and held that position until April 2005, when he became Vice President of Engineering of Autoliv and a member of that company's Executive Committee. Mr. Carlson brings international perspective concerning the global automotive industry and the experience and perspective of a currently serving CEO of a non-US company to the board. Prior to joining Autoliv, Mr. Carlson was President of Saab Combitech, a division within Saab aircraft group specializing in commercializing military technologies. Mr. Carlson also contributes to the board's understanding of technology and manufacturing.

Class III Directors	Age	Principal Occupation and Directorships
Dennis C. Cuneo 2009	61	Mr. Cuneo has been an attorney with Fisher & Phillips LLP since July 1, 2010, serving as Managing Partner of the firm's Washington DC office, after having been with Arent Fox LLP since November 2006. He was Senior Vice President of Toyota North America, Inc. from 2000 to 2006; Corporate Secretary and Chief Environmental Officer of Toyota Motor North America Inc. from 2004 to 2006, and Senior Vice President of Toyota Motor Manufacturing North America from 2001 to 2006. Mr. Cuneo was formerly Board Chairman of the Federal Reserve Bank of Cleveland, Cincinnati branch and is on the board of the Center for Automotive Research. Mr. Cuneo is also a director of AK Steel Holding Corporation. Mr. Cuneo brings experience in, and understanding of, the automotive industry and its trends. Mr. Cuneo is a former senior executive and officer at Toyota Motor North America, Inc. and Toyota Motor Manufacturing North America. Mr. Cuneo's Toyota career spanned more than 22 years, during which he was responsible for legal affairs, administration, public relations, investor relations, environmental affairs, corporate advertising, government relations, philanthropy, planning, research and Toyota's Latin America Research Group. Mr. Cuneo also provides a legal perspective on issues facing the board and the Company with respect to board oversight areas, corporate governance and regulatory matters.

No director nominee, director or executive officer is related to any other director nominee, director or executive officer (or to any director or executive officer of any of the Company's subsidiaries) by blood, marriage or adoption. There are no arrangements or understandings between any nominee or any of our directors or executive officers or any other person pursuant to which that nominee or director or executive officer was nominated or elected as a director of the Company or any of its subsidiaries. No director or executive officer of the Company is party to, or has any material interests in, any material legal proceedings that are adverse to the Company or its subsidiaries.

Board of Directors and Its Committees

The Board of Directors held five meetings during 2010. All of the directors attended at least 75% of the meetings of the Board of Directors and each committee on which they served while they were members of them. The Company's Corporate Governance Guidelines set forth the Company's policy that directors should use their best efforts to attend the Company's annual meeting of stockholders. All directors serving at the time of the 2010 Annual Meeting of Stockholders attended the meeting.

The Board has determined that all Board members meet the independence requirements of the New York Stock Exchange ("NYSE"), with the exception of Mr. Manganello, our Chairman and Chief Executive Officer, and Mr. Adams, our Executive Vice President, Chief Financial Officer and Chief Administrative Officer. Under the Company's Corporate Governance Guidelines, a director will not be considered independent unless the Board determines that such director has no direct or indirect material relationship with the Company. In addition, the Company's Corporate Governance Guidelines provide, among other things, that:

- a director who is an employee, or whose immediate family member is an executive officer, of the Company is not "independent" until three years after the end of such employment relationship.

- a director who receives, or whose immediate family member receives, more than $120,000 per year in direct compensation from the Company, other than director and committee fees or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not "independent" until three years after he or she ceases to receive more than $120,000 per year in such compensation.

- a director who is affiliated with or employed by, or whose immediate family member is a current partner of the internal or external auditor of the Company, is a current employee of such a firm and personally works on the Company's audit or was within the last three years a partner or employee of such a firm and personally worked on the Company's audit at that time, is not "independent" until three years after the end of the affiliation or the employment or auditing relationship.

- a director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's present executives serve on that company's compensation committee, is not "independent" until three years after the end of such service or the employment relationship.

- a director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the listed company for property or services in an amount which, in any single fiscal year, exceeds the greater of $1 million, or 2% of such other company's consolidated gross revenues, is not "independent" until three years after falling below such threshold.

- a director who is not considered independent by relevant statute or regulation is not "independent."

Board Leadership Structure

Our Board of Directors is a strong, cohesive board that has been effective in performing its monitoring and oversight roles by acting as a unified whole. The Board has determined that there are significant advantages in having our CEO, who has extensive knowledge of the Company and the automotive industry, also serve as Chairman. Having a unified CEO and Chairman position has been especially valuable during the recent economic downturn. Mr. Manganello has been Chairman and CEO since 2003 and possesses the extensive knowledge and the collaborative demeanor in working with other members of the board of directors that make this leadership structure the most appropriate structure for the Company. The Board reviews from time to time the question of whether the Chairman and CEO positions should be held by a single individual in light of circumstances at the time of the review. While the Board has concluded for the present that a single CEO and Chairman is in the best interest of the Company and its stockholders, the Board has reserved for itself the discretion to make a different determination in the future to serve the best interests of the Company if circumstances change.

In view of the fact that the Company has at times been without an independent chairman, the Board of Directors established the role of Lead Director. The Lead Director works with the Chairman and CEO and other members of the Board to provide independent oversight of the Company's management and affairs on behalf of the Company's stockholders. Among other things, the Lead Director serves as the principal liaison between the Chairman and the independent directors, contributes to agenda planning and chairs the executive session of non-employee directors at each regularly scheduled Board meeting.

Board Committees

The Board of Directors has a standing Compensation Committee, Audit Committee, Corporate Governance Committee and Executive Committee. The charters for each of our Board committees can be found on the Company's website at www.borgwarner.com. The responsibilities of our Board committees are set forth in their charters, which are reviewed at least annually.

Compensation Committee. The current members of the Compensation Committee are Directors Drummond (Chairman), Bonanno, Brown and Carlson. The principal functions of the Compensation Committee include reviewing and approving compensation philosophy and executive compensation strategy, chief executive officer and other executive remuneration and compensation plans, and supervising the administration of these plans. A primary purpose of the Compensation Committee is to ensure that the compensation of Executive Officers is internally equitable, externally competitive, motivates Executive Officers toward the achievement of business objectives and aligns their focus with the long term interests of Company stockholders. The Compensation Committee met seven times during 2010.

Audit Committee. The current members of the Audit Committee are Directors Novak (Chairman), Cuneo, McKernan and Stallkamp. The Audit Committee is charged with assisting the full Board in fulfilling the Board's oversight responsibility with respect to the quality and integrity of the accounting, auditing, financial reporting and risk management practices of the Company. The Audit Committee also has the responsibility for, among other things, selection and compensation of the independent registered public accounting firm, monitoring the independent registered public accounting firm's qualifications, independence and work (including resolving any disagreements between the Company's management and the independent registered public accounting firm regarding financial reporting), pre-approving all services to be performed by the independent registered public accounting firm, monitoring the performance of the Company's internal audit function and reviewing on behalf of the Board the Company's pension plans and risk management programs.

Each member of the Audit Committee meets the independence requirements set by the New York Stock Exchange, Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Securities and Exchange Commission. While other members of the Audit Committee also qualify as financial experts as defined by the rules and regulations of the Securities and Exchange Commission, the Board of Directors has designated the Chairman of the Audit Committee, Mr. Novak, as our audit committee financial expert. None of the members of the Committee simultaneously serve on the audit committees of more than two other public companies. The Audit Committee met five times during 2010.

Corporate Governance Committee. The present members of the Corporate Governance Committee are Directors Michas (Chairman), Drummond and Schaum. The principal functions of the Corporate Governance Committee include making recommendations to the Board of Directors regarding: (i) Board composition and structure, (ii) corporate governance principles, including the nature, duties and powers of Board committees, (iii) term of office for members, (iv) qualified persons to be nominated for election or re-election as directors, (v) stockholders' suggestions for board nominations, (vi) the emergency successor to the Chief Executive Officer, and (vii) any requests for waivers of application of the Company's Code of Ethical Conduct and any related person transactions. The Corporate Governance Committee also establishes criteria for Board and committee membership, evaluates Company policies relating to the recruitment of directors and oversees the evaluation of the Board, its committees and management. The Corporate Governance Committee met four times during 2010.

The Corporate Governance Committee will consider nominees for the Board of Directors from a variety of sources, including current directors, management, retained third-party search firms, and stockholders.

Under our By-laws, stockholders of record of the Company may recommend director candidates for inclusion by the Board in the slate of nominees which the Board recommends to stockholders for election. Stockholders submitting such nominations must provide the information and background material specified in Article II, Section 7 of our By-Laws to the "BorgWarner Inc. Corporate Governance Committee" c/o BorgWarner Inc. General Counsel, 3850 Hamlin Road, Auburn Hills, Michigan 48326 not less than 90 nor more than 120 days prior to the first anniversary of the preceding year's annual meeting. Accordingly, any stockholder who wishes to have a nomination considered at the 2012 annual meeting must deliver the required materials between December 27, 2011 and January 26, 2012.

The specific procedures by which security holders may recommend nominees are set forth in Article II, Sections 7 and 8 of the Company's By-laws. The Company's By-Laws require, among other things, that director nominees disclose all material monetary agreements between the nominating stockholder and the nominees; that director nominees (including the board's nominees) complete a questionnaire regarding the nominee's background, qualifications and conflicts of interest; and that stockholders proposing business disclose economic interests, including interest in the Company as a result of derivative instruments.

Assuming that the required information and material is provided for candidates recommended by stockholders, the Corporate Governance Committee will evaluate those candidates by following substantially the same process, and applying substantially the same criteria, as for candidates submitted by Board members. The General Counsel will review the information and provide to the Chairman of the Corporate Governance Committee an assessment of the candidate's independence, freedom from conflicts of interest and general suitability. If the Chairman of the Committee decides to submit the candidate to the entire Committee, each member will receive the candidate's background information and will be afforded an opportunity to interview the candidate.

In considering whether to recommend to the full Board any candidate for inclusion in the Board's slate of recommended director nominees, the Corporate Governance Committee will consider, among other things, the extent to which candidates possess the following factors:

- the highest personal and professional ethics, integrity and values;
- demonstrated business acumen, experience and ability to use sound judgment to contribute to effective oversight of the business and financial affairs of the Company;
- ability to evaluate strategic options and risks and form independent opinions, stated constructively to contribute to guidance and direction of the Company;
- active, objective and constructive participation at meetings of the Board and its committees, with flexibility in approaching problems;
- open mindedness on policy issues and areas of activity affecting overall interests of the Company and its stockholders;
- stature to represent the Company before the public, stockholders and various others who affect the Company;
- involvement only in activities and interests that do not create a conflict with the director's responsibilities to the Company and its stockholders;
- willingness to objectively appraise management performance in the interest of the stockholders;
- interest and availability of time to be involved with the Company and its employees over a sustained period;
- ability to work well with others, with deep and wide perspective in dealing with people and situations, respect for the views of others;
- a reasoned and balanced commitment to the social responsibilities of the Company;
- contribution to the Board's desired diversity and balance;
- willingness of independent directors to limit public company board service to 4 or fewer boards (Any exceptions would require Corporate Governance Committee approval.);
- willingness to tender, promptly following the annual meeting at which they are elected or re-elected as Director, an irrevocable resignation that will be effective upon (i) the failure to receive the required vote at the next annual meeting at which they face re-election and (ii) Board acceptance of such resignation; and
- willingness to provide all information, including completion of a questionnaire, required by the Company's Amended and Restated By-Laws.

The Company believes that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities. The Corporate Governance Committee seeks to establish and maintain a board that is strong in its collective knowledge and that possesses a diversity of skills, backgrounds and experience with respect to vision, strategy and leadership, business judgment and knowledge, corporate governance, accounting and finance, global markets and industry knowledge. If the Corporate Governance Committee determines that a stockholder-nominated candidate is suitable and that the candidate should be recommended to the full Board, a quorum of the full Board must discuss whether to include the candidate in the slate of nominees which the Board recommends to stockholders for election and, if appropriate, adopt a resolution authorizing the inclusion.

You may send communications to your Board of Directors and to individual directors. Such communications should be submitted in writing addressed to your Board of Directors or to one or more named individual directors in care of BorgWarner Inc., General Counsel, 3850 Hamlin Road, Auburn Hills, Michigan 48326. Communication from stockholders will be forwarded promptly to your Board of Directors or such named individual director.

Executive Committee. The present members of the Executive Committee are Directors Drummond, Manganello and Michas. The Executive Committee is empowered to act for the full Board during intervals between Board meetings when telephonic meetings cannot reasonably be arranged, with the exception of certain matters that by law may not be delegated. The Executive Committee did not meet during 2010.

Executive Sessions. The non-employee directors meet in executive sessions without the presence of any corporate officer or member of management in conjunction with regular meetings of the Board. Lead Director Michas is the current presiding director. Interested parties can make concerns known directly to the non-management directors on-line at www.mysafeworkplace.com or by toll-free call to 1-800-461-9330.

Certain Relationships and Related Transactions, and Director Independence

The Company has adopted a written policy concerning Related Party Transactions under which the CEO is responsible for review, disapproval or approval or ratification of any Related Person Transactions in which an Executive Officer or Immediate Family Member of an Executive Officer (in either case, other than the CEO) has a material interest, and the Corporate Governance Committee is responsible for review, disapproval or approval or ratification of any Related Person Transactions in which a director, nominee for director or the CEO or Immediate Family Member of any of them has a material interest

REPORT OF THE BORGWARNER INC. AUDIT COMMITTEE

Management of your Company is responsible for the preparation, presentation and integrity of your Company's consolidated financial statements and for the effectiveness of internal control over financial reporting. Management and the Company's internal auditing department are responsible for maintaining its accounting and financial reporting principles and internal controls and procedures designed to maintain compliance with accounting standards and applicable laws and regulations. PricewaterhouseCoopers LLP. ("PwC") was the independent registered public accounting firm for the Company in 2010 and was responsible for performing independent audits of your Company's consolidated financial statements and of the design and effectiveness of internal controls over financial reporting, and expressing an opinion on (1) the conformity of the financial statements with accounting principles, generally accepted in the United States of America ("GAAP") and (2) the effectiveness of internal control over financial reporting based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Audit Committee is responsible for the appointment, oversight, compensation and retention of the independent registered public accounting firm.

In the performance of its oversight function, the Audit Committee has reviewed and discussed with management and PwC, the audited consolidated financial statements for the year ended December 31, 2010. The Audit Committee also has discussed with PwC, the matters required to be discussed by the Public Company Accounting Oversight Board ("PCAOB") Interim Auditing Standard AU Section 380, "Communication with Audit Committees." The Audit Committee received from PwC the written disclosures and the letter required by applicable requirements of the PCAOB regarding the independent registered accountant's communications with the Audit Committee concerning independence, and have discussed with PwC their independence. The Audit Committee has concluded that PwC's provision of audit and non-audit services to the Company is compatible with their independence.

The Audit Committee discussed with PwC the overall scope and plans for their audit. The Audit Committee met with PwC, with and without management present, to discuss the results of their audits, the evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. In addition, the Audit Committee provided guidance and oversight to the internal audit function, including the audit plan, and results of internal audit activity. The Vice President of Internal Audit has direct access to the Committee to discuss any matters desired, and the Vice President of Internal Audit presented an update of internal audit activity at each Committee meeting.

The members of the Audit Committee are not full-time employees of your Company and are not performing the functions of auditors or accountants. It is not the duty or responsibility of the Audit Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures or to set auditor independence standards. Members of the Audit Committee necessarily rely on the information provided to them by management and the independent auditors. Accordingly, the Audit Committee's considerations and discussions referred to above do not assure that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with GAAP, or that the Company's auditors are "independent."

Based upon the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of the Audit Committee that are described above and in the Audit Committee's charter, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements of the Company be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 for filing with the SEC. It also recommended to the Board that, subject to stockholder ratification, PwC be appointed as the independent registered public accounting firm for the Company for 2011.

BORGWARNER INC. AUDIT COMMITTEE

Ernest J. Novak, Jr. Chairman

Dennis C. Cuneo John R. McKernan, Jr. Thomas T. Stallkamp

The Audit Committee Report does not constitute soliciting material. It is not considered filed by us and shall not be incorporated by reference into any of our other filings under the Securities Act or the Exchange Act unless we state otherwise.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of February 16, 2011, certain information regarding beneficial ownership of common stock by those persons and entities that are known to the Company as beneficially owning more than five percent of the Company's common stock.

Name and Address of Beneficial Owner	Number of Shares	Percent of Class
BlackRock, Inc. 40 East 52nd Street New York, NY 10022	6,937,952(a)	6.1%

(a) Pursuant to a Schedule 13G/A dated February 1, 2011 on behalf of BlackRock, Inc. indicating that it had sole voting power for 6,937,952 shares and sole dispositive power for 6,937,952 shares.

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The following table sets forth, as of March 1, 2011, certain information regarding the beneficial ownership of common stock by each person who was a director of the Company at December 31, 2010, each nominee for election as a director, each executive officer named in the Summary Compensation Table, and the directors and executive officers of the Company as a group.

Name of Beneficial Owner(a)	Amount and Nature of Stock Ownership(b)(c)	Percent of Class
Timothy M. Manganello	1,228,180(d)	1.1%
Robin J. Adams	398,981	*
John G. Sanderson	44,796	*
Thomas F. Waldhier	39,905	*
Roger J. Wood	161,693	*
Phyllis O. Bonanno	36,115	*
David T. Brown	1,736	*
Jan Carlson (e)	0	*
Dennis C. Cuneo	6,193	*
Jere A. Drummond	37,435	*
John R. McKernan, Jr.	6,480	*
Alexis P. Michas.	84,903	*
Ernest J. Novak, Jr.	25,836	*
Richard O. Schaum	17,483	*
Thomas T. Stallkamp	17,089	*
All directors and executive officers of the Company (21 persons)	2,575,540	2.3%

* Represents less than one percent.

(a) For purposes of the above table, the address for each named person is 3850 Hamlin Road, Auburn Hills, Michigan 48326.

(b) Includes the following number of shares issuable upon the exercise of options within the next 60 days: 179,386 for Mr. Adams; 16,000 for Ms. Bonanno; 16,000 for Mr. Drummond; 386,976 for Mr. Manganello; 6,000 for Mr. Novak; and 1,022,306 for all directors and executive officers of the Company.

(c) Includes all shares with respect to which each officer or director directly, or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares the power to vote or to direct voting of such shares or to dispose or to direct the disposition of such shares.

(d) Includes 258,562 shares of common stock issuable upon the conversion of restricted stock units granted to him under the August 3, 2007 Recognition and Retention Grant.

(e) Mr. Carlson is a recently appointed director and is a nominee for Class III Director.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and persons who beneficially own more than 10 percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of the Company's common stock. Such officers, directors and persons are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms that they file with the SEC.

Based on information provided to the Company by each director and executive officer, the Company believes all such reports required to be filed in 2010 were timely filed except, as result of an administrative error by the Company, two reports on Form 4 representing two transactions were inadvertently filed late by each of Robin J. Adams, Daniel CasaSanta, John J. Gasparovic, Timothy M. Manganello, Jeffrey L. Obermayer, James R. Verrier and Roger J. Wood, and one report on Form 4 representing one transaction was inadvertently filed late by Jan Bertsch, Angela D'Aversa, John Sanderson and Thomas Waldhier. These were reported in 2010 following discovery of the errors.

Code of Ethics

The Company has long maintained a Code of Ethical Conduct which is applicable to all directors, officers and employees of the Company. In addition, the Company has adopted a Code of Ethics for CEO and Senior Financial Officers which applies to the Company's Chief Executive Officer, Chief Financial Officer, Treasurer and Controller. Each of these codes is posted on the Company's website at www.borgwarner.com.

Risk Oversight

Our Board of Directors regularly and continually receives information intended to apprise the Board of the strategic, operational, commercial, financial, legal, and compliance risks the Company faces. Oversight of risk is an evolving process in which management assesses the degree to which risk management is integrated and continually seeks opportunities to further engrain enterprise risk management into business processes throughout the organization. The Board actively encourages management to continue to drive this evolution. In 2010 the Board of Directors endorsed the Company's enhancement of its enterprise risk management governance infrastructure, processes, integration, communications and sustainability.

While the Board of Directors has responsibility for oversight of the Company's risk management practices, the Audit, Compensation and Corporate Governance Committees of the Board contribute to the risk management oversight function. In particular, the Audit Committee focuses on financial risk, including internal controls and receives risk assessment and management reports from the Company's internal Risk Committee and from the Company's internal audit function. The members of the Risk Committee (the Company's Controller, Treasurer, Vice President of Internal Audit, Director of Risk Management, Chief Compliance Officer, Vice President, Information Technology and business operations leaders) and members of the internal audit function have direct access to the Audit Committee and Board of Directors. The Audit Committee receives, reviews and discusses regular reports from them concerning risk identification and assessment, risk management policies and practices and mitigation initiatives, to assure that the risk management processes designed and implemented by the Company are adapted to the Company's strategy and are functioning as expected. In addition, as part of its compensation philosophy, the Compensation Committee strives to adopt compensation incentives that encourage appropriate risk-taking behavior that is consistent with the Company's long term business strategy and objectives. The Corporate Governance Committee oversees risk management practices in its domain, including director candidate selection, governance and succession matters.

To meet its obligations under the Securities and Exchange Commission's Enhanced Disclosure Rules, the Company undertook a process to assess to what extent risks arising from our compensation programs for employees are reasonably likely to have a material adverse effect on the Company. We concluded that it is not likely that our compensation policies will have such an effect.

COMPENSATION DISCUSSION AND ANALYSIS

Recent Events

Our executive team has successfully managed our Company through the recent dramatic economic downturn. In 2010, there was significant improvement in the financial performance of the Company, including record sales and earnings. The automotive markets also improved from the unprecedented economic challenges which confronted the global automotive industry during 2008 and 2009. As a result of this improvement, Management and our Compensation Committee were able to take several important actions, including:

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Reinstatement of base salaries for Named Executive Officers to their 2008 level following the reductions of 2009.

- Return of the performance measures under the annual incentive plan to the traditional economic value (“EV”) measure.
- Revision of the Comparator Group used for compensation benchmarking to add more companies which operate in the global automotive and transportation sectors.

To ensure that our pay programs are within the norm of a range of market practices, we closely monitor the pay programs and pay levels of executives from companies of similar size and complexity. When norms change, the Committee reviews and responds in order to ensure any necessary changes occur in a timely manner. Changes in 2010 included:

- The elimination of tax gross-ups on perquisites.
- The use of total compensation summaries or "tally sheets" to analyze all of the components of compensation for each executive officer.

Highlights of the Compensation Programs

Compensation Philosophy – The Company's executive compensation program is predominantly performance based, with approximately 75% of total compensation tied to short and long-term incentives, mainly driven by the creation of economic value and total shareholder return. While base compensation is targeted at the median of comparator companies, performance based compensation is targeted at the 65th percentile. We believe that this philosophy has allowed us to attract and retain top talent, which has consistently placed us in the top quartile of automotive suppliers.

Base Salary – Base salary levels are targeted at the median of a comparator group of companies with whom we compete for talent. We believe that targeting the median in setting base salary allows us to remain competitive for talent while targeting slightly above median on performance based components of pay allows us to attract top talent.

Short-Term Incentives – Creating economic value for our stockholders is the foundation upon which we operate and is the singular focus of our annual incentive program. As a result of the Company's record sales and earnings in 2010, maximum results were achieved under this program.

Long-Term Incentives – The primary vehicle utilized under our long-term incentive plan is performance shares. The performance measure utilized – total shareholder return versus our industry peer group – provides an incentive for our executives to outperform our peers and provide maximum return to our stockholders. Under this plan, target compensation is paid when 65th percentile performance is achieved over a three-year period as compared to our peers. A smaller portion of our annual grants is comprised of restricted stock, which also incents and rewards executives to improve the long term stock value to stockholders. Both vehicles serve as retention tools as they fully vest after three years.

Stock Ownership – As a further alignment with stockholder's interests, our executives are expected to hold a significant and sustained long-term personal equity interest in the Company. The CEO ownership guideline, for example, equates to more than six times annual base salary.

2010 Results – The Company achieved record financial results in 2010, which in turn created significant value for our stockholders. Payments under our annual and long-term incentive plans were aligned with those achievements and with the performance-based goals and philosophies of our compensation programs.

Compensation Philosophy

As the Company emerged from this time of unprecedented economic challenges, our Compensation Committee reaffirmed our underlying executive compensation objectives, which are to:

- attract and retain the best possible global executive talent,
- motivate our executives to achieve goals that support the Company's business strategy (including growth and the creation of long term value),
- link executives' and stockholders' interests through equity-based incentive plans,

- provide a compensation package that reflects individual performance as well as overall business results.

To achieve these objectives, our Compensation Committee implemented and maintains compensation plans and programs that tie a substantial portion of our executives' overall compensation to our short term and long term financial performance, our common stock price, and the achievement of total stockholder return as compared to our industry. Overall, the intention is to set our total compensation target slightly above the median competitive levels of comparable companies in the automotive, transportation and general industry sectors (as described further in the Compensation Benchmarking section) and reward above median performance. Targets are set above the median to motivate exceptional performance.

Our Compensation Committee performs a strategic review of our executive officers' compensation at least annually. During this review, our Compensation Committee evaluates our compensation philosophy and objectives to ensure that they continue to reflect our intention to pay for performance, our business strategies, competitive realities and our Board's determination of what is in the best interests of stockholders. Our Compensation Committee then determines whether our compensation programs are meeting these objectives, providing adequate incentives and motivation to our executive officers and adequately compensating our executive officers relative to comparable officers in other companies with whom we compete for executives. As part of this strategic review for 2010, our Compensation Committee determined the compensation of our 11 corporate officers including our Chief Executive Officer, our Chief Financial Officer and the three other officers whose compensation is detailed in the Summary Compensation Table on page 28 (the "Named Executive Officers"). For compensation decisions, including decisions regarding the grant of equity compensation, relating to executive officers other than our Chief Executive Officer, our Compensation Committee considers recommendations from our Chief Executive Officer. At the request of the Compensation Committee, materials for Compensation Committee meetings are prepared by our Vice President, Human Resources, with assistance from the compensation consultant engaged by the Committee, Meridian Compensation Partners, LLC (the "Compensation Consultant") in 2010. Our Compensation Committee's strategic review for the upcoming plan year occurs annually in October during an extended meeting session. The Committee consults with our Chief Executive Officer during these sessions regarding the compensation of our non-CEO officers.

Components of Compensation

The key elements of our executive compensation program are base salary, short-term (annual) incentives and long-term incentives (three-year). We strive to have each compensation element complement the others and reward the achievement of short-term and long-term business objectives. In 2010, the primary short-tem incentive vehicle used was the Management Incentive Plan ("MIP"), and the primary long-term incentive vehicles used were performance shares and restricted stock. However, in order to keep our compensation programs in alignment with our compensation objectives and our strategic business goals, and to meet changing economic conditions and competitive challenges and pressures, we maintain flexibility in the use of these plans and vehicles. Additionally, a limited number of executive benefits and perquisites are used based on competitive practices and to provide a connection to our industry, such as providing leased vehicles with BorgWarner component content to our executives.

Base Salary

Base salaries for our executives are established based on the scope of the executive's responsibilities, time in position and potential, the competitive market and internal equity. When considering market competitive base salaries we target the median level among the comparator companies. Base salaries are reviewed annually, and adjusted as appropriate to realign salaries with market levels after taking into account individual responsibilities, individual and business unit performance, and experience.

During its review of base salaries for our Named Executive Officers in October 2009 and in consideration of the improving economic conditions in our industry, our Compensation Committee determined that base salaries should be restored to their 2008 levels on January 1, 2010. The salary restoration followed a January 2009 voluntary salary decrease of 10% from the 2008 base salary and a further voluntary decrease of 5% from the 2008 base salary, for a total of 15% decrease, effective March 16, 2009. Based upon its review of the compensation data described above and in view of improved Company performance, at its November 2010 meeting, our Compensation Committee determined that base salary increases were warranted in 2011 for our Named Executive Officers in accordance with our stated philosophy to target the median of the competitive market, to reward strong performance and to motivate continued strong performance. These increases are to take effect on April 1, 2011 which is consistent with the Company's recent adoption of a single effective date for annual salary increases for its global salaried workforce.

Short-Term Incentives

The MIP is our cash-based, annual incentive plan for executives. The primary purposes of the MIP are to: (i) focus key managers on creating economic value ("EV", defined below) for the Company; (ii) reinforce teamwork and collaboration among key managers of the Company by measuring the management team at each business unit by the business results they achieve together; (iii) deliver competitive awards for key managers when economic value objectives are achieved or surpassed; and (iv) attract and retain key managers by enabling participants in the MIP to share in the success of the Company. Consequently, we use EV as our standard performance measure because we consider EV to be the foundation on which we operate and a very dynamic measure of how well we turn investment into profit. It is based on our belief that a business can be financially strong in the long run only if it consistently earns enough to cover its operating cost and, at the same time, produces enough additional earnings to cover its cost of capital or pay interest on debt and provide the required return to its stockholders. We consider any amount that exceeds these requirements to truly be additional economic value.

After a one-year suspension due to the worldwide declines in auto industry sales and the conditions in the global financial markets which made EV an ineffective measure of financial performance, our Compensation Committee determined that for the 2010 plan year there would be a return to the traditional EV-based formula. Although it is an annual plan, due to the carryover feature described below, targets are established for three years at a time. Therefore, the Committee established targets for the 2010 – 2012 three-year cycle at the end of 2009.

Methodology. The formula used in the MIP is: EV = After-Tax Operating Income minus (Average Operating Investment x Cost of Capital). We define “After-Tax Operating Income” as income prior to interest and finance charges net of income taxes calculated at a fixed composite statutory rate. We define “Average Operating Investment” for each business unit as the sum of the assets employed in the business less operating liabilities such as accounts payable accruals and long-term liabilities other than debt. We define “Average Operating Investment” for the Company to be the sum of debt, minority interest, and stockholders equity less cash and cash equivalents and 1987 leveraged buy-out (“LBO”) related goodwill. We define “Cost of Capital” as the rate of return on capital invested required to compensate debt and equity investors.

Actual performance under our MIP is measured annually from January 1 to December 31. Our Compensation Committee determines any earned MIP bonuses for any given fiscal year after review of the actual performance in relation to pre-established targets for that fiscal year. Bonuses are typically paid in a single installment in the first quarter following the completion of a given fiscal year. Although annual bonuses currently depend primarily on the achievement of EV objectives, our Compensation Committee may adjust bonus measures and awards based on other financial or non-financial measures that it believes will benefit long-term stockholder value.

We require each of our business units to increase its economic value annually in order to receive above threshold levels of payout. Accordingly, a range of performance expectations (Threshold, Target and Maximum) is recommended by management and approved by our Compensation Committee, three years at a time, for our Company and each of our business units. At the time the performance expectations are established, there is substantial uncertainty as to whether they will be met. Generally, the Threshold for each of the three years is established at a level that is greater than or equal to the EV achieved in the last year of the preceding three year period. In each of the second and third years of the three-year cycle, the Threshold value remains constant and the Target and Maximum values are adjusted upward each year by a percentage of the operating investment (“OI”) at the beginning of the three year cycle.

Because of the change to the MIP measures for the 2009 plan year, a new 3-year cycle of MIP was established for 2010-2012. Our Compensation Committee determined that for the 2010-2012 cycle the following EV-based performance objectives represent realistic stretch goals that are calibrated to motivate continued excellent performance and delivery of stockholder value. This plan also addresses overall competitiveness of compensation, which is critical to attraction and retention of talent.

2010 – 2012 Cycle EV Levels

	2010	2011	2012
Threshold	Base EV	Base EV	Base EV
Target	Base + 0.5% of OI	Base + 1% of OI	Base + 1.5% of OI
Maximum	Base + 1% of OI	Base + 2% of OI	Base + 3% of OI

Because the performance objectives under our MIP are determined three years at a time rather than annually, our MIP challenges our executives and compels our key managers to find ways to generate and sustain economic growth over an extended period. Over the last ten years, results at or above Target have been achieved just over half of the time.

In order to encourage longer-term perspective in decision-making while continuing to reward participants for the achievement of annual goals, our MIP includes a “Carryover Bonus” feature that allows participants to earn, over the following two-year period, any MIP bonus opportunity (up to specified maximum limits) that was not attained during the current plan year. Thus, if the Maximum bonus opportunity is not earned in a given year, then the amount of the shortfall can be earned over the next two years (50% each year) by achieving results each year which are higher than the prior year. However, no Carryover Bonus from a prior year is earned if the Threshold level of performance for the current year is not achieved. For example, if an individual was part of a unit which achieved results at Threshold in year one, that individual would carry over the lost dollar opportunity between Threshold and Maximum into years two and three (50% each year). If in year two that individual’s unit achieved Maximum results, he would be paid 50% of that lost opportunity from year one. If in the subsequent year three, his unit’s performance was below Threshold, he would lose the other 50% of the original carryover from year one. Because the carryover opportunity is available in addition to the basic bonus opportunity for the next two years, in a given year, the Carryover Bonus from prior years may increase the annual bonus opportunity of the executive officers above the regular target levels.

Bonus Opportunity. Based on our compensation philosophy, in November 2009, for the 2010 plan year, our Compensation Committee approved Target bonus opportunities ranging from 75% to 130% of base salary for our Named Executive Officers. (See Grants of Plan-Based Awards table on page 29). Our Named Executive Officers receive 50% of the Target opportunity for achieving Threshold performance and 200% of the Target opportunity for achieving Maximum performance or above. Results in between these levels are interpolated. In November 2010, our Compensation Committee approved the Target bonus opportunities for our executive officers for 2011. These Target bonus opportunities range from 75% to 130% of base salary for our Named Executive Officers. In order to place greater importance on financial performance-based compensation, the Target bonus opportunities generally reflect the approximated 65th percentile of annual bonus levels for similar positions in the Comparator Group. The final bonus amounts paid, if any, are determined by our Compensation Committee based on achievement of the performance measures.

The bonus opportunity for each Named Executive Officer is further defined by unit, group and corporate results as applicable. The Compensation Committee’s objective for the Presidents is to assign the largest percentage of the bonus opportunity to the individual business group or unit for which the executive has responsibility, while also promoting collaboration within and between business groups.

For our Named Executive Officers, the 2010 bonus opportunities were weighted as follows:

	BorgWarner Inc.	Business Group	Business Unit
T. Manganello, CEO	100%		
R. Adams, CFO	100%		
	40%	60%	

R. Wood, President, Engine Group			
J. Sanderson, President, Drivetrain Group	40%	60%	
T. Waldhier, President, BERU Systems and Emission Systems	20%	20%	60%

Results. In February 2011, our Compensation Committee determined that, for purposes of our MIP, during the 2010 plan year maximum results were achieved at the Corporate level under the EV measure. Maximum results were also achieved by the Engine and Drivetrain business groups as well as by each of the business Units. A portion of the bonus payments for all Named Executive Officers also included carryover. For details of these amounts see the Summary Compensation Table on page 28.

Long-Term Incentives

We believe that long-term performance is driven through an ownership culture that rewards our executives for the maximization of long-term stockholder value. Our long-term incentive plans have been established and operated to provide certain of our employees, including our executive officers, with appropriate incentives to help align their interests with the interests of our stockholders. In order to strengthen this alignment and provide our executives the opportunity for above market compensation when our stockholders are similarly rewarded, long-term incentive compensation levels are targeted at the 65th percentile of the market level. Furthermore, our stock compensation plans have provided a method for our executive officers to acquire equity interests in our Company and comply with our stock ownership guidelines.

Stock Incentive Plan. All long-term incentive grants awarded in 2010 (performance shares and restricted stock) were awarded under the BorgWarner Inc. Amended and Restated 2004 Stock Incentive Plan (the “SIP”). Although the SIP provides for the use of a variety of equity-related vehicles, our Compensation Committee determined in 2010 to rely primarily on grants of restricted stock and performance shares in order to motivate and reward executives for growth in total stockholder return as compared to our industry (in the case of performance shares) and officer retention and growth in the Company’s stock price (in the case of restricted stock and performance shares).

As discussed above, the target awards (in dollars) for our executives are typically based on the 65th percentile market value that reflects the responsibility of each Named Executive Officer, with grant sizes (in shares) based on a valuation methodology calculated by the Compensation Consultant. This methodology is the same one used by the Compensation >

Market Linked Securities—Upside Participation to a Cap and Fixed Percentage Buffered Downside

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FATCA

Legislation commonly referred to as "FATCA" generally imposes a withholding tax of 30% on payments to certain non-U.S. entities (including financial intermediaries) with respect to certain financial instruments, unless various U.S. information reporting and due diligence requirements have been satisfied. An intergovernmental agreement between the United States and the non-U.S. entity's jurisdiction may modify these requirements. This legislation applies to certain financial instruments that are treated as paying U.S.-source interest, dividends or dividend equivalents or other U.S.-source "fixed or determinable annual or periodical" income ("FDAP income"). If required under FATCA, withholding applies to payments of FDAP income. While existing Treasury regulations would also require withholding on payments of gross proceeds of the disposition (including upon retirement) of certain financial instruments treated as paying U.S.-source interest or dividends, the U.S. Treasury Department has indicated in subsequent proposed regulations its intent to eliminate this requirement. The U.S. Treasury Department has indicated that taxpayers may rely on these proposed regulations pending their finalization. If the securities were treated as debt instruments or as subject to Section 871(m), the withholding regime under FATCA would apply to the securities. If withholding applies to the securities, we will not be required to pay any additional amounts with respect to amounts withheld. If you are a non-U.S. holder, or a U.S. holder holding securities through a non-U.S. intermediary, you should consult your tax adviser regarding the potential application of FATCA to the securities.

The preceding discussion constitutes the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of owning and disposing of the securities.

You should consult your tax adviser regarding all aspects of the U.S. federal income and estate tax consequences of an investment in the securities and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.