# FORD MOTOR CO (F)

# 10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 08/08/2008
Filed Period 06/30/2008

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, DC 20549**

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF1934**

**For the quarterly period ended June 30, 2008**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

Commission File Number: 1-3950

# FORD MOTOR COMPANY

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State of Incorporation) | 38-0549190<br>(IRS Employer Identification No.) |
| One American Road, Dearborn, Michigan<br>(Address of principal executive offices) | 48126<br>(Zip Code) |

(313) 322-3000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

As of July 29, 2008, the registrant had outstanding 2,190,498,174 shares of Common Stock and 70,852,076 shares of Class B Stock.

Exhibit index located on page number 58.

**Item 1.** ***Financial Statements***

## PART I. FINANCIAL INFORMATION

## FORD MOTOR COMPANY AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INCOME
**For the Periods Ended June 30, 2008 and 2007**
**(in millions, except per share amounts)**

| | Second Quarter | | First Half | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (unaudited) | | (unaudited) | |
| **Sales and revenues** | | | | |
| Automotive sales | $ 37,057 | $ 40,106 | $ 76,174 | $ 78,736 |
| Financial Services revenues | 4,455 | 4,136 | 8,866 | 8,525 |
| Total sales and revenues | 41,512 | 44,242 | 85,040 | 87,261 |
| | | | | |
| **Costs and expenses** | | | | |
| Automotive cost of sales | 39,995 | 36,182 | 75,451 | 70,897 |
| Selling, administrative and other expenses | 7,305 | 4,952 | 12,400 | 10,924 |
| Interest expense | 2,412 | 2,759 | 4,957 | 5,477 |
| Financial Services provision for credit and insurance losses | 598 | 121 | 942 | 180 |
| Total costs and expenses | 50,310 | 44,014 | 93,750 | 87,478 |
| | | | | |
| Automotive interest income and other non-operating income/(expense), net | (192) | 559 | (100) | 888 |
| Automotive equity in net income/(loss) of affiliated companies | (40) | 139 | 96 | 211 |
| **Income/(Loss) before income taxes** | (9,030) | 926 | (8,714) | 882 |
| Provision for/(Benefit from) income taxes | (444) | 123 | (349) | 305 |
| **Income/(Loss) before minority interests** | (8,586) | 803 | (8,365) | 577 |
| Minority interests in net income/(loss) of subsidiaries | 89 | 85 | 211 | 143 |
| **Income/(Loss) from continuing operations** | (8,675) | 718 | (8,576) | 434 |
| Income/(Loss) from discontinued operations (Note 8) | 8 | 32 | 9 | 34 |
| **Net income/(loss)** | $ (8,667) | $ 750 | $ (8,567) | $ 468 |
| | | | | |
| **AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 9)** | | | | |
| **Basic income/(loss)** | | | | |
| Income/(Loss) from continuing operations | $ (3.88) | $ 0.38 | $ (3.87) | $ 0.23 |
| Income/(Loss) from discontinued operations | • | 0.02 | • | 0.02 |
| Net income/(loss) | $ (3.88) | $ 0.40 | $ (3.87) | $ 0.25 |
| **Diluted income/(loss)** | | | | |
| Income/(Loss) from continuing operations | $ (3.88) | $ 0.30 | $ (3.87) | $ 0.21 |
| Income/(Loss) from discontinued operations | • | 0.01 | • | 0.01 |
| Net income/(loss) | $ (3.88) | $ 0.31 | $ (3.87) | $ 0.22 |
| | | | | |
| **Cash dividends** | $ • | $ • | $ • | $ • |

The accompanying notes are part of the financial statements

**FORD MOTOR COMPANY AND SUBSIDIARIES**

**SECTOR STATEMENT OF INCOME**
**For the Periods Ended June 30, 2008 and 2007**
**(in millions, except per share amounts)**

| | Second Quarter | | First Half | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (unaudited) | | (unaudited) | |
| **AUTOMOTIVE** | | | | |
| **Sales** | $ 37,057 | $ 40,106 | $ 76,174 | $ 78,736 |
| **Costs and expenses** | | | | |
| Cost of sales | 39,995 | 36,182 | 75,451 | 70,897 |
| Selling, administrative and other expenses | 2,955 | 3,224 | 6,064 | 7,298 |
| Total costs and expenses | 42,950 | 39,406 | 81,515 | 78,195 |
| **Operating income/(loss)** | (5,893) | 700 | (5,341) | 541 |
| | | | | |
| Interest expense | 485 | 577 | 1,013 | 1,157 |
| | | | | |
| Interest income and other non-operating income/(expense), net | (192) | 559 | (100) | 888 |
| Equity in net income/(loss) of affiliated companies | (40) | 139 | 96 | 211 |
| **Income/(Loss) before income taxes • Automotive** | (6,610) | 821 | (6,358) | 483 |
| | | | | |
| **FINANCIAL SERVICES** | | | | |
| **Revenues** | 4,455 | 4,136 | 8,866 | 8,525 |
| **Costs and expenses** | | | | |
| Interest expense | 1,927 | 2,182 | 3,944 | 4,320 |
| Depreciation | 4,112 | 1,479 | 5,948 | 2,979 |
| Operating and other expenses | 238 | 249 | 388 | 647 |
| Provision for credit and insurance losses | 598 | 121 | 942 | 180 |
| Total costs and expenses | 6,875 | 4,031 | 11,222 | 8,126 |
| **Income/(Loss) before income taxes • Financial Services** | (2,420) | 105 | (2,356) | 399 |
| | | | | |
| **TOTAL COMPANY** | | | | |
| **Income/(Loss) before income taxes** | (9,030) | 926 | (8,714) | 882 |
| Provision for/(Benefit from) income taxes | (444) | 123 | (349) | 305 |
| **Income/(Loss) before minority interests** | (8,586) | 803 | (8,365) | 577 |
| Minority interests in net income/(loss) of subsidiaries | 89 | 85 | 211 | 143 |
| **Income/(Loss) from continuing operations** | (8,675) | 718 | (8,576) | 434 |
| Income/(Loss) from discontinued operations (Note 8) | 8 | 32 | 9 | 34 |
| **Net income/(loss)** | $ (8,667) | $ 750 | $ (8,567) | $ 468 |
| | | | | |
| **AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 9)** | | | | |
| **Basic income/(loss)** | | | | |
| Income/(Loss) from continuing operations | $ (3.88) | $ 0.38 | $ (3.87) | $ 0.23 |
| Income/(Loss) from discontinued operations | • | 0.02 | • | 0.02 |
| Net income/(loss) | $ (3.88) | $ 0.40 | $ (3.87) | $ 0.25 |
| **Diluted income/(loss)** | | | | |
| Income/(Loss) from continuing operations | $ (3.88) | $ 0.30 | $ (3.87) | $ 0.21 |
| Income/(Loss) from discontinued operations | • | 0.01 | • | 0.01 |
| Net income/(loss) | $ (3.88) | $ 0.31 | $ (3.87) | $ 0.22 |
| | | | | |
| **Cash dividends** | $ • | $ • | $ • | $ • |

The accompanying notes are part of the financial statements

**FORD MOTOR COMPANY AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET**
**(in millions)**

| | June 30, 2008 (unaudited) | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 30,066 | $ 35,283 |
| Marketable securities | 12,525 | 5,248 |
| Loaned securities | 7,347 | 10,267 |
| Finance receivables, net | 106,928 | 109,053 |
| Other receivables, net | 8,964 | 8,210 |
| Net investment in operating leases | 31,074 | 33,255 |
| Retained interest in sold receivables | 380 | 653 |
| Inventories (Note 2) | 12,987 | 10,121 |
| Equity in net assets of affiliated companies | 3,189 | 2,853 |
| Net property | 32,149 | 36,239 |
| Deferred income taxes | 3,251 | 3,500 |
| Goodwill and other net intangible assets (Note 4) | 2,044 | 2,069 |
| Assets of discontinued/held-for-sale operations (Note 8) | 28 | 7,537 |
| Other assets | 14,365 | 14,976 |
| **Total assets** | $ 265,297 | $ 279,264 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Payables | $ 24,216 | $ 20,832 |
| Accrued liabilities and deferred revenue | 72,381 | 74,738 |
| Debt | 166,025 | 168,787 |
| Deferred income taxes | 2,899 | 3,034 |
| Liabilities of discontinued/held-for-sale operations (Note 8) | • | 4,824 |
| Total liabilities | 265,521 | 272,215 |
| | | |
| Minority interests | 1,459 | 1,421 |
| | | |
| **Stockholders' equity** | | |
| Capital stock | | |
| Common Stock, par value $0.01 per share (2,198 million shares issued) | 22 | 21 |
| Class B Stock, par value $0.01 per share (71 million shares issued) | 1 | 1 |
| Capital in excess of par value of stock | 8,386 | 7,834 |
| Accumulated other comprehensive income/(loss) | 131 | (558) |
| Treasury stock | (183) | (185) |
| Retained earnings/(Accumulated deficit) | (10,040) | (1,485) |
| Total stockholders' equity | (1,683) | 5,628 |
| **Total liabilities and stockholders' equity** | $ 265,297 | $ 279,264 |

The accompanying notes are part of the financial statements

**FORD MOTOR COMPANY AND SUBSIDIARIES**
**SECTOR BALANCE SHEET**
**(in millions)**

| | June 30, 2008 (unaudited) | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| **Automotive** | | |
| Cash and cash equivalents | $ 16,948 | $ 20,678 |
| Marketable securities | 5,099 | 2,092 |
| Loaned securities | 7,347 | 10,267 |
| Total cash, marketable and loaned securities | 29,394 | 33,037 |
| Receivables, net | 5,116 | 4,530 |
| Inventories (Note 2) | 12,987 | 10,121 |
| Deferred income taxes | 542 | 532 |
| Other current assets | 7,035 | 5,514 |
| Current receivable from Financial Services | 895 | 509 |
| Total current assets | 55,969 | 54,243 |
| Equity in net assets of affiliated companies | 2,558 | 2,283 |
| Net property | 31,909 | 35,979 |
| Deferred income taxes | 7,676 | 9,268 |
| Goodwill and other net intangible assets (Note 4) | 2,034 | 2,051 |
| Assets of discontinued/held-for-sale operations (Note 8) | 28 | 7,537 |
| Other assets | 6,055 | 5,614 |
| Non-current receivable from Financial Services | 2,110 | 1,514 |
| Total Automotive assets | 108,339 | 118,489 |
| **Financial Services** | | |
| Cash and cash equivalents | 13,118 | 14,605 |
| Marketable securities | 7,426 | 3,156 |
| Finance receivables, net | 110,776 | 112,733 |
| Net investment in operating leases | 27,152 | 30,309 |
| Retained interest in sold receivables | 380 | 653 |
| Equity in net assets of affiliated companies | 631 | 570 |
| Goodwill and other net intangible assets (Note 4) | 10 | 18 |
| Other assets | 5,623 | 7,217 |
| Total Financial Services assets | 165,116 | 169,261 |
| Intersector elimination | (3,005) | (2,023) |
| **Total assets** | $ 270,450 | $ 285,727 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Automotive** | | |
| Trade payables | $ 18,137 | $ 15,718 |
| Other payables | 4,013 | 3,237 |
| Accrued liabilities and deferred revenue | 28,471 | 27,672 |
| Deferred income taxes | 2,748 | 2,671 |
| Debt payable within one year | 1,432 | 1,175 |
| Total current liabilities | 54,801 | 50,473 |
| Long-term debt | 25,028 | 25,779 |
| Other liabilities | 38,803 | 41,676 |
| Deferred income taxes | 967 | 783 |
| Liabilities of discontinued/held-for-sale operations (Note 8) | • | 4,824 |
| Total Automotive liabilities | 119,599 | 123,535 |
| **Financial Services** | | |
| Payables | 2,066 | 1,877 |
| Debt | 139,565 | 141,833 |
| Deferred income taxes | 4,337 | 6,043 |
| Other liabilities and deferred income | 5,107 | 5,390 |
| Payable to Automotive | 3,005 | 2,023 |
| Total Financial Services liabilities | 154,080 | 157,166 |
| | | |
| Minority interests | 1,459 | 1,421 |
| | | |
| **Stockholders' equity** | | |
| Capital stock | | |
| Common Stock, par value $0.01 per share (2,198 million shares issued) | 22 | 21 |
| Class B Stock, par value $0.01 per share (71 million shares issued) | 1 | 1 |
| Capital in excess of par value of stock | 8,386 | 7,834 |
| Accumulated other comprehensive income/(loss) | 131 | (558) |
| Treasury stock | (183) | (185) |
| Retained earnings/(Accumulated deficit) | (10,040) | (1,485) |
| Total stockholders' equity | (1,683) | 5,628 |
| Intersector elimination | (3,005) | (2,023) |
| **Total liabilities and stockholders' equity** | $ 270,450 | $ 285,727 |

The accompanying notes are part of the financial statements.

**FORD MOTOR COMPANY AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
**For the Periods Ended June 30, 2008 and 2007**
**(in millions)**

| | First Half | |
|---|---|---|
| | 2008 | 2007 |
| | (unaudited) | |
| **Cash flows from operating activities of continuing operations** | | |
| Net cash (used in)/provided by operating activities | $ 2,161 | $ 5,227 |
| **Cash flows from investing activities of continuing operations** | | |
| Capital expenditures | (3,128) | (2,637) |
| Acquisitions of retail and other finance receivables and operating leases | (25,483) | (26,280) |
| Collections of retail and other finance receivables and operating leases | 22,150 | 20,591 |
| Purchases of securities | (33,015) | (4,720) |
| Sales and maturities of securities | 28,390 | 12,088 |
| Proceeds from sales of retail and other finance receivables and operating leases | • | 702 |
| Proceeds from sale of businesses | 6,135 | 1,001 |
| Cash paid for acquisitions | (13) | • |
| Transfer of cash balances upon disposition of discontinued/held-for-sale operations | (925) | (83) |
| Other | 1,869 | 1,178 |
| Net cash (used in)/provided by investing activities | (4,020) | 1,840 |
| **Cash flows from financing activities of continuing operations** | | |
| Cash dividends | • | • |
| Sales of Common Stock | 144 | 51 |
| Purchases of Common Stock | • | (31) |
| Changes in short-term debt | (1,049) | (1,396) |
| Proceeds from issuance of other debt | 20,726 | 17,165 |
| Principal payments on other debt | (23,396) | (19,768) |
| Other | (267) | (61) |
| Net cash (used in)/provided by financing activities | (3,842) | (4,040) |
| Effect of exchange rate changes on cash | 469 | 71 |
| **Net increase/(decrease) in cash and cash equivalents from continuing operations** | (5,232) | 3,098 |
| **Cash flows from discontinued operations** | | |
| Cash flows from operating activities of discontinued operations | 15 | 16 |
| Cash flows from investing activities of discontinued operations | • | • |
| Cash flows from financing activities of discontinued operations | • | • |
| **Net increase/(decrease) in cash and cash equivalents** | $ (5,217) | $ 3,114 |
| **Cash and cash equivalents at January 1** | $ 35,283 | $ 28,896 |
| Cash and cash equivalents of discontinued/held-for-sale operations at January 1 | • | (2) |
| Net increase/(decrease) in cash and cash equivalents | (5,217) | 3,114 |
| Less: cash and cash equivalents of discontinued/held-for-sale operations at June 30 | • | (8) |
| **Cash and cash equivalents at June 30** | $ 30,066 | $ 32,000 |

The accompanying notes are part of the financial statements

**FORD MOTOR COMPANY AND SUBSIDIARIES**

**CONDENSED SECTOR STATEMENT OF CASH FLOWS**
**For the Periods Ended June 30, 2008 and 2007**
**(in millions)**

| | First Half 2008 | | First Half 2007 | |
|---|---|---|---|---|
| | Automotive | Financial Services | Automotive | Financial Services |
| | (unaudited) | | (unaudited) | |
| **Cash flows from operating activities of continuing operations** | | | | |
| Net cash (used in)/provided by operating activities | $ (1,560) | $ 5,151 | $ 2,810 | $ 3,358 |
| **Cash flows from investing activities** | | | | |
| Capital expenditures | (3,077) | (51) | (2,616) | (21) |
| Acquisitions of retail and other finance receivables and operating leases | • | (25,483) | • | (26,280) |
| Collections of retail and other finance receivables and operating leases | • | 22,188 | • | 20,427 |
| Net (increase)/decrease of wholesale receivables | • | (1,468) | • | (777) |
| Purchases of securities | (23,683) | (9,332) | (924) | (3,796) |
| Sales and maturities of securities | 23,349 | 5,041 | 917 | 11,171 |
| Proceeds from sales of retail and other finance receivables and operating leases | • | • | • | 702 |
| Proceeds from sale of businesses | 2,451 | 3,684 | 1,001 | • |
| Cash paid for acquisitions | (13) | • | • | • |
| Transfer of cash balances upon disposition of discontinued/held-for-sale operations | (925) | • | (83) | • |
| Investing activity to Financial Services | • | • | (6) | • |
| Other | 914 | 955 | 498 | 680 |
| Net cash (used in)/provided by investing activities | (984) | (4,466) | (1,213) | 2,106 |
| **Cash flows from financing activities** | | | | |
| Cash dividends | • | • | • | • |
| Sales of Common Stock | 144 | • | 51 | • |
| Purchases of Common Stock | • | • | (31) | • |
| Changes in short-term debt | • | (1,049) | 6 | (1,402) |
| Proceeds from issuance of other debt | 78 | 20,648 | 158 | 17,007 |
| Principal payments on other debt | (266) | (23,130) | (363) | (19,405) |
| Financing activity from Automotive | • | • | • | 6 |
| Other | (176) | (91) | (4) | (57) |
| Net cash (used in)/provided by financing activities | (220) | (3,622) | (183) | (3,851) |
| Effect of exchange rate changes on cash | 270 | 199 | 62 | 9 |
| Net change in intersector receivables/payables and other liabilities | (1,236) | 1,236 | (435) | 435 |
| **Net increase/(decrease) in cash and cash equivalents from continuing operations** | (3,730) | (1,502) | 1,041 | 2,057 |
| **Cash flows from discontinued operations** | | | | |
| Cash flows from operating activities of discontinued operations | • | 15 | 16 | • |
| Cash flows from investing activities of discontinued operations | • | • | • | • |
| Cash flows from financing activities of discontinued operations | • | • | • | • |
| **Net increase/(decrease) in cash and cash equivalents** | $ (3,730) | $ (1,487) | $ 1,057 | $ 2,057 |
| **Cash and cash equivalents at January 1** | $ 20,678 | $ 14,605 | $ 16,022 | $ 12,874 |
| Cash and cash equivalents of discontinued/held-for-sale operations at January 1 | • | • | (2) | • |
| Net increase/(decrease) in cash and cash equivalents | (3,730) | (1,487) | 1,057 | 2,057 |
| Less: cash and cash equivalents of discontinued/held-for-sale operations at June 30 | • | • | (8) | • |
| **Cash and cash equivalents at June 30** | $ 16,948 | $ 13,118 | $ 17,069 | $ 14,931 |

The accompanying notes are part of the financial statements

**FORD MOTOR COMPANY AND SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1. FINANCIAL STATEMENTS**

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") in the United States for interim financial information and instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, these unaudited financial statements reflect a fair statement of the results of operations and financial condition of Ford Motor Company and its consolidated subsidiaries and consolidated variable interest entities ("VIEs") of which we are the primary beneficiary for the periods and at the dates presented. The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. Reference should be made to the financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2007 ("2007 Form 10-K Report"), updated in our Current Report on Form 8-K filed on June 2, 2008. For purposes of this report, "Ford," the "Company," "we," "our," "us" or similar references mean Ford Motor Company and our consolidated subsidiaries and our consolidated VIEs of which we are the primary beneficiary, unless the context requires otherwise. All held-for-sale assets and liabilities are excluded from the footnotes unless otherwise noted. See Note 8 for details of held-for-sale operations.

**Presentation of Balance Sheet**

The difference between the total assets and total liabilities as presented in our sector balance sheet and consolidated balance sheet is the result of netting of deferred income tax assets and liabilities. The reconciliation between total sector and consolidated balance sheets is as follows (in millions):

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Sector balance sheet presentation of deferred income tax assets: | | |
| Automotive sector current deferred income tax assets | $ 542 | $ 532 |
| Automotive sector non-current deferred income tax assets | 7,676 | 9,268 |
| Financial Services sector deferred income tax assets* | 186 | 163 |
| Total | 8,404 | 9,963 |
| Reclassification for netting of deferred income taxes | (5,153) | (6,463) |
| Consolidated balance sheet presentation of deferred income tax assets | $ 3,251 | $ 3,500 |
| | | |
| Sector balance sheet presentation of deferred income tax liabilities: | | |
| Automotive sector current deferred income tax liabilities | $ 2,748 | $ 2,671 |
| Automotive sector non-current deferred income tax liabilities | 967 | 783 |
| Financial Services sector deferred income tax liabilities | 4,337 | 6,043 |
| Total | 8,052 | 9,497 |
| Reclassification for netting of deferred income taxes | (5,153) | (6,463) |
| Consolidated balance sheet presentation of deferred income tax liabilities | $ 2,899 | $ 3,034 |

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* Financial Services deferred income tax assets are included in *Financial Services other assets* on our sector balance sheet.

**Presentation of Cash Flows**

Beginning with our statement of cash flows for the period ended March 31, 2008, we changed the presentation of cash flows to separately disclose the purchases of trading securities and the sale and maturities of trading securities as gross amounts within *Cash flows from investing activities* instead of *Cash flows from operating activities of continuing operations*. This change is in response to our election to apply the fair value option to our available-for-sale and held-to-maturity securities upon adoption of Statement of Financial Accounting Standards ("SFAS") No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115* ("SFAS No. 159") on January 1, 2008.

**NOTE 1. FINANCIAL STATEMENTS *(Continued)***

The reconciliation between total sector and consolidated cash flows from operating activities of continuing operations is as follows (in millions):

| | First Half | |
|---|---|---|
| | 2008 | 2007 |
| Sum of sector cash flows from operating activities of continuing operations | $ 3,591 | $6,168 |
| Reclassification of wholesale receivable cash flows from investing to operating for consolidated presentation (a) | (1,468) | (777) |
| Reclassification of finance receivable cash flows from investing to operating for consolidated presentation (b) | 38 | (164) |
| Consolidated cash flows from operating activities of continuing operations | $ 2,161 | $5,227 |

(a) In addition to vehicles sold by us, the cash flows from wholesale finance receivables being reclassified from investing to operating include financing by Ford Motor Credit Company LLC ("Ford Credit") of used and non-Ford vehicles. 100% of cash flows from wholesale finance receivables have been reclassified for consolidated presentation as the portion of these cash flows from used and non-Ford vehicles is impracticable to separate.

(b) Includes cash flows of finance receivables purchased from certain divisions and subsidiaries of the Automotive sector.

**NOTE 2. INVENTORIES**

Inventories are summarized as follows (in millions):

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Raw materials, work-in-process and supplies | $ 4,506 | $ 4,360 |
| Finished products | 9,540 | 6,861 |
| Total inventories under first-in, first-out method ("FIFO") | 14,046 | 11,221 |
| Less: Last-in, first-out method ("LIFO") adjustment | (1,059) | (1,100) |
| Total inventories | $ 12,987 | $ 10,121 |

Inventories are stated at lower of cost or market. About one-fourth of inventories were determined under the LIFO method.

**NOTE 3. IMPAIRMENT OF LONG-LIVED ASSETS**

**Automotive Sector**

Based upon the financial impact of rapidly-changing U.S. market conditions during the second quarter of 2008, we projected a decline in net cash flows for the Ford North America segment. The decline primarily reflected: (1) a more pronounced and accelerated shift in consumer preferences away from full-size trucks and traditional sport utility vehicles ("SUVs") to smaller, more fuel-efficient vehicles as a result of higher fuel prices; (2) lower-than-anticipated U.S. industry demand; and (3) greater-than-anticipated escalation of commodity costs. As a result, in the second quarter of 2008 we tested the long-lived assets of this segment for recoverability and recorded in *Automotive cost of sales* a pre-tax impairment charge of $5.3 billion, representing the amount by which the carrying value of these assets exceeded the estimated fair value.

**Financial Services Sector**

During the second quarter of 2008, higher fuel prices and the weak economic climate in the United States and Canada resulted in a more pronounced and accelerated shift in consumer preferences away from full-size trucks and traditional SUVs to smaller, more fuel-efficient vehicles. This shift in consumer preferences combined with a weak economic climate caused a significant reduction in auction values for used full-size trucks and traditional SUVs. As a result, we tested Ford Credit's operating leases in its North America segment for recoverability and recorded a pre-tax impairment charge in *Selling, administrative and other expenses* on our consolidated income statement and in *Financial Services depreciation* on our sector income statement of $2.1 billion, representing the amount by which the carrying value of certain vehicle lines in Ford Credit's lease portfolio exceeded the estimated fair value.

## NOTE 4. GOODWILL AND OTHER NET INTANGIBLES

Changes in the carrying amount of goodwill are as follows (in millions):

| | Automotive Sector | | | | Financial Services Sector | |
|---|---|---|---|---|---|---|
| | Ford North America | Ford Europe | Volvo | Total | Ford Credit | Total Company |
| Balances at December 31, 2007 | $ 89 | $ 37 | $1,360 | $1,486 | $ 18 | $ 1,504 |
| Changes in goodwill: | | | | | | |
| Goodwill acquired | • | • | • | • | • | • |
| Other disposals | (1) | • | • | (1) | (9) | (10) |
| Dealer goodwill impairment* | (88) | • | • | (88) | • | (88) |
| Effect of foreign currency translation and other | • | 1 | 85 | 86 | 1 | 87 |
| Balances at June 30, 2008 | $ • | $ 38 | $1,445 | $1,483 | $ 10 | $ 1,493 |

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* Based on our expected reduction of our Ford North America dealership base, we recorded an other-than-temporary impairment of our investment in our consolidated North America dealerships. We recorded the $88 million impairment of our investment in the first quarter of 2008 by writing down the related goodwill to its fair value of $0.

### Other Net Intangibles

The components of net identifiable intangible assets are as follows (in millions):

| | June 30, 2008 | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Less: Accumulated Amortization | Net Intangible Assets | Gross Carrying Amount | Less: Accumulated Amortization | Net Intangible Assets |
| **Automotive Sector** | | | | | | |
| Distribution networks | $ 355 | $ (113) | $ 242 | $ 335 | $ (103) | $ 232 |
| Manufacturing and production incentive rights | 333 | (124) | 209 | 297 | (74) | 223 |
| Other | 198 | (98) | 100 | 199 | (89) | 110 |
| Total Automotive sector | 886 | (335) | 551 | 831 | (266) | 565 |
| **Total Financial Services Sector** | 4 | (4) | • | 4 | (4) | • |
| Total | $ 890 | $ (339) | $ 551 | $ 835 | $ (270) | $ 565 |

Our identifiable intangible assets are comprised of distribution networks with a useful life of 40 years, manufacturing and production incentive rights acquired in 2006 with a useful life of 4 years, and other intangibles with various amortization periods (primarily patents, customer contracts, technology, and land rights). Pre-tax amortization expense, excluding the effects of foreign currency translation, was as follows (in millions):

| | Second Quarter | | First Half | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Pre-tax amortization expense | $ 26 | $ 25 | $ 50 | $ 47 |

Excluding the impact of foreign currency translation, intangible asset amortization is forecasted to range from $95 million to $105 million per year for the next three years, and $20 million to $30 million per year thereafter.

## NOTE 5. VARIABLE INTEREST ENTITIES

We consolidate VIEs of which we are the primary beneficiary. The liabilities recognized as a result of consolidating these VIEs do not necessarily represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating these VIEs do not necessarily represent additional assets that could be used to satisfy claims against our general assets.

**NOTE 5. VARIABLE INTEREST ENTITIES *(Continued)***

The total consolidated VIE assets reflected on our June 30, 2008 and December 31, 2007 balance sheets are as follows (in millions):

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| **Automotive Sector** | | |
| Cash and cash equivalents | $ 753 | $ 742 |
| Other assets | 5,517 | 5,599 |
| Total assets | $ 6,270 | $ 6,341 |
| | | |
| **Financial Services Sector** | | |
| Cash and cash equivalents | $ 5,263 | $ 4,605 |
| Finance receivables | 70,716 | 60,361 |
| Net investment in operating leases | 15,133 | 17,461 |
| Total assets | $ 91,112 | $ 82,427 |

We have several investments in entities determined to be VIEs of which we are not the primary beneficiary. The risks and rewards associated with our interests in these entities are based primarily on ownership percentages. Our maximum exposure at June 30, 2008 and December 31, 2007, respectively, was $379 million and $357 million for our Automotive sector and $150 million and $76 million for our Financial Services sector. Any potential losses associated with these VIEs would be limited to the value of our invested capital or equity rights and, where applicable, receivables due from the VIEs.

Ford Credit uses special purpose entities ("SPEs") that are considered VIEs for most of its on-balance sheet securitizations. Ford Credit also sells finance receivables to bank-sponsored asset-backed commercial paper issuers that are SPEs of the sponsor bank; these SPEs are not consolidated by Ford Credit. All of these transactions constitute sales for legal purposes, but some do not satisfy the requirements for accounting sale treatment. The outstanding balance of these finance receivables was approximately $2.6 billion and $3.4 billion at June 30, 2008 and December 31, 2007, respectively.

**NOTE 6. JOB SECURITY BENEFITS RESERVE AND EMPLOYEE SEPARATION ACTIONS**

**Automotive Sector**

**Job Security Benefits Reserve**

We are required to pay most idled unionized hourly employees in North America a portion of their wages and benefits for a specified period of time ("Job Security Benefits") (previously referred to as Jobs Bank Benefits). We expense in *Automotive cost of sales* Job Security Benefits expected to be provided to our hourly employees at facilities that will be closed or at which shifts will be eliminated or, in the case of some Automotive Components Holdings, LLC ("ACH") plants, sold (see Note 18 of the Notes to the Financial Statements in our 2007 Form 10-K Report).

The Job Security Benefits reserve includes an amount for benefits expected to be provided in their present form under the current International Union, United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") and National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW") collective bargaining agreements. The Job Security Benefits provided to our hourly employees are expensed when it becomes probable that employees will be permanently idled. The following table summarizes the activity in the related Job Security Benefits reserve:

| | Reserve (in millions) | | Number of Employees | |
|---|---|---|---|---|
| | First Half 2008 | Full Year 2007 | First Half 2008 | Full Year 2007 |
| Beginning balance | $ 817 | $ 1,036 | 8,316 | 10,728 |
| Additions to Job Security Benefits reserve/Transfers from voluntary separation program (i.e., rescissions) | 44 | 232 | 518 | 2,220 |
| Voluntary separations and relocations | (228) | (311) | (2,613) | (4,632) |
| Benefit payments and other adjustments | 238 | (140) | • | • |
| Ending balance | $ 871 | $ 817 | 6,221 | 8,316 |

The $238 million increase in the reserve during the first half of 2008 relates to a lengthening of Job Security Benefits for certain employees. We previously had assumed a shorter benefit period for these employees, who we now expect to remain idled for a longer period of time due to lower vehicle production volumes and recent capacity changes.

**NOTE 6. JOB SECURITY BENEFITS RESERVE AND EMPLOYEE SEPARATION ACTIONS *(Continued)***

The reserve balance above takes into account several factors: the demographics of the population at each affected facility, redeployment alternatives, and recent experience relative to voluntary redeployments. Due to the complexities inherent in estimating this reserve, our actual costs could differ materially. We continue to expense costs associated with the small number of employees who are temporarily idled on an as-incurred basis.

**Separation Actions**

The costs of voluntary employee separation actions are recorded at the time of an employee's acceptance, unless the acceptance requires explicit approval by the Company. The costs of conditional voluntary separations are accrued when all conditions are satisfied. The costs of involuntary separation programs are accrued when management has approved the program, the affected employees have been identified, and termination is probable.

*UAW Voluntary Separations*. The following table summarizes the activity in the related separation reserve, with the expense recorded in *Automotive cost of sales*:

| | Reserve (in millions) | | Number of Employees | |
|---|---|---|---|---|
| | **First Half 2008** | **Full Year 2007** | **First Half 2008** | **Full Year 2007** |
| Beginning balance | $ 225 | $ 2,435 | 1,374 | 26,351 |
| Voluntary acceptances | 180 | • | 1,461 | • |
| Payments/Terminations | (227) | (1,912) | (1,823) | (21,587) |
| Rescissions and other adjustments | 11 | (298) | (61) | (3,390) |
| Ending balance | $ 189 | $ 225 | 951 | 1,374 |

The ending balances shown above represent the cost of separation packages for employees who accepted packages but have not yet left the Company, as well as employees who accepted a retirement package and ceased duties, but who will remain on our employment rolls until they reach retirement eligibility. Excluded from the table above are 2,863 voluntary acceptances of retirement incentive packages during the first half of 2008 the costs for which are included in pension and other postretirement employee benefits ("OPEB") benefit separation costs. See Note 12 for employee separation costs related to pension and OPEB.

*Other Employee Separation Actions*. In the second quarter of 2008, we announced plans to reduce salaried employee costs in North America by 15%. In the United States, we recognized pre-tax charges of $13 million related to those actions which were probable to occur as of June 30, 2008; the remaining charges, for separations that were not probable to occur by June 30, 2008, will be accrued in the third quarter of 2008. Some of these actions have required the use of involuntary separations. In 2007, we completed our previously-announced North American salaried employee reduction and incurred $154 million of pre-tax charges in the United States through the first half of 2007. These charges are reported in A*utomotive cost of sales* and *Selling, administrative and other expenses*.

In addition, we had pre-tax charges for other hourly and salaried employee separation actions outside the United States. We recognized $31 million and $69 million for the second quarter of 2008 and 2007, respectively, and $38 million and $252 million for the first half of 2008 and 2007, respectively. These charges are reported in *Automotive cost of sales* and *Selling, administrative and other expenses* and exclude costs for pension and OPEB. See Note 12 for employee separation costs related to pension and OPEB.

**Financial Services Sector**

**Separation Actions**

In 2007, we recognized pre-tax charges of $45 million in *Selling, administrative and other expenses* for employee separation actions. The majority of these actions were associated with Ford Credit's North American business transformation initiative (i.e., the consolidation of its North American branches into its seven existing business centers). These charges exclude costs for pension and OPEB. See Note 12 for employee separation costs related to pension and OPEB.

**NOTE 7. INCOME TAXES**

Generally, for interim tax reporting we estimate one single tax rate for tax jurisdictions not subject to a valuation allowance, which is applied to the year-to-date ordinary income/(loss). However, we manage our operations by multi-jurisdictional business units and thus are unable to reasonably compute one overall effective tax rate. Accordingly, our worldwide tax provision is calculated pursuant to Financial Accounting Standards Board ("FASB") Interpretation No. 18, *Accounting for Income Taxes in Interim Periods*, which provides that tax (or benefit) in each foreign jurisdiction not subject to valuation allowance be separately computed as ordinary income/(loss) occurs within the jurisdiction.

**NOTE 8. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, OTHER DISPOSITIONS, AND ACQUISITIONS**

**Automotive Sector**

**Discontinued Operations**

*Automotive Protection Corporation ("APCO").* Our North American operation APCO was sold in the second quarter of 2007. Second quarter results for this discontinued operation are shown in the table below (in millions):

| | Second Quarter | | First Half | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Sales and revenues | $ • | $ 1 | $ • | $ 13 |
| Operating income/(loss) from discontinued operations | $ • | $ (1) | $ • | $ 2 |
| Gain/(Loss) on discontinued operations | • | 51 | • | 51 |
| (Provision for)/Benefit from income taxes | • | (18) | • | (19) |
| Income/(Loss) from discontinued operations | $ • | $ 32 | $ • | $ 34 |

**Held-for-Sale Operations**

*Jaguar Land Rover.* During 2007, we committed to sell our Jaguar Land Rover operations in order to focus on our core Automotive operations and to build liquidity. At December 31, 2007, we classified the assets and liabilities of these operations as held for sale on our balance sheet. On March 25, 2008, we entered into a definitive agreement with Tata Motors Limited pursuant to which we would sell all of our interest in Jaguar Land Rover for $2.3 billion, subject to customary purchase price adjustments upon completion (e.g., relating to working capital, cash, and debt), and agreed to contribute up to about $600 million to the Jaguar and Land Rover pension plans. In the first quarter of 2008, we recorded a pre-tax impairment charge of $421 million reported in *Automotive cost of sales* related to the disposal of these operations.

On June 2, 2008, we completed the sale of Jaguar Land Rover. We received $2.4 billion in cash proceeds and recorded a $145 million receivable for additional proceeds related to final purchase price adjustments. As a result of the sale, we recognized a pre-tax loss of $106 million, reported in *Automotive interest income and other non-operating income/(expense), net*. This loss includes the recognition of $1.2 billion of accumulated other comprehensive income, the settlement of about $550 million of net intercompany payables, and related separation costs of about $150 million.

**NOTE 8. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, OTHER DISPOSITIONS, AND ACQUISITIONS *(Continued)***

The assets and liabilities of our Jaguar Land Rover operations classified as held for sale are summarized as follows (in millions):

| | June 2, 2008 | December 31, 2007 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 900 | $ • |
| Receivables | 1,172 | 758 |
| Inventories | 1,921 | 1,530 |
| Net property | 2,199 | 2,246 |
| Goodwill and other net intangibles | 2,002 | 2,010 |
| Pension assets | 786 | 696 |
| Other assets | 309 | 297 |
| Impairment of carrying value | (421) | • |
| Total assets of the held-for-sale operations | $ 8,868 | $ 7,537 |
| **Liabilities** | | |
| Payables | $ 2,628 | $ 2,395 |
| Pension liabilities | 18 | 19 |
| Warranty liabilities | 579 | 645 |
| Debt | 177 | • |
| Other liabilities | 2,340 | 1,765 |
| Total liabilities of the held-for-sale operations | $ 5,742 | $ 4,824 |

The cash balances we transferred upon sale consisted primarily of about $600 million related to the committed pension funding under the definitive agreement and $177 million related to debt which the buyer agreed to assume upon sale.

As part of the transaction, we will continue to supply Jaguar Land Rover with powertrains, stampings, and other vehicle components. We also committed to provide transitional support, including engineering, information technology, accounting, and other services. Ford Credit will provide financing for Jaguar Land Rover dealers and customers during a transition period, which can vary by market, for up to 12 months.

*ACH.* On April 14, 2008, ACH completed the sale of its glass business to Zeledyne, LLC. The sale included the Nashville, Tulsa, and VidrioCar plants, along with the research and development, engineering, sales and aftermarket operations in Tennessee and Michigan. These facilities will continue to supply Ford with automotive glass products. As a result of this transaction, we recognized a pre-tax loss of $285 million reported in *Automotive interest income and other non-operating income/(expense)*. This loss is comprised of asset write-offs of $149 million, long-term contractual restructuring obligations of $104 million, and $32 million of transaction costs and other related expenses.

The assets and liabilities of our glass business classified as held for sale are summarized as follows (in millions):

| | April 14, 2008 |
|---|---|
| **Assets** | |
| Cash | $ 25 |
| Inventories | 73 |
| Net property | 75 |
| Other net intangibles | 1 |
| Other assets | 1 |
| Total assets of the held-for-sale operations | $ 175 |
| **Liabilities** | |
| Payables | $ 1 |
| Total liabilities of the held-for-sale operations | $ 1 |

During the second quarter of 2008, the prospective buyer of the business at the Milan plant, which produces fuel tanks and bumper fascias, reached an agreement on labor terms with the UAW. This agreement was one of the conditions referenced in the non-binding agreement between ACH and the prospective buyer. At June 30, 2008, ACH classified the assets and liabilities of Milan plant as held for sale in our balance sheet. In the second quarter of 2008, we recorded a pre-tax impairment charge of $18 million reported in *Automotive cost of sales* related to the disposal of this business. The impairment charge reflects the impact on expected proceeds based on June 30, 2008 conditions and the net book value of the held-for-sale assets. We expect to complete the sale by the end of this year.

**NOTE 8. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, OTHER DISPOSITIONS, AND ACQUISITIONS *(Continued)***

The assets of our Milan Plant classified as held for sale are summarized as follows (in millions):

| | June 30, 2008 |
|---|---|
| **Assets** | |
| Inventories | $ 12 |
| Net property | 34 |
| Impairment of carrying value | (18) |
| Total assets of the held-for-sale operations | $ 28 |

**Other Dispositions**

*ACH.* As of June 30, 2008, in addition to its Milan plant, ACH had entered into a non-binding, conditional agreement for the sale of the business at the Sheldon Road plant. The primary products produced at the Sheldon Road plant are heating, ventilating, and cooling assemblies; heat exchangers; and manual control panel components. This sale is conditional upon reaching agreement on a variety of issues, including successful negotiation by the prospective buyer of labor terms with the UAW. ACH has terminated the non-binding agreements for the sale of the businesses at the Sandusky and Saline plants.

**Financial Services Sector**

**Discontinued Operations**

*Triad Financial Corporation ("Triad").* In 2005, Ford Credit completed the sale of Triad. Triad specialized in automobile retail installment sales contracts with borrowers who generally would not be expected to qualify, based on their credit worthiness, for traditional financing sources such as those provided by commercial banks or automobile manufacturers' affiliated finance companies, primarily through non-Ford dealerships. In 2005, Ford Credit recognized a $4 million after-tax gain on disposal of discontinued operations. In the second quarter of 2008, Ford Credit received additional proceeds primarily based on better-than-anticipated securitized portfolio performance, and recognized an additional $8 million after-tax gain in *Income/(Loss) from discontinued operations.*

**Other Dispositions**

*Nordic Operations.* During the second quarter of 2008, Ford Credit completed the creation of a joint venture finance company and transferred the majority of its business and assets from Denmark, Finland, Norway, and Sweden into the joint venture. The joint venture will support the sale of Ford vehicles in these markets. As a result of the sale, *Finance receivables, net* were reduced by $1.7 billion, and we recognized a pre-tax gain of $85 million, net of transaction costs and including $35 million of foreign currency translation adjustments, in *Financial Services revenues*. Ford Credit reports its ownership interest in the joint venture as an equity method investment.

*PRIMUS Financial Services Inc. ("PRIMUS Japan").* In April 2008, Ford Credit completed the sale of 96% of its ownership interest in PRIMUS Japan, Ford Credit's operation in Japan that offers automotive retail and wholesale financing of Ford and Mazda vehicles. As a result of the sale, *Finance Receivables, net* were reduced by $1.8 billion, *Debt* was reduced by $252 million, and we recognized a pre-tax gain of $22 million, net of transaction costs and including $28 million of foreign currency translation adjustments, in *Financial Services revenues.* Ford Credit reports its remaining ownership interest as a cost method investment.

*Primus Finance and Leasing, Inc. ("Primus Philippines").* During the second quarter of 2008, Ford Credit completed the sale of its 60% ownership interest in Primus Philippines, which is Ford Credit's operation in the Philippines offering automotive retail and wholesale financing of Ford and Mazda vehicles. Ford Credit also completed the sale of its 40% ownership interest in PFL Holdings, Inc., a holding company in the Philippines that owns the remaining 40% ownership interest in Primus Philippines. As a result of the sale, we recognized a pre-tax gain of $5 million, net of transactions costs and including $1 million of foreign currency translation adjustments, in *Financial Services revenues.*

**NOTE 9. AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK**

The calculation of diluted income per share of Common and Class B Stock takes into account the effect of common stock equivalents, such as stock options and convertible securities, considered to be potentially dilutive. Basic and diluted income/(loss) per share were calculated using the following (in millions):

| | Second Quarter | | First Half | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| **Basic and Diluted Income/(Loss)** | | | | |
| Basic income/(loss) from continuing operations | $ (8,675) | $ 718 | $ (8,576) | $ 434 |
| Effect of dilutive senior convertible notes | •(a) | 34 | •(a) | 69 |
| Effect of dilutive 6.50% Cumulative Convertible Trust Preferred Securities ("Trust Preferred Securities") | •(b) | 54 | •(b) | •(b) |
| Diluted income/(loss) from continuing operations | $ (8,675) | $ 806 | $ (8,576) | $ 503 |
| **Basic and Diluted Shares** | | | | |
| Average shares outstanding | 2,238 | 1,896 | 2,214 | 1,895 |
| Restricted and uncommitted-ESOP shares | (1) | (1) | (1) | (2) |
| Basic shares | 2,237 | 1,895 | 2,213 | 1,893 |
| Net dilutive options and restricted and uncommitted-ESOP shares | •(c) | 11 | •(c) | 10 |
| Dilutive senior convertible notes | •(a) | 538 | •(a) | 538 |
| Dilutive convertible trust preferred securities | •(b) | 282 | •(b) | •(b) |
| Diluted shares | 2,237 | 2,726 | 2,213 | 2,441 |

Not included in calculation of diluted earnings per share due to their antidilutive effect:

(a) 538 million shares and the related income effect for senior convertible notes.

(b) 282 million shares and the related income effect for Trust Preferred Securities through August 2, 2007. As of August 3, 2007, following the conversion of about 43 million of our Trust Preferred Securities, 162 million shares and the related income effect are not included in the calculation. For further discussion of the conversion, see Note 16 of the Notes to the Financial Statements in our 2007 Form 10-K Report.

(c) 29 million and 25 million contingently-issuable shares (primarily reflecting restricted stock units) for the second quarter and first half of 2008, respectively.

**NOTE 10. FAIR VALUE MEASUREMENTS**

We adopted SFAS No. 157, *Fair Value Measurements* ("SFAS No.157"), on January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk.

In determining fair value, we use various valuation techniques and, as required by SFAS No. 157, prioritize the use of observable inputs. The availability of observable inputs varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. For many financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the marketplace and may require management judgment.

We assess the inputs used to measure fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs include quoted prices for identical instruments and are the most observable. Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, currency exchange rates, commodity rates, and yield curves. Level 3 inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability. The use of observable and unobservable inputs is reflected in our hierarchy assessment disclosed in the tables below.

Our fair value processes include controls that are designed to ensure that fair values are appropriate. Such controls include model validation, review of key model inputs, analysis of period-over-period fluctuations, and reviews by senior management.

**NOTE 10. FAIR VALUE MEASUREMENTS *(Continued)***

The following section describes the valuation methodologies used to measure fair value, key inputs, and significant assumptions:

*Cash Equivalents – Financial Instruments.* We classify highly liquid investments, with a maturity of 90 days or less at the date of purchase, including U.S. Treasury bills, federal agency securities, and commercial paper rated A-1 / P-1 (or higher) as cash equivalents. Prior to the adoption of SFAS No. 157, we carried cash equivalents at amortized cost, which approximates fair value. Effective January 1, 2008, we measure financial instruments classified as cash equivalents at fair value. We use quoted prices where available to determine fair value for U.S. Treasury notes, and industry-standard valuation models using market-based inputs when quoted prices are unavailable, such as for government agency securities and corporate obligations.

*Marketable Securities.* Our marketable securities portfolios include investments in U.S. government and non-U.S. government securities, corporate obligations and equities, and asset-backed securities with a maturity of greater than 90 days at the date of purchase. Where available, including for U.S. Treasury notes and equities, we use quoted market prices to measure fair value. If quoted market prices are not available, such as for government agency securities, asset-backed securities, and corporate obligations, prices for similar assets and matrix pricing models are used. In certain cases, where there is limited transparency to valuation inputs, we may contact securities dealers and obtain dealer quotes.

Concurrent with our adoption of SFAS No. 157, we elected to apply the fair value option under SFAS No. 159 to our marketable securities (including loaned securities). SFAS No. 159 permits entities to measure certain financial assets and liabilities at fair value. The fair value option may be elected on an instrument-by-instrument basis and is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected are recognized in earnings at each subsequent reporting date. This election resulted in a cumulative after-tax increase of approximately $12 million to the opening balance of *Retained earnings*. Prior to the election of SFAS No. 159, we classified our securities as trading, available-for-sale, or held-to-maturity. The unrealized gains and losses for available-for-sale securities were recorded in *Accumulated other comprehensive income/(loss),* and the unrealized gains and losses for held-to-maturity securities were not recognized.

*Derivative Financial Instruments.* As part of our risk management strategy, we enter into derivative transactions to mitigate exposures. Our derivative instruments include interest rate swaps, currency swaps, currency and commodity forwards, currency and commodity options, and currency futures. The vast majority of our derivatives are not exchange-traded and are over-the-counter customized derivative transactions. Substantially all of our derivative exposures are with counterparties that have long-term credit ratings of single-A or better.

We estimate the fair value of our derivatives using industry-standard valuation models, including Black-Scholes and Curran's Approximation. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates, foreign exchange rates, and commodity prices, and the contractual terms of the derivative instruments.

We include an adjustment for non-performance risk in the recognized measure of fair value of derivative instruments. The adjustment reflects the full credit default spread ("CDS") applied to a net exposure, by counterparty. We use our counterparty's CDS when we are in a net asset position and our own CDS when we are in a net liability position. At June 30, 2008, our derivative assets were reduced by $40 million, and our derivative liabilities were reduced by $73 million. These adjustments resulted in increased pre-tax earnings of $33 million (a decrease of $7 million recorded to *Automotive cost of sales,* and an increase of $40 million recorded to *Financial Services revenues*). At March 31, 2008, we measured the fair value of our derivative assets and liabilities by discounting the cash flows using LIBOR, but without a quantitative adjustment for non-performance risk beyond that which is implied by LIBOR. The $33 million second quarter adjustment included a $23 million cumulative adjustment to correct the March 31, 2008 derivative valuation to reflect non-performance risk. The impact on our previously-issued first quarter 2008 financial statements is not deemed to be material, and there is no impact to previous annual periods.

**NOTE 10. FAIR VALUE MEASUREMENTS *(Continued)***

In certain cases, market data is not available and we use management judgment to develop assumptions which are used to determine fair value. This includes situations where there is illiquidity for a particular currency or commodity, or for longer-dated instruments. For longer-dated instruments with regard to which observable interest rates or foreign exchange rates are not available for all periods through maturity, we hold the last available data point constant through maturity. For certain commodity contracts, observable market data may be limited and, in those cases, we generally survey brokers and use the average of the surveyed prices in estimating fair value.

*Retained Interests in Sold Receivables.* We retain certain interests in receivables sold in off-balance sheet securitization transactions, including residual interest in securitizations and restricted cash. We estimate the fair value of retained interests using internal valuation models, market inputs, and our own assumptions. The three key inputs that affect the valuation of the residual interest cash flows include credit losses, prepayment speed, and the discount rate. The fair value of residual interest is estimated based on the present value of monthly collections on the sold finance receivables in excess of amounts needed for payment of the debt and other obligations issued or arising in the securitization transactions. The fair value of the residual interest in securitizations and the cash reserve account is determined using a discounted cash flow analysis.

The following table summarizes the fair values of financial instruments measured at fair value on a recurring basis at June 30, 2008 (in millions):

| | Items Measured at Fair Value on a Recurring Basis | | | |
|---|---|---|---|---|
| | **Quoted Price in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Balance as of June 30, 2008** |
| **Automotive Sector** | | | | |
| **Assets** | | | | |
| Cash equivalents – financial instruments (a) (b) | $ • | $ 9,884 | $ • | $ 9,884 |
| Marketable securities (a) (c) | 4,066 | 8,062 | 318 | 12,446 |
| Derivative financial instruments | • | 1,127 | 299 | 1,426 |
| Total assets at fair value | $ 4,066 | $ 19,073 | $ 617 | $ 23,756 |
| **Liabilities** | | | | |
| Derivative financial instruments | $ 1 | $ 293 | $ 23 | $ 317 |
| Total liabilities at fair value | $ 1 | $ 293 | $ 23 | $ 317 |
| **Financial Services Sector** | | | | |
| **Assets** | | | | |
| Cash equivalents – financial instruments (a) (b) | $ • | $ 2,367 | $ • | $ 2,367 |
| Marketable securities (a) | 809 | 6,617 | • | 7,426 |
| Derivative financial instruments | • | 1,691 | 457 | 2,148 |
| Retained interest in sold receivables | • | • | 380 | 380 |
| Total assets at fair value | $ 809 | $ 10,675 | $ 837 | $ 12,321 |
| **Liabilities** | | | | |
| Derivative financial instruments | $ • | $ 828 | $ 467 | $ 1,295 |
| Total liabilities at fair value | $ • | $ 828 | $ 467 | $ 1,295 |

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(a) Approximately 90% of Cash equivalents – financial instruments and Marketable securities presented are U.S. Treasuries, federal agency securities, high-quality corporate bonds, and A-1/P-1 unsecured commercial paper. Instruments presented in Level 1 include U.S. Treasuries and equities. Instruments presented in Level 2 include federal agency securities, corporate obligations, and asset-backed securities. Instruments presented in Level 3 include certain corporate obligations and asset-backed securities.

(b) Cash equivalents – financial instruments excludes time deposits, certificates of deposit, money market accounts, and other cash which are reported at par value.

(c) Includes marketable securities and loaned securities.

**NOTE 10. FAIR VALUE MEASUREMENTS *(Continued)***

The following table summarizes the changes in Level 3 financial instruments measured at fair value on a recurring basis for the period ended June 30, 2008 (in millions):

| | Fair Value Measurements Using Significant Unobservable Inputs | | | | | |
|---|---|---|---|---|---|---|
| | **Fair Value at January 1, 2008** | **Total Realized/ Unrealized Gains/ (Losses)** | **Net Purchases/ (Settlements) (a)** | **Net Transfers Into/(Out of) Level 3** | **Fair Value at June 30, 2008** | **Change in Unrealized Gains/ (Losses) on Instruments Still Held (b)** |
| **Automotive Sector** | | | | | | |
| Marketable securities (c) | $ 201 | $ (5) | $ 205 | $ (83) | $ 318 | $ (7) |
| Derivative financial instruments, net (d) | 257 | 165 | (70) | (76) | 276 | 145 |
| Total Level 3 fair value | $ 458 | $ 160 | $ 135 | $ (159) | $ 594 | $ 138 |
| **Financial Services Sector** | | | | | | |
| Derivative financial instruments, net (e) | $ (2) | $ 21 | $ 2 | $ (31) | $ (10) | $ 9 |
| Retained interest in sold receivables (f) | 653 | 47 | (320) | • | 380 | (16) |
| Total Level 3 fair value | $ 651 | $ 68 | $ (318) | $ (31) | $ 370 | $ (7) |

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(a) Includes option premiums paid/received on options traded during the quarter.
(b) For those assets and liabilities still held atJune 30, 2008.
(c) Realized/unrealized gains/(losses) on marketable securities for the period presented are recorded in *Automotive interest income and other non-operating income/(expenses), net* on the income statement. We recorded $(5) million in second quarter of 2008, and $(5) million for the first half of 2008.
(d) Reflects fair value of derivative assets, net of liabilities. Realized/unrealized gains/(losses) on Automotive sector derivative financial instruments for the period presented are recorded to *Automotive cost of sales* ($4 million for second quarter of 2008, and $167 million for first half of 2008), and *Automotive interest income and other non-operating income/(expense), net* ($(2) million for second quarter of 2008, and $(2) million for first half of 2008) on the income statement. See Note 11 for income statement classification by hedge designation.
(e) Reflects fair value of derivative assets, net of liabilities. Realized/unrealized gains/(losses) on Financial Services sector derivative financial instruments for the period presented are recorded to *Interest expense* ($8 million for second quarter of 2008, and $7 million for first half of 2008), and *Financial Services revenues* ($(59) million for second quarter of 2008, and $14 million for first half of 2008) on the income statement. See Note 11 for income statement classification by hedge designation.
(f) Realized/unrealized gains/(losses) on the retained interests in securitized assets for the period presented are recorded in *Financial Services revenues* on the income statement ($48 million for second quarter of 2008, and $63 million for first half of 2008) and *Accumulated other comprehensive income/(loss)* on the balance sheet ($0 for the second quarter of 2008, and $(16) million for the first half of 2008).

The following table summarizes the fair values of items measured at fair value on a nonrecurring basis for the quarter ended June 30, 2008 (in millions):

| | Items Measured at Fair Value on a Nonrecurring Basis | | | | |
|---|---|---|---|---|---|
| | **Quoted Price in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total** | **Total Gains/ (Losses)** |
| **Automotive Sector** | | | | | |
| North America net property (a) | $ • | $ • | $ 11,009 | $ 11,009 | $ (5,300) |
| Held-for-sale operations (b) | • | • | 28 | 28 | (18) |
| Total assets at fair value | $ • | $ • | $ 11,037 | $ 11,037 | $ (5,318) |
| **Financial Services Sector** | | | | | |
| Net investment in certain operating leases (c) | $ • | $ • | $ 9,414 | $ 9,414 | $ (2,086) |
| Total assets at fair value | $ • | $ • | $ 9,414 | $ 9,414 | $ (2,086) |

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(a) In accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"), a pre-tax impairment charge of $5.3 billion was recorded related to the long-lived assets in the Ford North America segment. The fair value measurement used to determine the impairment was based on the income approach which utilized cash flow projections consistent with the most recent Ford North America business plan approved by our Board of Directors, a terminal value, and a discount rate equivalent to a market participant's weighted average cost of capital. See Note 3 for additional discussion of this impairment.

(b) In accordance with the provisions of SFAS No. 144, we recorded a pre-tax impairment of $18 million related to the ACH Milan plant classified as held for sale. The fair value measurement used to determine the impairment reflects the expected proceeds based on June 30, 2008 conditions. See Note 8 for additional discussion of this impairment.

(c) In accordance with the provisions of SFAS No. 144, we recorded a pre-tax impairment of $2.1 billion related to certain vehicle lines included in our Financial Services sector *Net investment in operating leases*. The fair value used to determine the impairment was measured by discounting the contractual payments and estimated auction proceeds. The discount rate reflected hypothetical market assumptions regarding borrowing rates, credit loss patterns, and residual value risk. See Note 3 for additional discussion of this impairment.

Including the second quarter losses shown above, losses for the first half of 2008 for the Automotive and Financial Services sectors were $5.8 billion and $2.1 billion, respectively.

## NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Our operations are exposed to global market risks, including the effect of changes in foreign currency exchange rates, certain commodity prices and interest rates. We enter into various derivatives, including interest rate, foreign currency and commodity forwards, options and swaps, to manage the financial and operational exposure arising from these risks.

We have elected to apply hedge accounting to certain derivative instruments in both the Automotive and Financial Services sectors. For the Automotive sector, our hedge accounting policies are consistent with the prior year. For the Financial Services sector, beginning in the first quarter of 2008, we have designated certain receive-fixed, pay-float interest rate swaps as fair value hedges of fixed-rate debt. The risk being hedged is the risk of changes in fair value of the hedged item attributable to changes in the benchmark interest rate. We use regression analysis to assess fair value hedge effectiveness under the "long-haul" method. See Note 23 of the Notes to the Financial Statements in our 2007 Form 10-K Report for a detailed description of our derivative instruments and hedge accounting designations.

**Income Statement Effect of Derivative Instruments**

The following table summarizes the estimated pre-tax gains/(losses) for each type of hedge designation for our Automotive and Financial Services sectors (in millions):

| | Second Quarter | | First Half | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | Income Statement Classification |
| **Automotive Sector** | | | | | |
| Cash flow hedges: | | | | | |
| Impact of discontinued hedges | $ • | $ 177 | $ 1 | $ 187 | *Automotive cost of sales* |
| Net investment hedges: | | | | | |
| Ineffectiveness | • | • | • | (1) | *Automotive cost of sales* |
| Derivatives not designated as hedging instruments: | | | | | |
| Commodities | 75 | 9 | 423 | 41 | *Automotive cost of sales* |
| Foreign currency derivatives on operating exposures (a) (b) | 18 | 13 | 526 | 21 | *Automotive cost of sales* |
| Foreign currency derivatives on investment portfolios | (1) | • | (35) | • | *Automotive interest income and other non-operating income/(expense), net* |
| Other | (2) | (4) | (2) | (58) | *Automotive cost of sales/Automotive interest income and other non-operating income/(expense), net* |
| | | | | | |
| **Financial Services Sector** | | | | | |
| Fair value hedges: | | | | | |
| Ineffectiveness | $ (30) | $ • | $ (43) | $ • | *Financial Services revenues* |
| Net interest settlements and accruals excluded from the assessment of hedge effectiveness | 18 | • | 39 | • | *Interest expense* |
| Derivatives not designated as hedging instruments: | | | | | |
| Interest rate swaps | 35 | (268) | (45) | (238) | *Financial Services revenues* |
| Foreign currency swaps and forward contracts (a) | (315) | (454) | 81 | (461) | *Financial Services revenues* |
| Other | (1) | • | • | • | *Financial Services revenues* |

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(a) These gains/(losses) were related to foreign currency derivatives and were partially offset by net revaluation impacts on foreign denominated assets and liabilities, which were recorded to the same income statement line item as the hedge gains/(losses).

(b) Includes amounts released from *Accumulated other comprehensive income/(loss)* to income related to cash flow hedges de-designated prior to maturity.

**NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)***

**Balance Sheet Effect of Derivative Instruments**

We do not net positions with our counterparties for purposes of our balance sheet presentation and disclosure. The following table summarizes the estimated fair value of our derivative instruments (in millions):

| | June 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| | Fair Value Assets | Fair Value Liabilities | Fair Value Assets | Fair Value Liabilities |
| **Automotive Sector** | | | | |
| Cash flow hedges | $ 485 | $ 131 | $ 617 | $ 195 |
| Derivatives not designated as hedging instruments | 941 | 186 | 757 | 188 |
| Total derivative instruments | $ 1,426 | $ 317 | $ 1,374 | $ 383 |
| **Financial Services Sector** | | | | |
| Fair value hedges | $ 140 | $ 25 | $ • | $ • |
| Derivatives not designated as hedging instruments | 2,008 | 1,270 | 2,811 | 1,349 |
| Total derivative instruments | $ 2,148 | $ 1,295 | $ 2,811 | $ 1,349 |

**NOTE 12. RETIREMENT BENEFITS**

Pension and OPEB expense is summarized as follows (in millions):

| | Second Quarter | | | | | |
|---|---|---|---|---|---|---|
| | Pension Benefits* | | | | | |
| | U.S. Plans | | Non-U.S. Plans | | OPEB | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Service cost | $ 95 | $ 105 | $ 113 | $ 161 | $ 78 | $ 95 |
| Interest cost | 672 | 658 | 418 | 399 | 428 | 449 |
| Expected return on assets | (866) | (870) | (474) | (467) | (80) | (66) |
| Amortization of: | | | | | | |
| Prior service costs/(credits) | 94 | 66 | 27 | 27 | (222) | (246) |
| (Gains)/Losses and other | 4 | 13 | 57 | 110 | 87 | 181 |
| Separation programs | 32 | (11) | 18 | 49 | 4 | (7) |
| (Gain)/Loss from curtailment | • | • | • | • | (100) | (148) |
| Costs allocated to Visteon | • | • | • | • | 1 | 1 |
| Net expense/(income) | $ 31 | $ (39) | $ 159 | $ 279 | $ 196 | $ 259 |

* Includes held-for-sale operations.

| | First Half | | | | | |
|---|---|---|---|---|---|---|
| | Pension Benefits* | | | | | |
| | U.S. Plans | | Non-U.S. Plans | | OPEB | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Service cost | $ 189 | $ 226 | $ 236 | $ 321 | $ 156 | $ 189 |
| Interest cost | 1,344 | 1,305 | 861 | 794 | 861 | 895 |
| Expected return on assets | (1,732) | (1,740) | (992) | (930) | (159) | (133) |
| Amortization of: | | | | | | |
| Prior service costs/(credits) | 188 | 134 | 54 | 53 | (438) | (514) |
| (Gains)/Losses and other | 8 | 26 | 108 | 221 | 174 | 371 |
| Separation programs | 205 | 821 | 42 | 126 | 11 | 15 |
| (Gain)/Loss from curtailment | • | 176 | • | (14) | (111) | (1,108) |
| Costs allocated to Visteon | • | • | • | • | 3 | 2 |
| Net expense/(income) | $ 202 | $ 948 | $ 309 | $ 571 | $ 497 | $ (283) |

* Includes held-for-sale operations.

In the second quarter of 2008, we recorded a $100 million OPEB curtailment gain associated with employee separations in *Automotive cost of sales*. As a result of this curtailment, we remeasured the U.S. hourly retiree health care plan as of June 30, 2008, which reduced our obligation by about $1.1 billion.

**NOTE 12. RETIREMENT BENEFITS *(Continued)***

Effective August 1, 2008, the Company-paid retiree basic life insurance benefit was capped at $25,000 for eligible existing and future salaried retirees. Salaried employees hired on or after January 1, 2004 are not eligible for retiree basic life insurance. The obligation decreased by about $850 million as a result of this benefit change.

**Plan Contributions and Drawdowns**

Our policy for funded plans is to contribute, at a minimum, amounts required by applicable laws, regulations, and union agreements. From time to time, we make contributions beyond those legally required.

*Pension.* On June 2, 2008, in connection with the sale of Jaguar Land Rover, we contributed about $600 million to the Jaguar and Land Rover pension plans. In addition to this amount, during the first half of 2008, we contributed $1.1 billion to our worldwide pension plans, including benefit payments paid directly by the Company for unfunded plans. We expect to contribute from Automotive cash and cash equivalents an additional $500 million in 2008, for a total of $2.2 billion this year (including Jaguar Land Rover). Based on current assumptions and regulations, we do not expect to have a legal requirement to fund our major U.S. pension plans in 2008.

*Life Insurance.* During 2008 we expect to withdraw about $80 million from our Voluntary Employee Beneficiary Association trust ("VEBA") as reimbursement for U.S. hourly retiree life insurance benefit payments.

**NOTE 13. SEGMENT INFORMATION**

Our operating activity consists of two operating sectors, Automotive and Financial Services. Segment selection is based on the organizational structure we use to evaluate performance and make decisions on resource allocation, as well as availability and materiality of separate financial results consistent with that structure.

**Automotive Sector**

In the first quarter of 2008, we changed the reporting structure of our Automotive sector to separately disclose the following seven segments: 1) Ford North America, 2) Ford South America, 3) Ford Europe, 4) Volvo, 5) Ford Asia Pacific Africa, 6) Mazda, and 7) Jaguar Land Rover and Aston Martin. Automotive sector prior period information has been reclassified into these seven segments, and is provided for these segments in the table below. Included in each segment described below are the associated costs to design, develop, manufacture, and service vehicles and parts.

Ford North America segment includes primarily the sale of Ford, Lincoln and Mercury brand vehicles and related service parts in North America (the United States, Canada and Mexico). In the first quarter of 2008, we changed the reporting structure of this segment to include the sale of Mazda6 vehicles by our consolidated subsidiary, AutoAlliance International, Inc. ("AAI") (previously included in the results for Ford Asia Pacific Africa). We have reclassified prior period information to reflect this structural change to our segment reporting.

Ford South America segment includes primarily the sale of Ford-brand vehicles and related service parts in South America.

Ford Europe segment includes primarily the sale of Ford-brand vehicles and related service parts in Europe (including all parts of Turkey and Russia).

The Volvo segment includes primarily the sale of Volvo-brand vehicles and related service parts throughout the world (including in North America, South America, Europe, Asia Pacific, and Africa).

Ford Asia Pacific Africa segment includes primarily the sale of Ford-brand vehicles and related service parts in the Asia Pacific region and Africa.

The Mazda segment includes the equity income/(loss) associated with our investment in Mazda (33.4% of Mazda's profit after tax), as well as certain of our Mazda-related investments.

Prior to the sale of these brands, the Jaguar Land Rover and Aston Martin segment included primarily the sale of Jaguar Land Rover and Aston Martin vehicles and related service parts throughout the world (including in North America, South America, Europe, Asia Pacific, and Africa). In May 2007 and June 2008, respectively, we completed the sale of Aston Martin and Jaguar Land Rover; sales of Aston Martin and Jaguar Land Rover vehicles and related service parts throughout the world are included within this segment for the period until each brand's respective date of sale.

**NOTE 13. SEGMENT INFORMATION *(Continued)***

The Other Automotive component of the Automotive sector consists primarily of centrally-managed net interest expense and related fair market value adjustments.

Transactions among Automotive segments generally are presented on a "where-sold," absolute-cost basis, which reflects the profit/(loss) on the sale within the segment making the ultimate sale to an external entity. This presentation generally eliminates the effect of legal entity transfer prices within the Automotive sector for vehicles, components, and product engineering. Beginning with the first quarter of 2008, income/(loss) before income taxes on vehicle component sales by Volvo or Jaguar Land Rover to each other or to any other segment and by the Ford-brand segments to either Volvo or Jaguar Land Rover are reflected in the results for the segment making the vehicle component sale.

**Financial Services Sector**

The Financial Services sector includes the following segments: 1) Ford Credit and 2) Other Financial Services. Ford Credit provides vehicle-related financing, leasing, and insurance. Other Financial Services includes a variety of business including holding companies, real-estate, and the financing and leasing of some Volvo vehicles in Europe.

**(In millions)**

| | Automotive Sector | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Ford North America** | **Ford South America** | **Ford Europe** | **Volvo** | **Ford Asia Pacific Africa** | **Mazda** | **Jaguar Land Rover and Aston Martin** | **Other** | **Total** |
| **SECOND QUARTER 2008** | | | | | | | | | |
| Sales/Revenues | | | | | | | | | |
| External customer | $ 14,219 | $ 2,346 | $ 11,559 | $4,326 | $ 1,778 | $ • | $ 2,829 | $ • | $37,057 |
| Intersegment | 71 | • | 263 | 30 | • | • | 22 | • | 386 |
| Income | | | | | | | | | |
| Income/(Loss) before income taxes (a) | (7,153) | 388 | 579 | (152) | 43 | (111) | 75 | (279) | (6,610) |
| **SECOND QUARTER 2007** | | | | | | | | | |
| Sales/Revenues | | | | | | | | | |
| External customer | $ 18,961 | $ 1,827 | $ 9,203 | $4,373 | $ 1,727 | $ • | $ 4,015 | $ • | $40,106 |
| Intersegment | 65 | • | 238 | 41 | • | • | 34 | • | 378 |
| Income | | | | | | | | | |
| Income/(Loss) before income taxes | (67) | 255 | 184 | (91) | 18 | 72 | 557 | (107) | 821 |

| | Financial Services Sector (b) | | | | Total Company | |
|---|---|---|---|---|---|---|
| | **Ford Credit** | **Other Financial Services** | **Elims** | **Total** | **Elims (c)** | **Total** |
| **SECOND QUARTER 2008** | | | | | | |
| Sales/Revenues | | | | | | |
| External customer | $ 4,346 | $ 109 | $ • | $ 4,455 | $ • | $ 41,512 |
| Intersegment | 242 | 6 | (1) | 247 | (633) | • |
| Income | | | | | | |
| Income/(Loss) before income taxes | (2,380) | (40) | • | (2,420) | • | (9,030) |
| **SECOND QUARTER 2007** | | | | | | |
| Sales/Revenues | | | | | | |
| External customer | $ 4,075 | $ 61 | $ • | $ 4,136 | $ • | $ 44,242 |
| Intersegment | 223 | 8 | (4) | 227 | (605) | • |
| Income | | | | | | |
| Income/(Loss) before income taxes | 112 | (7) | • | 105 | • | 926 |

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(a) For our Mazda segment, Income/(Loss) before income taxes primarily reflects a charge as determined under U.S. GAAP representing the impact on Ford of a goodwill impairment related to Mazda-owned dealerships in Japan.
(b) Financial Services sector's interest income is recorded as *Financial Services revenues.*
(c) Includes intersector transactions occurring in the ordinary course of business.

**NOTE 13. SEGMENT INFORMATION *(Continued)***

**(In millions)**

| | Automotive Sector | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Ford North America** | **Ford South America** | **Ford Europe** | **Volvo** | **Ford Asia Pacific Africa** | **Mazda** | **Jaguar Land Rover and Aston Martin** | **Other** | **Total** |
| **FIRST HALF 2008** | | | | | | | | | |
| Sales/Revenues | | | | | | | | | |
| External customer | $ 31,329 | $ 4,188 | $ 21,714 | $8,523 | $ 3,446 | $ • | $ 6,974 | $ • | $ 76,174 |
| Intersegment | 289 | • | 489 | 57 | • | • | 63 | • | 898 |
| Income | | | | | | | | | |
| Income/(Loss) before income taxes (a) | (7,598) | 645 | 1,307 | (303) | 39 | (62) | 75 | (461) | (6,358) |
| Total assets at June 30 | | | | | | | | | 108,339 |
| **FIRST HALF 2007** | | | | | | | | | |
| Sales/Revenues | | | | | | | | | |
| External customer | $ 37,520 | $ 3,110 | $ 17,835 | $8,945 | $ 3,496 | $ • | $ 7,830 | $ • | $ 78,736 |
| Intersegment | 317 | • | 425 | 68 | • | • | 70 | • | 880 |
| Income | | | | | | | | | |
| Income/(Loss) before income taxes | (769) | 368 | 392 | (1) | (10) | 93 | 858 | (448) | 483 |
| Total assets at June 30 | | | | | | | | | 123,192 |

| | Financial Services Sector (b) | | | | Total Company | |
|---|---|---|---|---|---|---|
| | **Ford Credit** | **Other Financial Services** | **Elims** | **Total** | **Elims (c)** | **Total** |
| **FIRST HALF 2008** | | | | | | |
| Sales/Revenues | | | | | | |
| External customer | $ 8,659 | $ 207 | $ • | $ 8,866 | $ • | $ 85,040 |
| Intersegment | 480 | 12 | (2) | 490 | (1,388) | • |
| Income | | | | | | |
| Income/(Loss) before income taxes | (2,348) | (8) | • | (2,356) | • | (8,714) |
| Total assets at June 30 | 164,401 | 10,485 | (9,770) | 165,116 | (3,005) | 270,450 |
| **FIRST HALF 2007** | | | | | | |
| Sales/Revenues | | | | | | |
| External customer | $ 8,394 | $ 131 | $ • | $ 8,525 | $ • | $ 87,261 |
| Intersegment | 441 | 14 | (6) | 449 | (1,329) | • |
| Income | | | | | | |
| Income/(Loss) before income taxes | 406 | (7) | • | 399 | • | 882 |
| Total assets at June 30 | 165,461 | 10,647 | (10,634) | 165,474 | (727) | 287,939 |

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(a) For our Mazda segment, Income/(Loss) before income taxes primarily reflects a charge as determined under U.S. GAAP representing the impact on Ford of a goodwill impairment related to Mazda-owned dealerships in Japan.
(b) Financial Services sector's interest income is recorded as *Financial Services revenues.*
(c) Includes intersector transactions occurring in the ordinary course of business.

**NOTE 14. GUARANTEES**

At June 30, 2008, the following guarantees and indemnifications were issued and outstanding:

*Guarantees related to affiliates and third parties.* We guarantee debt and lease obligations of certain joint ventures, as well as certain financial obligations of outside third parties to support our business and economic growth. Expiration dates vary, and guarantees will terminate on payment and/or cancellation of the obligation. A payment by us would be triggered by failure of the guaranteed party to fulfill its obligation covered by the guarantee. In some circumstances, we are entitled to recover from the third party amounts paid by us under the guarantee. However, our ability to enforce these rights is sometimes stayed until the guaranteed party is paid in full, and may be limited in the event of insolvency of the third party or other circumstances. The maximum potential payments under these guarantees total $8 million; the fair value ascribed to these guarantees was determined to be insignificant. These guarantees and the guarantee of the Notes described in the succeeding paragraph were issued prior to December 31, 2002. Therefore, fair value measurement and recognition is not required.

In 1996, we issued $500 million of 7.25% Notes due October 1, 2008. In 1999, we entered into a de-recognition transaction to defease our obligation as primary obligor with respect to the principal of these notes. As part of this transaction, we placed certain financial assets into an escrow trust for the benefit of the noteholders, and the trust became the primary obligor with respect to the principal (we became secondarily liable for the entire principal amount).

In December 2005, we completed the sale of Hertz. As part of this transaction, we provided cash-collateralized letters of credit in an aggregate amount of $200 million to support the asset-backed portion of the buyer's financing for the transaction. Our commitment to provide the letters of credit expires no later than December 31, 2011 and supports the payment obligations of Hertz Vehicle Finance LLC under one or more series of asset-backed notes. The letters of credit can be drawn upon on any date funds allocated to pay interest on the asset-backed notes are insufficient to pay scheduled interest payments, principal amounts due on the legal final maturity date, or when the balance of assets supporting the asset-backed notes is less than the outstanding balance of the asset-backed notes. The carrying value of our deferred gain related to the letters of credit was $16 million at June 30, 2008.

*Indemnifications.* In the ordinary course of business, we execute contracts involving indemnifications standard in the industry and indemnifications specific to a transaction, such as the sale of a business. These indemnifications might include but are not limited to claims against any of the following: environmental, tax, and shareholder matters; intellectual property rights; power generation contracts; governmental regulations and employment-related matters; dealers, supplier, and other commercial contractual relationships; and financial matters, such as securitizations. Performance under these indemnities would generally be triggered by a breach of terms of the contract or by a third-party claim. We regularly evaluate the probability of having to incur costs associated with these indemnifications and have accrued for expected losses that are probable. We also are party to numerous indemnifications which do not limit potential payment; therefore, we are unable to estimate a maximum amount of potential future payments that could result from claims made under these indemnities.

**Product Performance**

**Warranty**

Included in the warranty cost accruals are costs for basic warranty coverages on vehicles sold. Additional service actions, such as product recalls and other customer service actions, are not included in the warranty reconciliation below, but are also accrued for at the time of sale. Estimates for warranty costs are made based primarily on historical warranty claim experience. The following is a tabular reconciliation of the product warranty accruals (in millions):

| | First Half | |
|---|---|---|
| | **2008** | **2007** |
| Beginning balance | $ 4,862 | $ 5,235 |
| Payments made during the period | (1,642) | (1,685) |
| Changes in accrual related to warranties issued during the period | 1,338 | 1,587 |
| Changes in accrual related to pre-existing warranties | (72) | (162) |
| Foreign currency translation and other | 110 | 103 |
| Ending balance | $ 4,596 | $ 5,078 |

**NOTE 15. COMPREHENSIVE INCOME/(LOSS)**

Total comprehensive income/(loss) is summarized as follows (in millions):

| | Second Quarter | | First Half | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net income/(loss) | $ (8,667) | $ 750 | $ (8,567) | $ 468 |
| Other comprehensive income/(loss) | | | | |
| Foreign currency translation | (1,452) | 658 | (531) | 686 |
| Employee benefit-related | 1,184 | 375 | 1,280 | (547) |
| Gain/(loss) on derivative instruments | (252) | (78) | (27) | (407) |
| Net holding gain/(loss) | (6) | 5 | (33) | (32) |
| Total other comprehensive income/(loss) | (526) | 960 | 689 | (300) |
| Total comprehensive income/(loss) | $ (9,193) | $ 1,710 | $ (7,878) | $ 168 |

## Report of Independent Registered Public Accounting Firm

To Board of Directors and Stockholders
Ford Motor Company:

We have reviewed the accompanying consolidated balance sheet of Ford Motor Company and its subsidiaries as of June 30, 2008 and the related consolidated statements of income for each of the three-month and six-month periods ended June 30, 2008 and 2007 and the condensed consolidated statement of cash flows for the six-month periods ended June 30, 2008 and 2007. These interim financial statements are the responsibility of the Company's management.

The accompanying sector balance sheets and the related sector statements of income and of cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the review procedures applied in the review of the basic financial statements.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2007, and the related consolidated statements of income, of cash flows and of stockholders' equity for the year then ended (not presented herein), and in our report dated February 27, 2008, except with respect to our opinion on the consolidated financial statements insofar as it relates to the effects of the change in reportable segments discussed in Notes 13, 18 and 25 to the consolidated financial statements, as to which the date is June 2, 2008, we expressed an unqualified opinion (with explanatory paragraphs relating to changes in the method of accounting for conditional asset retirement obligations in 2005, the method of accounting for defined benefit pension and other postretirement plans, the timing of the annual goodwill and other intangible assets impairment testing, and the amortization method for special tools in 2006 and the method of accounting for uncertain tax positions in 2007) on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2007 is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**

Detroit, Michigan
August 8, 2008

**ITEM 2.** ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

**SECOND QUARTER RESULTS OF OPERATIONS**

Our worldwide net loss was $8.7 billion or $3.88 per share of Common and Class B Stock in the second quarter of 2008, down from net income of $750 million or $0.31 per share in the second quarter of 2007.

Results by business sector for the second quarter of 2008 and 2007 are shown below (in millions):

| | Second Quarter | | |
|---|---|---|---|
| | **2008** | **2007** | **2008 Over/(Under) 2007** |
| **Income/(Loss) before income taxes** | | | |
| Automotive sector | $ (6,610) | $ 821 | $ (7,431) |
| Financial Services sector | (2,420) | 105 | (2,525) |
| Total Company | (9,030) | 926 | (9,956) |
| Provision for/(Benefit from) income taxes | (444) | 123 | (567) |
| Minority interests in net income/(loss) of subsidiaries * | 89 | 85 | 4 |
| **Income/(Loss) from continuing operations** | (8,675) | 718 | (9,393) |
| Income/(Loss) from discontinued operations | 8 | 32 | (24) |
| **Net income/(loss)** | $ (8,667) | $ 750 | $ (9,417) |

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* Primarily related to Ford Europe's consolidated 41%-owned affiliate, Ford Otosan. The pre-tax results for Ford Otosan were $156 million and $139 million in the second quarter of 2008 and 2007, respectively.

Included in *Income/(Loss) before income taxes* are items we do not consider indicative of our ongoing operating activities (“special items”). The following table details the second quarter 2008 and 2007 special items by segment or business unit (in millions):

| | Second Quarter – Income/(Loss) | |
|---|---|---|
| **Automotive Sector** | **2008** | **2007** |
| **Ford North America** | | |
| Fixed asset impairment charges | $ (5,300) | $ • |
| Gain/(Loss) on sale of ACH plants/assets | (303) | • |
| Job Security Benefits and personnel-reduction programs | (274) | 55 |
| U.S. dealer reductions (including investment write-offs) | (39) | • |
| Retiree health care curtailment gain | 100 | 148 |
| Total Ford North America | (5,816) | 203 |
| **Ford Europe** | | |
| Personnel-reduction programs/Other | (3) | (78) |
| **Volvo** | | |
| Personnel-reduction programs | (23) | • |
| U.S. dealer reductions (including investment write-offs) | (9) | • |
| **Ford Asia Pacific Africa** | | |
| Personnel-reduction programs | (7) | (8) |
| **Mazda** | | |
| Impairment of dealer network goodwill | (214) | • |
| **Other Automotive** | | |
| Gain on exchange of debt securities for equity | 57 | • |
| **Jaguar Land Rover and Aston Martin** | | |
| Loss on sale of Jaguar Land Rover | (106) | • |
| Net gains/(losses) on certain Jaguar Land Rover undesignated hedges | (1) | 182 |
| Personnel-reduction programs | (1) | (32) |
| Sale of Aston Martin (primarily the gain on sale) | • | 206 |
| Jaguar Land Rover operating profits for 2008/Other | 183 | (30) |
| Total Jaguar Land Rover and Aston Martin | 75 | 326 |
| Total Automotive sector | (5,940) | 443 |
| | | |
| **Financial Services Sector** | | |
| Ford Credit net operating lease impairment charges | (2,086) | • |
| Total | $ (8,026) | $ 443 |

Included in *Provision for/(Benefit from) income taxes* are tax benefits of $727 million for the second quarter of 2008 that we consider to be special items. This amount primarily consists of the tax effects of the pre-tax special items listed above, and a $645 million benefit reflecting the change in our deferred tax asset valuation allowance allocated to *Income/(Loss) from continuing operations* after taking into consideration income from *Accumulated other comprehensive income/(loss)* when determining whether sufficient future taxable income exists to realize deferred tax assets.

The discussion below of Automotive and Financial Services sector results of operations is on a pre-tax basis. Our results for interim periods are not necessarily indicative of results for a full year. We believe that the trends, particularly for year-over-year changes in profitability, cost changes, and market share, generally are important and may be indicative of the direction of our business unless our disclosures indicate otherwise.

**AUTOMOTIVE SECTOR**

Details by segment or business unit of *Income/(Loss) before income taxes* for the second quarter of 2008 and 2007 are shown below (in millions), with Jaguar Land Rover and Aston Martin segment separated out from "ongoing" subtotals:

| | Second Quarter | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 Over/(Under) 2007 |
| Ford North America | $(7,153) | $ (67) | $ (7,086) |
| Ford South America | 388 | 255 | 133 |
| Ford Europe | 579 | 184 | 395 |
| Volvo | (152) | (91) | (61) |
| Ford Asia Pacific Africa | 43 | 18 | 25 |
| Mazda | (111) | 72 | (183) |
| Total ongoing Automotive operations | (6,406) | 371 | (6,777) |
| Other Automotive | (279) | (107) | (172) |
| Total ongoing Automotive | (6,685) | 264 | (6,949) |
| Jaguar Land Rover and Aston Martin | 75 | 557 | (482) |
| Total Automotive sector | $(6,610) | $ 821 | $ (7,431) |

Details by segment of Automotive revenues ("sales") and wholesale unit volumes for the second quarter of 2008 and 2007 are shown below:

| | Second Quarter | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sales (a) (in billions) | | | | Wholesales (b) (in thousands) | | | |
| | 2008 | 2007 | 2008 Over/(Under) 2007 | | 2008 | 2007 | 2008 Over/(Under) 2007 | |
| Ford North America (c) | $ 14.2 | $ 19.0 | $ (4.8) | (25)% | 679 | 816 | (137) | (17)% |
| Ford South America | 2.4 | 1.8 | 0.6 | 28 | 118 | 110 | 8 | 7 |
| Ford Europe | 11.5 | 9.2 | 2.3 | 26 | 532 | 509 | 23 | 5 |
| Volvo | 4.3 | 4.4 | (0.1) | (1) | 107 | 125 | (18) | (14) |
| Ford Asia Pacific Africa (d) | 1.7 | 1.7 | • | 3 | 125 | 135 | (10) | (7) |
| Total ongoing Automotive operations | 34.1 | 36.1 | (2.0) | (5) | 1,561 | 1,695 | (134) | (8) |
| Jaguar Land Rover and Aston Martin | 2.9 | 4.0 | (1.1) | (30) | 51 | 78 | (27) | (35) |
| Total Automotive sector | $ 37.0 | $ 40.1 | $ (3.1) | (8) | 1,612 | 1,773 | (161) | (9) |

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(a) 2008 over/(under) 2007 sales percentages are computed using unrounded sales numbers.

(b) Wholesale unit volumes generally are reported on a where-sold basis, and include all Ford-badged units and units manufactured by Ford that are sold to other manufacturers, as well as units distributed for other manufacturers. Vehicles sold to daily rental car companies that are subject to a guaranteed repurchase option, as well as other sales of finished vehicles for which the recognition of revenue is deferred (e.g., consignments), are included in wholesale unit volumes.

(c) Includes sales of Mazda6 by our consolidated subsidiary, AAI.

(d) Included in wholesale unit volumes of Ford Asia Pacific Africa are Ford-badged vehicles sold in China and Malaysia by certain unconsolidated affiliates totaling about 49,000 and 55,000 units in 2008 and 2007, respectively. "Sales" above does not include revenue from these units.

Details of Automotive sector market share for selected markets for the second quarter of 2008 and 2007, along with the level of dealer stocks as of June 30, 2008 and 2007, are shown below:

| | Market Share | | | Dealer-Owned Stocks (a) (in thousands) | | |
|---|---|---|---|---|---|---|
| **Market** | **2008** | **2007** | **2008 Over/(Under) 2007** | **2008** | **2007** | **2008 Over/(Under) 2007** |
| United States (b) | 14.4% | 15.6% | (1.2) pts | 559 | 557 | 2 |
| South America (b) (c) | 9.5 | 10.9 | (1.4) | 38 | 29 | 9 |
| Europe (b) (d) | 8.5 | 8.3 | 0.2 | 361 | 338 | 23 |
| Volvo – United States/Europe (d) | 0.5/1.3 | 0.6/1.4 | (0.1)/(0.1) | 20/41 | 24/46 | (4)/(5) |
| Asia Pacific Africa (b) (e) (f) | 1.9 | 2.2 | (0.3) | 62 | 60 | 2 |

(a) Dealer-owned stocks represent our estimate of vehicles shipped to our customers (dealers) and not yet sold by the dealers to their retail customers, including some vehicles reflected in our inventory.
(b) Market share includes only Ford and, in certain markets (primarily United States), Lincoln and Mercury brands.
(c) South America market share is based, in part, on estimated vehicle registrations for our six major markets (Argentina, Brazil, Chile, Colombia, Ecuador and Venezuela).
(d) Europe 2008 market share is based, in part, on estimated vehicle registrations for the 19 European markets we track (described in "Item 1. Business" of our 2007 Form 10-K Report). Europe 2007 market share is based on actual vehicle registrations for these markets.
(e) Asia Pacific Africa market share is based on estimated vehicle retail sales for our 12 major markets (Australia, China, Japan, India, Indonesia, Malaysia, New Zealand, Philippines, South Africa, Taiwan, Thailand and Vietnam).
(f) Dealer-owned stocks for Asia Pacific Africa include primarily Ford-brand vehicles as well as a small number of units distributed for other manufacturers.

*Overall Automotive Sector*

The decline in results primarily reflected fixed asset impairment charges in Ford North America ($5.3 billion), unfavorable volume and mix ($1.3 billion), higher charges for Job Security Benefits and personnel-reduction programs (about $300 million), a loss on the sale of ACH plants and assets (about $300 million), lower interest income and mark-to-market adjustments for changes in currency exchange rates on intercompany loans offset partially by lower interest expense (about $200 million), a charge as determined under U.S. GAAP representing the impact on Ford of a goodwill impairment related to Mazda-owned dealerships in Japan (about $200 million), the non-recurrence of the gain on sale of Aston Martin (about $200 million), lower net pricing (about $200 million), the reduction of net gains on certain Jaguar Land Rover undesignated hedges (about $200 million), and unfavorable changes in currency exchange rates (about $200 million). These factors were offset partially by favorable cost changes ($1 billion).

The table below details our second quarter 2008 cost changes at constant volume, mix and exchange, excluding special items (in billions):

| | Explanation of Cost Changes | 2008 Better/(Worse) Than 2007 |
|---|---|---|
| Spending-related | Primarily the non-recurrence of accelerated depreciation and amortization related to recently-closed facilities. | $ 0.3 |
| Overhead | Primarily salaried personnel reductions. | 0.2 |
| Pension and OPEB | Primarily health care efficiencies. | 0.2 |
| Manufacturing and engineering | Primarily hourly and salaried personnel reductions in North America and efficiencies in our plants and processes, offset partially by higher engineering expenses. | 0.2 |
| Advertising & sales promotions | Primarily lower costs in North America. | 0.1 |
| Warranty-related | Primarily favorable adjustments to Volvo and South America warranty costs, offset partially by the non-recurrence of adjustments to North America warranty reserves. | • |
| Net product costs | Primarily commodity cost increases and added product content, offset partially by material cost reductions. | • |
| | Total | $ 1.0 |

The decline in revenue was more than explained by North America results including lower wholesale unit volumes, adverse product mix, and lower net pricing, offset partially by favorable changes in currency exchange rates in all other segments.

*Ford North America Segment.* The decline in earnings primarily reflected fixed asset impairment charges, unfavorable volume and mix, higher charges for Job Security Benefits and personnel-reduction programs, lower net pricing, and a loss on the sale of ACH plants and assets, offset partially by favorable cost changes. The favorable cost changes primarily reflected lower spending-related costs, manufacturing and engineering costs, pension and OPEB costs, and overhead costs.

*Ford South America Segment.* The increase in earnings primarily reflected higher net pricing and favorable volume and mix, offset partially by unfavorable changes in currency exchange.

*Ford Europe Segment.* The increase in earnings primarily reflected favorable volume and mix, favorable cost changes, lower charges for personnel-reduction programs, and favorable net pricing, offset partially by unfavorable changes in currency exchange rates. The favorable cost changes primarily reflected lower overhead costs, pension costs, advertising and sales promotion costs, and net product costs, offset partially by higher manufacturing and engineering costs.

*Volvo Segment.* The decline in earnings primarily reflected unfavorable volume and mix, lower net pricing, unfavorable changes in currency exchange rates, and higher charges for personnel-reduction programs, offset partially by favorable cost changes. The favorable cost changes primarily reflected lower manufacturing and engineering costs, overhead costs, warranty-related costs, advertising and sales promotion costs, and spending-related costs.

*Ford Asia Pacific Africa Segment.* The increase in earnings was more than explained by higher net pricing.

*Mazda Segment.* The decline in results primarily reflected a charge as determined under U.S. GAAP representing the impact on Ford of a goodwill impairment related to Mazda-owned dealerships in Japan.

*Other Automotive.* The decline in earnings primarily reflected lower interest income (primarily reflecting lower interest rates) and mark-to-market adjustments for changes in exchange rates on intercompany loans, offset partially by lower interest expense.

*Jaguar Land Rover and Aston Martin Segment.* The decrease in earnings primarily reflected the non-recurrence of the gain on sale of Aston Martin, the reduction of net gains on certain Jaguar Land Rover undesignated hedges, and the loss on the sale of Jaguar Land Rover.

**FINANCIAL SERVICES SECTOR**

Details of Financial Services sector *Income/(Loss) before income taxes* for the second quarter of 2008 and 2007 are shown below (in millions):

| | Second Quarter | | |
|---|---|---|---|
| | **2008** | **2007** | **2008 Over/(Under) 2007** |
| Ford Credit | $(2,380) | $ 112 | $ (2,492) |
| Other Financial Services | (40) | (7) | (33) |
| Total | $(2,420) | $ 105 | $ (2,525) |

*Ford Credit*

The decrease in earnings primarily reflected the significant decline in used vehicle auction values during the second quarter of 2008. This decline in auction values contributed to: an impairment charge to Ford Credit's North America segment operating lease portfolio for contracts terminating beginning third quarter of 2008 ($2.1 billion), higher depreciation expense for lease vehicles (about $500 million), and a higher provision for credit losses (about $500 million). These factors were offset partially by the non-recurrence of net losses related to market valuation adjustments from derivatives (about $300 million), higher financing margin primarily attributable to lower borrowing costs (about $100 million), a gain related to the sale of approximately half of Ford Credit's ownership interest in its Nordic operations (about $100 million), and lower expenses primarily reflecting improved operating costs (about $100 million).

During the second quarter of 2008, higher fuel prices and the weak economic climate in the United States and Canada resulted in a more pronounced and accelerated shift in consumer preferences away from full-size trucks and traditional SUVs to smaller, more fuel-efficient vehicles. This shift in consumer preferences combined with a weak economic climate caused a significant reduction in auction values, in particular for used full-size trucks and traditional SUVs. At the end of the quarter, Ford Credit completed its quarterly North America operating lease portfolio adequacy study for accumulated depreciation and projected that lease-end residual values would be significantly lower than previously expected for full-size trucks and traditional SUVs.

As a result of the market factors and Ford Credit's adequacy study results, Ford Credit tested the operating leases of its North America segment for recoverability as of June 30, 2008 and recorded a pre-tax impairment charge of $2.1 billion. This charge represents the amount by which the carrying value of certain vehicle lines, primarily full-size trucks and traditional SUVs, in Ford Credit's lease portfolio exceeded their fair value.

About 60% of Ford Credit's net investment in operating leases is included in on-balance sheet private securitizations, and $1.3 billion of the impairment charge is attributable to the assets included in these securitizations. Ford Credit structured the enhancements in its operating lease securitizations to protect investors against residual and credit losses. Ford Credit expects that these enhancements will be sufficient to cover projected residual losses that supported the impairment charge.

Ford Credit's net finance receivables and net investment in operating leases are shown below (in billions):

| | June 30, 2008 | December 31, 2007 | 2008 Over/(Under) 2007 |
|---|---|---|---|
| On-balance sheet (including on-balance sheet securitizations)* | $ 135.7 | $ 141.1 | $ (5.4) |
| Unearned interest supplements – Finance receivables | 1.0 | • | 1.0 |
| Securitized off-balance sheet | 3.0 | 6.0 | (3.0) |
| Managed | $ 139.7 | $ 147.1 | $ (7.4) |
| | | | |
| Serviced | $ 140.2 | $ 148.0 | $ (7.8) |

* At June 30, 2008 and December 31, 2007, includes finance receivables of $77.4 billion and $67.2 billion, respectively, which have been sold for legal purposes in securitizations that do not satisfy the requirements for accounting sale treatment. In addition, at June 30, 2008 and December 31, 2007, includes net investment in operating leases of $15.2 billion and $18.9 billion, respectively, which have been included in securitizations that do not satisfy the requirements for accounting sale treatment. These underlying securitized assets are available only for payment of the debt or other obligations issued or arising in the securitization transactions; they are not available to pay Ford Credit's other obligations or the claims of Ford Credit's other creditors until the associated debt or other obligations are satisfied.

The decrease in managed receivables from year-end 2007 was more than explained by lower North America receivables, the impact of divestitures, and the impairment charge for operating leases, offset partially by changes in currency exchange rates.

The following table shows worldwide credit losses, net of recoveries (which are referred to as "charge-offs") for Ford Credit, for the various categories of financing during the periods indicated. The loss-to-receivables ratios, which equal charge-offs on an annualized basis divided by the average amount of receivables outstanding for the period, excluding the allowance for credit losses and unearned interest supplements related to finance receivables, are shown below for Ford Credit's on-balance sheet and managed portfolios.

| | Second Quarter | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 Over/(Under) 2007 |
| **Charge-offs (in millions)** | | | |
| On-balance sheet | $ 246 | $ 125 | $ 121 |
| Managed | 254 | 139 | 115 |
| | | | |
| **Loss-to-Receivables Ratios** | | | |
| On-balance sheet | 0.70% | 0.36% | 0.34 pts. . |
| Managed | 0.70 | 0.38 | 0.32 |

The increases in charge-offs and loss-to-receivable ratios for Ford Credit's on-balance sheet and managed portfolios, principally in the U.S. retail installment and lease portfolio, primarily reflected higher severity (i.e., average loss per repossession) mainly due to the overall auction value deterioration in the used vehicle market, along with an increase in amount financed, and a higher mix of 72-month contracts for vehicles repossessed in its portfolio.

Shown below is an analysis of Ford Credit's allowance for credit losses and its allowance for credit losses as a percentage of end-of-period receivables ( i.e., finance receivables, excluding unearned interest supplements, and net investment in operating leases, excluding the allowance for credit losses) for its on-balance sheet portfolio:

| | June 30, 2008 | December 31, 2007 | 2008 Over/(Under) 2007 |
|---|---|---|---|
| Allowance for credit losses (in millions) | $ 1,493 | $ 1,090 | $ 403 |
| Allowance as a percentage of end-of-period receivables | 1.08% | 0.77% | 0.31 pts. |

In the second quarter of 2008, Ford Credit updated its assumptions to reflect higher severities, which increased its allowance for credit losses by about $190 million at June 30, 2008. The total increase in allowance for credit losses is consistent with the increase in charge-offs and the change in Ford Credit's severity assumptions. The allowance for credit losses is primarily a function of portfolio quality, historical loss performance, and receivable levels.

In purchasing retail finance and lease contracts, Ford Credit uses a proprietary scoring system that classifies contracts using several factors, such as credit bureau information, FICO score, employment history, income, amount financed, vehicle value, and contract term. As of June 30, 2008, about 4% of the outstanding U.S. retail finance and lease contracts in Ford Credit's serviced portfolio were classified as high risk at contract inception, about the same as year-end 2007 and down from about 8% in 2000, consistent with Ford Credit's efforts to improve the credit quality of its portfolio.

*Other Financial Services*

The decrease in earnings primarily reflected the non-recurrence of gains related to real estate sales transactions and market valuation adjustments from derivatives.

**FIRST HALF RESULTS OF OPERATIONS**

Our worldwide net loss was $8.6 billion or $3.87 per share of Common and Class B Stock in the first half of 2008, down from net income of $468 million or $0.22 per share in the first half of 2007.

Results by business sector for the first half of 2008 and 2007 are shown below (in millions):

| | First Half | | |
|---|---|---|---|
| | **2008** | **2007** | **2008 Over/(Under) 2007** |
| **Income/(Loss) before income taxes** | | | |
| Automotive sector | $ (6,358) | $ 483 | $ (6,841) |
| Financial Services sector | (2,356) | 399 | (2,755) |
| Total Company | (8,714) | 882 | (9,596) |
| Provision for/(Benefit from) income taxes | (349) | 305 | (654) |
| Minority interests in net income/(loss) of subsidiaries * | 211 | 143 | 68 |
| **Income/(Loss) from continuing operations** | (8,576) | 434 | (9,010) |
| Income/(Loss) from discontinued operations | 9 | 34 | (25) |
| **Net income/(loss)** | $ (8,567) | $ 468 | $ (9,035) |

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* Primarily related to Ford Europe's consolidated 41%-owned affiliate, Ford Otosan. The pre-tax results for Ford Otosan were $370 million and $237 million in the first half of 2008 and 2007, respectively.

Included in *Income/(Loss) before income taxes* are items we do not consider indicative of our ongoing operating activities ("special items"). The following table details the first half 2008 and 2007 special items by segment or business unit (in millions):

| | First Half – Income/(Loss) 2008 | First Half – Income/(Loss) 2007 |
|---|---|---|
| **Ford North America** | | |
| Fixed asset impairment charges | $ (5,300) | $ • |
| Job Security Benefits and personnel-reduction programs | (505) | (819) |
| Gain/(Loss) on sale of ACH plants/assets | (305) | • |
| U.S. dealer reductions (including investment write-offs) | (147) | • |
| Ballard restructuring | (70) | • |
| Pension curtailment charges | • | (175) |
| Retiree health care curtailment gain | 111 | 1,108 |
| Total Ford North America | (6,216) | 114 |
| **Ford Europe** | | |
| Personnel-reduction programs/Other | (14) | (89) |
| **Volvo** | | |
| Personnel-reduction programs | (23) | (4) |
| U.S. dealer reductions (including investment write-offs) | (9) | • |
| **Ford Asia Pacific Africa** | | |
| Personnel-reduction programs | (12) | (10) |
| **Mazda** | | |
| Impairment of dealer network goodwill | (214) | • |
| **Other Automotive** | | |
| Gain on exchange of debt securities for equity | 73 | • |
| **Jaguar Land Rover and Aston Martin** | | |
| Jaguar Land Rover held-for-sale impairment | (421) | • |
| Loss on sale of Jaguar Land Rover | (106) | • |
| Net gains/(losses) on certain Jaguar Land Rover undesignated hedges | (19) | 182 |
| Personnel-reduction programs | (4) | (39) |
| Sale of Aston Martin (primarily the gain on sale) | • | 214 |
| Jaguar Land Rover operating profits for 2008/Other | 625 | (38) |
| Total Jaguar Land Rover and Aston Martin | 75 | 319 |
| Total Automotive sector | (6,340) | 330 |
| | | |
| **Financial Services Sector** | | |
| Ford Credit net operating lease impairment charges | (2,086) | • |
| Total | $ (8,426) | $ 330 |

Included in *Provision for/(Benefit from) income taxes* are tax benefits of $719 million for the first half of 2008 that we consider to be special items. This amount primarily consists of the tax effects of the pre-tax special items listed above, and a $645 million benefit reflecting the change in our deferred tax asset valuation allowance allocated to *Income/(Loss) from continuing operations* after taking into consideration income from *Accumulated other comprehensive income/(loss)* when determining whether sufficient future taxable income exists to realize deferred tax assets.

The discussion below of Automotive and Financial Services sector results of operations is on a pre-tax basis. Our results for interim periods are not necessarily indicative of results for a full year. We believe that the trends, particularly for year-over-year changes in profitability, cost changes, and market share, generally are important and may be indicative of the direction of our business unless our disclosures indicate otherwise.

**AUTOMOTIVE SECTOR**

Details by segment or business unit of *Income/(Loss) before income taxes* for the first half of 2008 and 2007 are shown below (in millions), with Jaguar Land Rover and Aston Martin segment separated out from "ongoing" subtotals:

| | First Half | | |
|---|---|---|---|
| | 2008 | 2007 | 2008 Over/(Under) 2007 |
| Ford North America | $(7,598) | $(769) | $ (6,829) |
| Ford South America | 645 | 368 | 277 |
| Ford Europe | 1,307 | 392 | 915 |
| Volvo | (303) | (1) | (302) |
| Ford Asia Pacific Africa | 39 | (10) | 49 |
| Mazda | (62) | 93 | (155) |
| Total ongoing Automotive operations | (5,972) | 73 | (6,045) |
| Other Automotive | (461) | (448) | (13) |
| Total ongoing Automotive | (6,433) | (375) | (6,058) |
| Jaguar Land Rover and Aston Martin | 75 | 858 | (783) |
| Total Automotive sector | $(6,358) | $ 483 | $ (6,841) |

Details by segment of sales and wholesale unit volumes for the first half of 2008 and 2007 are shown below:

| | First Half | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sales (a) (in billions) | | | | Wholesales (b) (in thousands) | | | |
| | 2008 | 2007 | 2008 Over/(Under) 2007 | | 2008 | 2007 | 2008 Over/(Under) 2007 | |
| Ford North America (c) | $ 31.3 | $ 37.5 | $ (6.2) | (17)% | 1,383 | 1,560 | (177) | (11)% |
| Ford South America | 4.2 | 3.1 | 1.1 | 35 | 210 | 194 | 16 | 8 |
| Ford Europe | 21.7 | 17.8 | 3.9 | 22 | 1,032 | 1,009 | 23 | 2 |
| Volvo | 8.5 | 9.0 | (0.5) | (5) | 213 | 253 | (40) | (16) |
| Ford Asia Pacific Africa (d) | 3.4 | 3.5 | (0.1) | • | 254 | 261 | (7) | (3) |
| Total ongoing Automotive operations | 69.1 | 70.9 | (1.8) | (2) | 3,092 | 3,277 | (185) | (6) |
| Jaguar Land Rover and Aston Martin | 7.0 | 7.8 | (0.8) | (11) | 125 | 146 | (21) | (14) |
| Total Automotive sector | $ 76.1 | $ 78.7 | $ (2.6) | (3) | 3,217 | 3,423 | (206) | (6) |

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(a) 2008 over/(under) 2007 sales percentages are computed using unrounded sales numbers.

(b) Wholesale unit volumes generally are reported on a where-sold basis, and include all Ford-badged units and units manufactured by Ford that are sold to other manufacturers, as well as units distributed for other manufacturers. Vehicles sold to daily rental car companies that are subject to a guaranteed repurchase option, as well as other sales of finished vehicles for which the recognition of revenue is deferred (e.g., consignments), are included in wholesale unit volumes.

(c) Includes sales of Mazda6 by our consolidated subsidiary, AAI.

(d) Included in wholesale unit volumes of Ford Asia Pacific Africa are Ford-badged vehicles sold in China and Malaysia by certain unconsolidated affiliates totaling about 104,000 and 93,000 units in 2008 and 2007, respectively. "Sales" above does not include revenue from these units.

Details of Automotive sector market share for selected markets for the first half of 2008 and 2007, along with the level of dealer stocks as of June 30, 2008 and 2007, are shown below:

| | Market Share | | | Dealer-Owned Stocks (a) (in thousands) | | |
|---|---|---|---|---|---|---|
| **Market** | **2008** | **2007** | **2008 Over/(Under) 2007** | **2008** | **2007** | **2008 Over/(Under) 2007** |
| United States (b) | 14.7% | 15.4% | (0.7) pts. | 559 | 557 | 2 |
| South America (b) (c) | 9.5 | 11.0 | (1.5) | 38 | 29 | 9 |
| Europe (b) (d) | 8.7 | 8.7 | • | 361 | 338 | 23 |
| Volvo – United States/Europe (d) | 0.6/1.4 | 0.6/1.5 | •/(0.1) | 20/41 | 24/46 | (4)/(5) |
| Asia Pacific Africa (b) (e) (f) | 1.9 | 2.2 | (0.3) | 62 | 60 | 2 |

(a) Dealer-owned stocks represent our estimate of vehicles shipped to our customers (dealers) and not yet sold by the dealers to their retail customers, including some vehicles reflected in our inventory.

(b) Includes only Ford and, in certain markets (primarily United States), Lincoln and Mercury brands.

(c) South America market share is based, in part, on estimated vehicle registrations for our six major markets (Argentina, Brazil, Chile, Colombia, Ecuador and Venezuela).

(d) Europe 2008 market share is based, in part, on estimated vehicle registrations for the 19 European markets we track (described in "Item 1. Business" of our 2007 Form 10-K Report). Europe 2007 market share is based on actual vehicle registrations for these markets.

(e) Asia Pacific Africa market share is based on estimated vehicle retail sales for our 12 major markets (Australia, China, Japan, India, Indonesia, Malaysia, New Zealand, Philippines, South Africa, Taiwan, Thailand and Vietnam).

(f) Dealer-owned stocks for Asia Pacific Africa include primarily Ford-brand vehicles as well as a small number of units distributed for other manufacturers.

*Overall Automotive Sector*

The decline in results primarily reflected fixed asset impairment charges in Ford North America ($5.3 billion), unfavorable volume and mix ($2 billion), lower retiree health care curtailment gains related to our hourly separation programs ($1 billion), the Jaguar Land Rover held-for-sale impairment of carrying value in the first quarter of 2008 (about $400 million), unfavorable changes in currency exchange rates (about $400 million), and a loss on the sale of ACH plants and assets (about $300 million). These factors were offset partially by favorable cost changes ($2.7 billion).

The table below details our first half 2008 cost changes at constant volume, mix and exchange, excluding special items (in billions):

| | **Explanation of Cost Changes** | **2008 Better/(Worse) Than 2007** |
|---|---|---|
| Spending-related | Primarily the non-recurrence of accelerated depreciation and amortization related to recently-closed facilities. | $ 0.6 |
| Net product costs | Primarily favorable material cost reductions, offset partially by added product content and commodity cost increases in excess of favorable mark-to-market adjustments on commodity hedges. | 0.6 |
| Manufacturing and engineering | Primarily hourly and salaried personnel reductions in North America and efficiencies in our plants and processes, offset partially by higher engineering expenses. | 0.5 |
| Overhead | Primarily salaried personnel reductions. | 0.3 |
| Pension and OPEB | Primarily health care efficiencies. | 0.3 |
| Advertising & sales promotions | Primarily lower costs in North America. | 0.2 |
| Warranty-related | Primarily favorable adjustments to Ford Europe warranty reserves. | 0.2 |
| | Total | $ 2.7 |

The decline in revenue primarily reflected North America results including lower wholesale unit volumes and adverse product mix, offset partially by changes in favorable currency exchange rates in all other segments.

*Ford North America Segment.* The decline in earnings primarily reflected fixed asset impairment charges, unfavorable volume and mix, lower retiree health care curtailment gains related to our hourly separation programs, and lower net pricing, offset partially by favorable cost changes and lower charges for Job Security Benefits and personnel-reduction programs. The favorable cost changes primarily reflected lower spending-related costs, manufacturing and engineering costs, net product costs, overhead costs and pension and OPEB costs.

*Ford South America Segment.* The increase in earnings primarily reflected higher net pricing and favorable volume and mix, offset partially by unfavorable cost changes. The unfavorable cost changes primarily reflected higher net product costs and manufacturing and engineering costs, offset partially by lower warranty-related costs.

*Ford Europe Segment.* The increase in earnings primarily reflected favorable cost changes, favorable volume and mix, higher net pricing, improved profits at Ford Otosan, and lower charges for personnel-reduction programs, offset partially by unfavorable changes in currency exchange rates. The favorable cost changes primarily reflected lower net product costs, warranty-related costs, pension costs, overhead costs, spending-related costs, and advertising and sales promotion costs, offset partially by higher manufacturing and engineering costs.

*Volvo Segment.* The decline in earnings primarily reflected unfavorable volume and mix, lower net pricing, unfavorable changes in currency exchange rates, and higher charges for personnel-reduction programs, offset partially by favorable cost changes. The favorable cost changes primarily reflected lower manufacturing and engineering costs, net product costs, warranty-related costs, overhead costs, and advertising and sales promotion costs.

*Ford Asia Pacific Africa Segment.* The improvement in results primarily reflected favorable cost changes and higher net pricing, offset partially by unfavorable changes in currency exchange. The favorable cost changes primarily reflected lower net product costs, warranty-related costs, overhead costs, manufacturing and engineering costs, and advertising and sales promotion costs.

*Mazda Segment.* The decline in results primarily reflected a charge as determined under U.S. GAAP representing the impact on Ford of a goodwill impairment related to Mazda-owned dealerships in Japan.

*Other Automotive.* The decline in earnings primarily reflected lower returns on our cash portfolio and on the assets held in the temporary asset account ("Temporary Asset Account") established pursuant to the terms of the settlement agreement dated March 28, 2008 among us, the UAW and class representatives concerning retiree health care obligations for current and former UAW-represented Ford employees (the "Retiree Health Care Settlement Agreement"). These factors were offset partially by mark-to-market adjustments for changes in exchange rates on intercompany loans, lower interest expense, and gains on exchanges of debt securities for equity.

*Jaguar Land Rover and Aston Martin Segment.* The decline in earnings was more than explained by the Jaguar Land Rover held-for-sale impairment of carrying value in the first quarter of 2008, the non-recurrence of the gain on sale of Aston Martin, and the reduction of net gains on certain Jaguar Land Rover undesignated hedges.

**FINANCIAL SERVICES SECTOR**

Details of Financial Services sector *Income/(Loss) before income taxes* for the first half of 2008 and 2007 are shown below (in millions):

| | First Half | | |
|---|---|---|---|
| | **2008** | **2007** | **2008 Over/(Under) 2007** |
| Ford Credit | $(2,348) | $ 406 | $ (2,754) |
| Other Financial Services | (8) | (7) | (1) |
| Total | $(2,356) | $ 399 | $ (2,755) |

*Ford Credit*

The decrease in earnings primarily reflected the significant decline in used vehicle auction values during the second quarter of 2008. This decline in auction values contributed to: an impairment charge to Ford Credit's North America segment operating lease portfolio for contracts terminating beginning third quarter of 2008 ($2.1 billion); a higher provision for credit losses (about $800 million); and higher depreciation expense for leased vehicles (about $600 million). These factors were offset partially by lower expenses primarily reflecting improved operating costs and the non-recurrence of costs associated with Ford Credit's North American business transformation initiative (about $200 million), the non-recurrence of net losses related to market valuation adjustments from derivatives (about $200 million), higher financing margin primarily attributable to lower borrowing costs (about $200 million), and a gain related to the sale of approximately half of Ford Credit's ownership interest in its Nordic operations (about $100 million).

The following table shows worldwide credit losses, net of recoveries (which are referred to as "charge-offs") for Ford Credit, for the various categories of financing during the periods indicated. The loss-to-receivables ratios, which equal charge-offs on an annualized basis divided by the average amount of receivables outstanding for the period, excluding the allowance for credit losses and unearned interest supplements related to finance receivables, are shown below for Ford Credit's on-balance sheet and managed portfolios.

| | First Half | | |
|---|---|---|---|
| | **2008** | **2007** | **2008 Over/(Under) 2007** |
| **Charge-offs (in millions)** | | | |
| On-balance sheet | $ 475 | $ 232 | $ 243 |
| Managed | 497 | 264 | 233 |
| | | | |
| **Loss-to-Receivables Ratios** | | | |
| On-balance sheet | 0.67% | 0.34% | 0.33 pts.. |
| Managed | 0.68 | 0.36 | 0.32 |

The increases in charge-offs and loss-to-receivable ratios for Ford Credit's on-balance sheet and managed portfolios, principally in the U.S. retail installment and lease portfolio, primarily reflected higher severity mainly due to the overall auction value deterioration in the used vehicle market, along with an increase in amount financed, and a higher mix of 72-month contracts for vehicles repossessed in its portfolio.

**Residual Risk**

Ford Credit is exposed to residual risk on operating leases and similar balloon payment products where the customer may return the financed vehicle to Ford Credit. Residual risk is the possibility that the amount Ford Credit obtains from returned vehicles will be less than its estimate of the expected residual value for the vehicle. Ford Credit estimates the expected residual value by evaluating recent auction values, return volumes for its leased vehicles, industry-wide used vehicle prices, marketing incentive plans, and vehicle quality data.

In the second quarter of 2008, Ford Credit recorded a pre-tax impairment charge of $2.1 billion on its North America segment operating lease portfolio.

*North America Retail Operating Lease Experience.* Ford Credit uses various statistics to monitor its residual risk:

- Placement volume measures the number of leases Ford Credit purchases in a given period;
- Termination volume measures the number of vehicles for which the lease has ended in the given period; and
- Return volume reflects the number of vehicles returned to Ford Credit by customers at lease end.

The following table shows operating lease placement, termination and return volumes for Ford Credit's North America segment, which accounted for about 97% of its total investment in operating leases at June 30, 2008 (in thousands, except for percentages):

| | Second Quarter | | First Half | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Placements | 106 | 139 | 219 | 249 |
| Terminations | 110 | 108 | 204 | 199 |
| Returns | 94 | 85 | 173 | 157 |
| | | | | |
| Memo: | | | | |
| Return rates | 85% | 78% | 85% | 79% |

The decline in placement volumes in the second quarter of 2008 compared with the same period a year ago primarily reflected lower U.S. industry volumes and market share. The higher return volumes and rates are consistent with a decrease in auction values relative to Ford Credit's expectations at the time of contract purchase and a shift in consumer preferences from full-size trucks and traditional SUVs. Lease placements, which have grown annually since 2003, began to decrease in the first half of 2008.

*U.S. Ford, Lincoln and Mercury Brand Retail Operating Lease Experience.* The following table shows return volumes for Ford Credit's Ford, Lincoln and Mercury brand U.S. operating lease portfolio. Also included are auction values at constant second quarter 2008 vehicle mix for lease terms comprising about 70% of Ford Credit's active Ford, Lincoln and Mercury brand U.S. operating lease portfolio (in thousands, except for percentages):

| | Second Quarter | | First Half | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| **Returns** | | | | |
| 24-Month term | 24 | 22 | 53 | 47 |
| 36-Month term | 14 | 16 | 28 | 30 |
| 39-Month term/Other term | 5 | 10 | 10 | 19 |
| Total returns | 43 | 48 | 91 | 96 |
| Memo: | | | | |
| Return rates | 87% | 81% | 87% | 82% |
| **Auction Values at Constant Second Quarter 2008 Vehicle Mix** | | | | |
| 24-Month term | $ 14,570 | $ 17,305 | $ 15,345 | $ 17,260 |
| 36-Month term | 12,685 | 15,060 | 13,160 | 15,110 |

In the second quarter of 2008, Ford, Lincoln and Mercury brand U.S. return volumes were down 5,000 units compared with the same period a year ago. However, the return rate increased to 87% consistent with a decrease in auction values compared to Ford Credit's expectations of lease-end values at the time of contract purchase, and reflecting a shift in consumer preferences away from full-size trucks and traditional SUVs. Auction values at constant second quarter 2008 mix for 24-month and 36-month lease vehicles were down $2,735 per unit or 15.8% and $2,375 per unit or 15.8%, respectively, from year ago levels, primarily reflecting the overall auction value deterioration in the used vehicle market.

In the second quarter of 2008, overall auction values for Ford, Lincoln and Mercury brand U.S. vehicles for 24-month and 36-month leases were down $1,415 or 8.9% and $970 or 7.1%, respectively, compared with the first quarter of 2008, at constant second quarter 2008 mix. For the same periods, full-size truck and traditional SUV auction values for 24-month and 36-month leases were down $1,965 or 11.6% and $1,890 or 12.3%, respectively, also at constant second quarter 2008 mix.

In the first half of 2008, trends and causal factors compared with the same period a year ago were consistent with those described above.

The recent, rapid decline in auction values for used full-size trucks and traditional SUVs, together with difficult credit market conditions, has made leasing vehicles less economical than in the past. Accordingly, Ford Credit is planning to reduce lease originations, while still offering leasing to consumers who prefer this product.

## LIQUIDITY AND CAPITAL RESOURCES

### Automotive Sector

Our strategy is to ensure that we have sufficient funding available with a high degree of certainty throughout the business cycle. Our long-term goal is to improve our core Automotive operations so that we have a high degree of certainty about our capability to generate cash from our operations. In addition, our strategy includes maintaining large gross cash balances, having a long-dated debt maturity profile, and maintaining committed credit facilities.

*Gross Cash.* Automotive gross cash includes cash and cash equivalents, net marketable securities, and loaned securities. Prior to 2008, we included in Automotive gross cash those assets contained in a VEBA trust that could be used to pre-fund certain types of company-paid benefits for U.S. employees and retirees, which were invested in shorter-duration fixed income investments and could be used within 18 months to pay for benefits ("short-term VEBA assets").

Consistent with our Retiree Health Care Settlement Agreement, our 2008 gross cash calculations do not include short-term VEBA assets and Temporary Asset Account securities. Gross cash is detailed below as of the dates shown (in billions):

| | June 30, 2008 | March 31, 2008 | December 31, 2007 | June 30, 2007 | March 31, 2007 | December 31, 2006 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ 16.9 | $ 18.7 | $ 20.7 | $ 17.1 | $ 15.7 | $ 16.0 |
| Marketable securities | 5.1 | 6.6 | 2.0 | 13.7 | 16.8 | 11.3 |
| Loaned securities | 7.4 | 6.7 | 10.3 | 4.6 | 0.7 | 5.3 |
| Total cash, marketable securities and loaned securities | 29.4 | 32.0 | 33.0 | 35.4 | 33.2 | 32.6 |
| Securities-in-transit (a) | (0.1) | (0.7) | (0.3) | (0.3) | (0.2) | (0.5) |
| UAW-Ford Temporary Asset Account (b) | (2.7) | (2.6) | • | • | • | • |
| Short-term VEBA assets | • | • | 1.9 | 2.3 | 2.2 | 1.8 |
| Gross cash | $ 26.6 | $ 28.7 | $ 34.6 | $ 37.4 | $ 35.2 | $ 33.9 |

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(a) The purchase or sale of marketable securities for which the cash settlement was not made by period-end and for which there was a payable or receivable recorded on the balance sheet at period-end.

(b) At June 30, 2008, includes about $100 million of securities-in-transit; account value net of offsetting liability is $2.6 billion.

In managing our business, we classify changes in Automotive gross cash into two categories: operating-related and other (which includes the impact of certain special items, contributions to funded pension plans, the net effect of the change in our VEBA on gross cash, tax-related transactions, acquisitions and divestitures, capital transactions with the Financial Services sector, dividends paid to shareholders, and other – primarily financing-related). Our key metrics are operating-related cash flow, which best represents the ability of our Automotive operations to generate cash, and Automotive gross cash. We believe the cash flow analysis reflected in the table below is useful to investors because it includes in operating-related cash flow elements that we consider to be related to our operating activities (e.g., capital spending) and excludes cash flow elements that we do not consider to be related to the ability of our operations to generate cash (e.g., tax refunds). This differs from a cash flow statement presented in accordance with U.S. GAAP and differs from *Cash flows from operating activities of continuing operations*, the most directly comparable U.S. GAAP financial measure.

Changes in Automotive gross cash for the second quarter and first half of 2008 and 2007 are summarized below (in billions):

| | Second Quarter | | First Half | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Gross cash at end of period | $ 26.6 | $ 37.4 | $ 26.6 | $ 37.4 |
| Gross cash at beginning of period | 28.7 | 35.2 | 34.6 | 33.9 |
| Total change in gross cash (a) | $ (2.1) | $ 2.2 | $ (8.0) | $ 3.5 |
| **Operating-related cash flows** | | | | |
| Automotive income/(loss) before income taxes | $ (0.7) | $ 0.8 | $ • | $ 0.5 |
| Capital expenditures | (1.6) | (1.3) | (2.9) | (2.6) |
| Depreciation and special tools amortization | 1.5 | 1.8 | 3.0 | 3.5 |
| Changes in receivables, inventories, and trade payables | (2.2) | (0.1) | (1.6) | 0.7 |
| Other (b) | 0.7 | 0.6 | (1.5) | 0.8 |
| Subtotal | (2.3) | 1.8 | (3.0) | 2.9 |
| Up-front subvention payments to Ford Credit (c) | (0.8) | • | (1.6) | • |
| Total operating-related cash flows | (3.1) | 1.8 | (4.6) | 2.9 |
| **Other changes in cash** | | | | |
| Personnel separation payments | (0.2) | (0.4) | (0.3) | (1.7) |
| Contributions to funded pension plans | (0.2) | (0.4) | (0.8) | (1.2) |
| Net effect of VEBA on cash | • | 0.4 | (4.5) | 0.7 |
| Tax refunds and tax payments from affiliates | • | • | 0.9 | 2.0 |
| Acquisitions and divestitures | 1.7 | 0.9 | 1.8 | 1.0 |
| Other (d) | (0.3) | (0.1) | (0.5) | (0.2) |
| Total change in gross cash | $ (2.1) | $ 2.2 | $ (8.0) | $ 3.5 |

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(a) Total change in Automotive gross cash attributable to Jaguar Land Rover operations was *de minimis* in the second quarter of 2008, and was a $300 million net cash outflow for the first half of 2008. Except for up-front subvention payments to Ford Credit, Jaguar Land Rover cash outflows are excluded from each line item of this table and included in Other within Other changes in cash.

(b) In the second quarter of 2008, Other Operating cash flows were primarily driven by timing differences between the expensing of marketing, warranty and other accrued liabilities and the payment of those expenses.

(c) Includes Jaguar Land Rover.

(d) In the second quarter of 2008, Other primarily reflects debt reductions related to the sale of Jaguar Land Rover.

Shown in the table below is a reconciliation between financial statement *Cash flows from operating activities of continuing operations* and operating-related cash flows (calculated as shown in the table above) for the second quarter and first half of 2008 and 2007 (in billions):

| | **Second Quarter** | | **First Half** | |
|---|---|---|---|---|
| | **2008 (a)** | **2007** | **2008 (a)** | **2007** |
| Cash flows from operating activities of continuing operations (b) | $ (2.2) | $ 1.3 | $ (1.6) | $ 2.8 |
| Items included in operating-related cash flows | | | | |
| Capital expenditures | (1.6) | (1.3) | (2.9) | (2.6) |
| Net transactions between Automotive and Financial Services sectors (c) | (0.7) | 0.1 | (1.3) | (0.4) |
| Net cash flows from non-designated derivatives | 0.6 | 0.3 | 0.8 | 0.5 |
| Items not included in operating-related cash flows | | | | |
| Cash impact of personnel-reduction programs and Job Security Benefits accrual | 0.2 | 0.4 | 0.3 | 1.7 |
| Net (sales)/purchases of trading securities | • | 0.7 | • | 1.5 |
| Contributions to funded pension plans | 0.2 | 0.4 | 0.8 | 1.2 |
| VEBA cash flows (reimbursements for benefits paid) | • | (0.3) | • | (0.3) |
| Tax refunds, tax payments, and tax receipts from affiliates | • | • | (0.9) | (2.0) |
| Other (b) | 0.4 | 0.2 | 0.2 | 0.5 |
| Operating-related cash flows | $ (3.1) | $ 1.8 | $ (4.6) | $ 2.9 |

(a) Except as noted (see note (b) below), 2008 data exclude Jaguar Land Rover, reflecting the operations' held-for-sale status.

(b) Includes Jaguar Land Rover.

(c) Primarily payables and receivables between the Automotive and Financial Services sectors in the normal course of business. For example, vehicle wholesale loans that are made by Ford Credit to Ford-owned dealers.

*Debt and Net Cash.* At June 30, 2008, our Automotive sector had total debt of $26.5 billion, compared with $27 billion at December 31, 2007. At June 30, 2008, our Automotive sector had net cash (defined as gross cash less total debt) of about $100 million, compared with $7.6 billion at the end of 2007. The $7.5 billion reduction in net cash reflects an $8 billion reduction in gross cash including $4.5 billion related to the VEBA, and about $500 million in lower debt.

As disclosed in our Current Report on Form 8-K filed May 1, 2008, we issued an aggregate of 37,459,540 shares of Ford Common Stock on April 30, 2008 in exchange for $360 million principal amount of our outstanding publicly-issued debt securities beneficially owned by an institutional holder of those debt securities.

Pursuant to the Retiree Health Care Settlement Agreement, on April 9, 2008 we issued to a wholly-owned subsidiary $3.3 billion principal amount of our 5.75% Senior Convertible Note Due 2013 (the "Convertible Note") and $3 billion principal amount of our 9.50% Guaranteed Secured Note Due January 1, 2018 (the "Second Lien Note"). Upon the required transfer of the Convertible Note and Second Lien Note to a new external VEBA established pursuant to the Retiree Health Care Settlement Agreement, which is expected to occur at December 31, 2009, our Automotive sector debt will increase, and our net cash will decrease, by about $6.3 billion as a result of the Convertible Note and Second Lien Note becoming outstanding at that time for financial reporting purposes. The Convertible Note, or a portion thereof, could become outstanding prior to December 31, 2009, if we and the UAW decide to monetize all or a portion of it prior to its transfer to the new external VEBA.

*Credit Facilities.** At July 1, 2008, we had $12.2 billion of contractually-committed credit facilities with financial institutions, including $11.5 billion pursuant to a senior secured credit facility (the "Credit Agreement") established in December 2006 and about $700 million of Automotive unsecured credit facilities. At June 30, 2008, $11.6 billion of these facilities were available for use. Of the lines available for use, 98% (or $11.4 billion) are committed through December 15, 2011, and the remainder are committed for a shorter period of time. For further discussion of our committed credit facilities, see Note 16 of the Notes to the Financial Statements in our 2007 Form 10-K Report.

**Financial Services Sector**

*Ford Credit*

*Debt.* At June 30, 2008, unsecured long-term debt (including notes payable within one year) was $55.6 billion, down about $7 billion from year-end 2007, primarily reflecting about $10 billion of debt maturities. These maturities were offset partially by unsecured debt issuances of about $2 billion and an increase of about $1 billion primarily reflecting changes in currency exchange rates. Asset-backed long-term debt (including notes payable within one year) at June 30, 2008 was $55.7 billion, up about $6 billion from year-end 2007, reflecting asset-backed long-term debt issuances in excess of amortization of asset-backed debt. Securitized off-balance sheet funding was $2.6 billion at June 30, 2008, down about $3 billion from year-end 2007, reflecting the amortization of previous securitizations.

* Credit facilities of our VIEs are excluded as we do not control their use.

*Funding Strategy.* As a result of lower credit ratings over the past few years, Ford Credit's unsecured funding costs have increased over time. While it has continued to access the unsecured debt market when it makes sense to do so, Ford Credit has increased its use of securitization funding as it is presently more cost effective than unsecured funding and has allowed Ford Credit access to a broad investor base. Ford Credit plans to meet a significant portion of its 2008 funding requirements through securitizations, and to continue to diversify its asset-backed funding by asset class and region. In addition, Ford Credit has various alternative business arrangements for select products and markets that reduce its funding requirements while allowing it to support us (e.g., Ford Credit's partnering in Brazil for retail financing and FCE Bank plc's ("FCE") partnering with various institutions in Europe for full service leasing and retail financing). Ford Credit is continuing to explore and execute such alternative business arrangements.

Consistent with the overall market, Ford Credit has been impacted by volatility in the asset-backed securities markets that began in August 2007. Since then, Ford Credit has experienced higher credit spreads and, in certain circumstances, shorter maturities in its public and private securitization issuances. In addition, committed liquidity program renewals have come at a higher cost. Given present market conditions, Ford Credit expects that its credit spreads and the cost of renewing its committed liquidity programs will continue to be higher in 2008 than prior to August 2007. About 25% of Ford Credit's committed capacity is up for renewal during the remainder of 2008. Given the nature of its asset-backed committed facilities, Ford Credit has the ability to obtain term funding up to the time that the facilities mature. Any outstanding debt at the maturity of the facilities remains outstanding through the term of the underlying assets.

Ford Credit's funding plan is subject to risks and uncertainties, many of which are beyond its control. If auction values for used vehicles continue to weaken or further reductions occur in the market capacity for the types of asset-backed securities used in Ford Credit's asset-backed funding, there could be increased risk to Ford Credit's funding plan. As a result, Ford Credit may need to reduce the amount of receivables and operating leases it purchases or originates. A significant reduction in Ford Credit's managed receivables would reduce its ongoing profits, and could adversely affect its ability to support the sale of Ford vehicles.

*Term Funding Plan*. The following table shows Ford Credit's completed public and private term funding issuances in 2007 and through July 31, 2008, and its planned issuances for full-year 2008 (in billions):

| | 2008 | | |
|---|---|---|---|
| | **Full-Year Forecast** | **Through July 31,** | **2007 Actual** |
| **Public Transactions** | | | |
| Unsecured | $ 1 – 3 | $ 1 | $ 6 |
| Securitizations (a) | 12 – 15 | 10 | 6 |
| Total public transactions | $ 13 – 18 | $ 11 | $ 12 |
| **Private Transactions** (b) | $ 12 – 18 | $ 11 | $ 28 |

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(a) Reflects new issuance; excludes whole-loan sales and other structured financings.
(b) Includes private term debt, securitizations, whole-loan sales and other structured financings; excludes sales to Ford Credit's on-balance sheet asset-backed commercial paper programs.

Through July 31, 2008, Ford Credit completed about $11 billion of public term funding transactions, including: about $1 billion of unsecured long-term debt; about $9 billion of retail asset-backed securitizations in the United States, including a $5.4 billion transaction in May 2008; and the remainder consisting of a retail asset-backed securitization in Germany. Ford Credit expects its full-year 2008 public term funding requirements to be between $13 billion and $18 billion.

Through July 31, 2008, Ford Credit completed about $11 billion of private term funding transactions (excluding its on-balance sheet asset-backed commercial paper program and proceeds from revolving transactions) in several markets. These private transactions included wholesale, retail and lease asset-backed securitizations, and unsecured term debt.

Through July 31, 2008, Ford Credit has completed about $22 billion of public and private term funding, which is about two-thirds of its full-year plan.

*Liquidity.* The following table illustrates the various sources of Ford Credit's liquidity as of the dates shown (in billions):

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Cash, cash equivalents and marketable securities (a) | $ 19.6 | $ 16.7 |
| | | |
| Committed liquidity programs | 35.4 | 36.8 |
| Asset-backed commercial paper ("FCAR") | 16.3(b) | 16.9 |
| Credit facilities | 2.7(b) | 3.0 |
| Committed capacity | 54.4(b) | 56.7 |
| Committed capacity and cash | 74.0 | 73.4 |
| Less: Capacity in excess of eligible receivables | (7.8) | (4.7) |
| Less: Cash to support on-balance sheet securitizations | (5.4) | (4.7) |
| Liquidity | 60.8(b) | 64.0 |
| Less: Utilization | (37.8) | (36.1) |
| Liquidity available for use | $ 23.0(b) | $ 27.9 |

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(a) Excludes marketable securities related to insurance activities.
(b) As of July 1, 2008.

At June 30, 2008, the capacity of Ford Credit's liquidity sources (which include committed liquidity programs, its asset-backed commercial paper program, and credit facilities) and its cash totaled $74 billion. Of this amount, Ford Credit could utilize $60.8 billion (after adjusting for capacity in excess of eligible receivables of $7.8 billion and cash required to support on-balance sheet securitizations of $5.4 billion), of which $37.8 billion was utilized as of June 30, 2008, leaving $23 billion (including $14.2 billion of cash, cash equivalents, and marketable securities and excluding marketable securities related to insurance activities) available for use. In addition to the $23 billion of liquidity available for use, the $7.8 billion of capacity in excess of eligible receivables provides an alternative to uncommitted sources for funding future purchases or originations and gives Ford Credit flexibility to efficiently shift capacity to markets and asset classes where it can be used.

*Cash, Cash Equivalents and Marketable Securities.* At June 30, 2008, Ford Credit's cash, cash equivalents, and marketable securities (excluding marketable securities related to insurance activities) totaled $19.6 billion (including $5.4 billion to be used only to support on-balance sheet securitizations), compared with $16.7 billion at year-end 2007. In the normal course of its funding activities, Ford Credit may generate more proceeds than are required for its immediate funding needs. These excess amounts are maintained primarily as highly liquid investments, which provide liquidity for Ford Credit's short-term funding needs and give Ford Credit flexibility in the use of its other funding programs.

*Committed Liquidity Programs.* Ford Credit and its subsidiaries, including FCE, have entered into agreements with a number of bank-sponsored asset-backed commercial paper conduits ("conduits") and other financial institutions whereby such parties are contractually committed, at Ford Credit's option, to purchase from Ford Credit eligible retail or wholesale assets up to $29.4 billion at June 30, 2008 ($17.5 billion retail and $11.9 billion wholesale), of which $10.4 billion are commitments to FCE. These committed liquidity programs have varying maturity dates, with $20.3 billion having maturities within the next twelve months (of which $3.8 billion relates to FCE commitments), and the balance having maturities between August 2009 and September 2011. As a result of the continued asset-backed securities market volatility that began in August 2007, there is a risk to the renewal of some of these committed liquidity programs, which could lead to a reduction in the size of these programs and/or higher costs. Ford Credit's ability to obtain funding under these programs is subject to having a sufficient amount of assets eligible for these programs. At June 30, 2008, $19.1 billion of these commitments were in use. These programs are extremely liquid funding sources, as Ford Credit is able to obtain funding from available capacity generally within two days. These programs are free of material adverse change clauses, restrictive financial covenants (for example, debt-to-equity limitations and minimum net worth requirements) and credit rating triggers that could limit Ford Credit's ability to obtain funding. However, the unused portion of these commitments may be terminated if the performance of the underlying assets deteriorates beyond specified levels. Based on Ford Credit's experience and knowledge as servicer of the related assets, Ford Credit does not expect any of these programs to be terminated due to such events.

In addition, Ford Credit has a committed liquidity program for the purchase of up to $6 billion of unrated asset-backed securities, of which $4 billion is committed through 2009. At its option, this program can be supported with retail, wholesale, or lease assets. Ford Credit's ability to obtain funding under this program is subject to having a sufficient amount of assets available to issue the securities. This program is also free of material adverse change clauses, restrictive financial covenants and credit rating triggers that could limit Ford Credit's ability to obtain funding. At June 30, 2008, Ford Credit had $3.1 billion of outstanding funding in this program.

*Credit Facilities.* At July 1, 2008, Ford Credit and its subsidiaries, including FCE, had $2.7 billion of contractually-committed unsecured credit facilities with financial institutions, of which $1.9 billion were available for use. Of the lines available for use, 41% ($771 million) are committed through at least June 30, 2010, including 33% ($611 million) of which are committed through December 31, 2011. Of the $2.7 billion, $359 million constitute Ford Credit bank lines (of which $70 million are worldwide) and $2.3 billion are FCE bank lines (of which $2.2 billion are worldwide). The Ford Credit worldwide credit facilities may be used, at Ford Credit's option, by any of its direct or indirect majority-owned subsidiaries. Similarly, the FCE worldwide credit facilities may be used, at FCE's option, by any of FCE's direct or indirect majority-owned subsidiaries. Ford Credit or FCE, as the case may be, will guarantee any such borrowings. All of the worldwide credit facilities are free of material adverse change clauses, restrictive financial covenants, and credit rating triggers that could limit Ford Credit's ability to obtain funding.

In addition, at July 1, 2008, banks provided $16.3 billion of contractually-committed liquidity facilities to support Ford Credit's FCAR program. Of the contractually-committed liquidity facilities, 39% ($6.4 billion) are committed through June 30, 2012, and the remainder are committed for a shorter period of time. Utilization of these facilities is subject to conditions specific to the FCAR program and Ford Credit having a sufficient amount of eligible assets for securitization. The FCAR program must be supported by liquidity facilities equal to at least 100% of its outstanding balance. At July 1, 2008, $16.1 billion of FCAR's bank liquidity facilities were available to support FCAR's asset-backed commercial paper, subordinated debt or FCAR's purchase of Ford Credit's asset-backed securities, and the remaining $174 million of FCAR's bank liquidity facilities were available to support FCAR's purchase of Ford Credit's asset-backed securities. At July 1, 2008, the outstanding balance for the FCAR program was $14.3 billion.

*Leverage.* Ford Credit uses leverage, or the debt-to-equity ratio, to make various business decisions, including establishing pricing for retail, wholesale and lease financing, and assessing its capital structure. Ford Credit refers to its shareholder's interest as equity. Ford Credit calculates leverage on a financial statement basis and on a managed basis.

The following table illustrates the calculation of Ford Credit's financial statement leverage (in billions, except for ratios):

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Total debt | $ 137.5 | $ 139.4 |
| Total equity | 12.3 | 13.4 |
| Debt-to-equity ratio (to 1) | 11.2 | 10.4 |

The following table illustrates the calculation of Ford Credit's managed leverage (in billions, except for ratios):

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| Total debt | $ 137.5 | $ 139.4 |
| Securitized off-balance sheet receivables outstanding | 3.0 | 6.0 |
| Retained interest in securitized off-balance sheet receivables | (0.4) | (0.7) |
| Adjustments for cash, cash equivalents, and marketable securities (a) | (19.6) | (16.7) |
| Adjustments for hedge accounting (b) | (0.1) | • |
| Total adjusted debt | $ 120.4 | $ 128.0 |
| | | |
| Total equity (including minority interest) | $ 12.3 | $ 13.4 |
| Adjustments for hedge accounting (b) | (0.2) | (0.3) |
| Total adjusted equity | $ 12.1 | $ 13.1 |
| | | |
| Managed debt-to-equity ratio (to 1) | 10.0 | 9.8 |

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(a) Excludes marketable securities related to insurance activities.
(b) Primarily related to market valuation adjustments for derivatives due to movements in interest rates.

Ford Credit plans its managed leverage by considering prevailing market conditions and the risk characteristics of its business. At June 30, 2008, Ford Credit's managed leverage was 10 to 1, compared with 9.8 to 1 at December 31, 2007. Ford Credit did not pay any distributions in the first half of 2008.

**Total Company**

*Stockholders' Equity.* Our stockholders' equity was negative $1.7 billion at June 30, 2008, down $7.3 billion compared with December 31, 2007. The decrease primarily reflected net losses in the first half of 2008, offset partially by favorable changes in *Accumulated other comprehensive income/(loss)* (see Note 15 of the Notes to the Financial Statements for details of Other comprehensive income/(loss)) and favorable changes in *Capital in excess of par value of stock* resulting from conversion of debt to equity and issuance of new stock.

*Credit Ratings*

Our short- and long-term debt is rated by four credit rating agencies designated as nationally recognized statistical rating organizations ("NRSROs") by the Securities and Exchange Commission ("SEC"):

- DBRS Limited ("DBRS");
- Fitch, Inc. ("Fitch");
- Moody’s Investors Service, Inc. ("Moody’s"); and
- Standard & Poor’s Rating Services, a division of McGraw-Hill Companies, Inc. ("S&P").

*Ford.* In June 2008, DBRS placed our ratings under review with negative implications, Moody's changed our outlook from stable to negative, and S&P placed our ratings on CreditWatch with negative implications. In July 2008, S&P lowered our issuer rating to B- from B, our long-term senior unsecured rating to CCC from CCC+, and our senior secured rating to B- from B+. Also in July 2008, S&P removed our ratings from CreditWatch while maintaining a negative outlook. In August 2008, Fitch lowered our issuer default rating to B- from B, our senior secured rating to BB- from BB, and our long-term senior unsecured rating to CCC+ from B-.

*Ford Credit.* In June 2008, DBRS placed Ford Credit's ratings under review with negative implications, Moody's changed Ford Credit's outlook from stable to negative, and S&P placed Ford Credit's ratings on CreditWatch with negative implications. In July 2008, S&P lowered Ford Credit's long-term senior unsecured rating to B- from B, and stopped rating Ford Credit's short-term unsecured debt. Also in July 2008, S&P removed Ford Credit's ratings from CreditWatch while maintaining a negative outlook. In August 2008, Fitch lowered Ford Credit's issuer default rating to B- from B and its long-term senior unsecured rating to B+ from BB-.

The following chart summarizes certain of the credit ratings and the outlook presently assigned to Ford and Ford Credit by these four NRSROs:

| | NRSRO RATINGS | | | | | | |
|---|---|---|---|---|---|---|---|
| | Ford | | | | Ford Credit | | |
| | Issuer Default/ Corporate/ Issuer Rating | Long-Term Senior Unsecured | Senior Secured | Outlook / Trend | Long-Term Senior Unsecured | Short-Term Unsecured | Outlook / Trend |
| DBRS | B (low) | CCC (high) | B (high) | Negative* | B | R-4 | Negative* |
| Fitch | B- | CCC+ | BB- | Negative | B+ | B- | Negative |
| Moody's | B3 | Caa1 | Ba3 | Negative | B1 | NP | Negative |
| S&P** | B- | CCC | B- | Negative | B- | NR | Negative |

* DBRS has placed our ratings Under Review.
** S&P assigns FCE a long-term senior unsecured rating of B, maintaining a one-notch differential versus Ford Credit.

**OFF-BALANCE SHEET ARRANGEMENTS**

In the first half of 2008, Ford Credit did not enter into any off-balance sheet arrangements (off-balance sheet securitization transactions and whole-loan sale transactions), consistent with its plan to fund securitizations through on-balance sheet transactions. At June 30, 2008 and December 31, 2007, the total outstanding principal amount of receivables sold by Ford Credit in off-balance sheet securitizations was $3 billion and $6 billion, respectively. At June 30, 2008 and December 31, 2007, Ford Credit's retained interests in such sold receivables were $380 million and $653 million, respectively.

**OUTLOOK**

Our current projection of upcoming vehicle production for certain segments is as follows (in thousands):

| | Third Quarter | | Fourth Quarter | |
|---|---|---|---|---|
| | **Vehicle Unit Production** | **2008 Over/(Under) 2007** | **Vehicle Unit Production** | **2008 Over/(Under) 2007** |
| Ford North America | 440 | (197) | 500 | (141) |
| Ford Europe | 400 | (16) | 490 | 1 |
| Volvo | 80 | (13) | 110 | (7) |

Reduced Ford North America planned vehicle production for the second half of 2008 largely reflects our expectation of lower industry demand in the United States due to continuing deterioration of economic conditions, as discussed below, as well as the shift in consumer preferences away from full-size trucks and traditional SUVs.

We have set and communicated the following 2008 planning assumptions and operational metrics:

| **Planning Assumptions** | **Full-Year Plan** | **First Half** | **Full-Year Outlook** |
|---|---|---|---|
| **Industry Volume (SAAR)** | | | |
| –U.S. (million units)(a) | 16.0 | 15.1 | 14.0 – 14.5 |
| –Europe (million units) (b) | 17.6 | 17.5 | 17.2 – 17.4 |
| | | | |
| **Operational Metrics** | | | |
| **Compared with 2007:** | | | |
| --Quality | Improve | Improved | On Track |
| --Automotive Costs (c) | Improve by about $3 Billion | Improved by $2.7 Billion | Over $3 Billion |
| **Absolute Amount:** | | | |
| --U.S. Market Share (Ford Lincoln Mercury) | Low End of 14%-15% Range | 14.7% | High 13% |
| --Operating-Related Cash Flow | Negative | $(4.6) Billion | Greater Outflow than Plan |
| --Capital Spending | About $6 Billion | $2.9 Billion | On Track |

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(a) SAAR includes medium and heavy vehicles.
(b) For the 19 markets we track in Europe.
(c) At constant volume, mix and exchange; excluding special items.

Although we expect the second half of 2008 to be challenging, we remain confident that execution of the four key priorities of our plan – to aggressively restructure our business to operate profitably, accelerate product development, finance our plan and improve our balance sheet, and work together effectively as one team to leverage our global resources – will help us meet our long-term objectives.

As disclosed in our Current Reports on Form 8-K filed May 22, 2008, June 20, 2008 and July 24, 2008, we experienced rapidly-changing market conditions in North America during the second quarter of 2008. These changes in market condition included: (1) a more pronounced and accelerated shift in consumer preferences away from full-size trucks and traditional SUVs to smaller and more fuel-efficient vehicles as a result of higher fuel prices; (2) lower-than-anticipated U.S. industry demand; (3) and greater-than-anticipated escalation of commodity costs. Accordingly, as previously disclosed, we no longer expect our North American Automotive operations to return to profitability by 2009.

Our current planning assumptions for North America reflecting this economic environment include:

- The U.S. economy will not begin to recover until early 2010;
- U.S. industry sales will return to trend levels (i.e., about 17 million units) as the economy recovers subsequent to 2010;
- Recent product mix shifts will be largely permanent, with some recovery from current share-of-industry for full-size trucks as the economy and the housing market recover (but not back to previous levels);
- Fuel prices will remain volatile, at or about current levels;
- No near-term relief from current level of commodity prices; and
- U.S. market share for Ford, Lincoln and Mercury brands will be about 14% over the next few years.

Consistent with our current planning assumptions, we are taking the following actions:

- Introducing to North America several Ford Europe-derived smaller vehicles, including in 2010 the Ford Fiesta and Ford Focus;
- Commonizing products and vehicle platforms across the globe, with a goal of reducing the 25 different platforms in use today to about nine, excluding low-volume applications;
- Ensuring each new product introduced in North America is the best or among the best in its segment for fuel economy, supported by extensive powertrain updates, including:
  - Additional hybrid offerings,
  - Expanded four-cylinder engine production,
  - EcoBoost engine technology (i.e., gas turbocharged direct-injection technology), and
  - Six-speed transmissions; and
- Continuing to transform our North American manufacturing base, with three truck assembly plants to be converted to support small car production, nearly all assembly plant body shops and nearly half of transmission and engine plants to have flexible manufacturing capability, and assembly capacity reduced to match industry demand (including targeted hourly employee separation packages at select U.S. facilities).

In addition to the actions planned for Ford North America, during the second quarter we reduced hourly personnel in North America by about 4,000, and largely completed our announced 15% reduction of salaried-related personnel costs as of August 1, 2008. Also, Volvo has announced accelerated actions to be implemented in the second half of 2008, including a reduction of 2,000 personnel.

We continue to work to sell or close the majority of our ACH facilities by the end of 2008. We now expect that portions of our Indianapolis, Saline and Sandusky plants will remain open beyond 2008 to provide for an orderly and economical transition of the business to the supply base.

During the first six months of the year, we realized an additional $1.8 billion toward our goal of reducing $5 billion of annual Automotive operating costs in Ford North America by year-end 2008, as compared with year-end 2005 (at constant volume, mix and exchange, excluding special items). Our projection for structural cost savings, set forth below, assumes a favorable court ruling and accounting treatment for our Retiree Health Care Settlement Agreement during the second half of this year. The following data summarize our progress to date, and provide additional detail regarding our plan to reduce Ford North America operating costs by about $2.9 billion in total during 2008:

**Operating Cost Reductions (in billions)**

| | | | **2008** | | | |
|---|---|---|---|---|---|---|
| | **2006** | **2007** | **First Quarter** | **Second Quarter** | **Projected Second Half** | **Projected Full-Year** |
| Net Product Costs | | | | | | |
| Product Adds | $ (0.9) | $ (2.0) | $ (0.1) | $ (0.1) | $ (0.5) | $ (0.7) |
| Commodities | (0.3) | (0.8) | 0.1 | (0.2) | (0.8) | (0.9) |
| Material Cost Reductions/Other | 1.2 | 0.8 | 0.3 | 0.3 | 0.7 | 1.3 |
| Subtotal | - | (2.0) | 0.3 | - | (0.6) | (0.3) |
| Structural/Other | 1.5 | 2.6 | 0.9 | 0.6 | 1.7 | 3.2 |
| Total | $ 1.5 | $ 0.6 | $ 1.2 | $ 0.6 | $ 1.1 | $ 2.9 |

$5 Billion

Despite these cost reductions, we expect total company operating and overall results for full-year 2008 to be worse than full-year 2007. Looking at our Automotive segments, we expect operating losses (excluding special items) for Ford North America to increase in the second half of 2008 as compared with the first half, primarily due to lower volume and less favorable mix, consistent with deterioration in the economic environment. We presently project that our U.S. market share for Ford, Lincoln and Mercury products will decline in the second half compared with 2007 due to the continuing shift in consumer preferences away from our areas of traditional strength (i.e., full-size trucks and SUVs). We expect Ford Europe to be profitable in the second half of 2008, though we expect its second half results to be somewhat lower than results for the same period last year. We expect Volvo's results for the second half of 2008 to improve compared with the first half of the year. We expect continued good results for Ford South America in the second half – about equal to the same period a year ago, and we expect profitability at Ford Asia Pacific Africa and Mazda for the remainder of the year.

We anticipate net interest expense for Other Automotive will be in the range of $250 million to $300 million per quarter this year, although this amount will continue to be subject to market volatility, in part because the Temporary Asset Account is largely invested in equities. See "Liquidity and Capital Resources" above for further discussion of the impact on our debt and net cash of the Retiree Health Care Settlement Agreement.

During the period 2007 through 2009, we expect cumulative Automotive operating-related cash outflows and cumulative cash expenditures for personnel separations to exceed $16 billion (of which $7 billion has already been expended). Operating-related cash outflow primarily reflects the impact of anticipated operating losses in our Automotive sector, and accelerated interest supplement and lease support payments to Ford Credit beginning this year as described in our 2007 Form 10-K Report. The cash outflows also reflect our expectation to continue to invest in new products throughout this period at about the same level as we have during the past few years (i.e., about $6 billion annually). We do not expect the benefits of our recent labor agreement with the UAW to begin contributing meaningfully to our cash flow prior to 2010.

As noted under "Liquidity and Capital Resources" above, our Automotive liquidity was $38.2 billion at June 30, 2008, consisting of $26.6 billion in Automotive gross cash and $11.6 billion in available credit facilities. We will continue to evaluate our overall liquidity and take actions to improve our balance sheet.

Turning to our Financial Services sector, we anticipate that Ford Credit will incur a pre-tax loss for full-year 2008. The anticipated year-over-year decline in earnings primarily reflects the impact of the second quarter 2008 impairment charge to Ford Credit's North America segment operating lease portfolio, and Ford Credit's projection of higher provision for credit losses, higher depreciation expense for leased vehicles, lower volume, and higher net losses related to market valuation adjustments from derivatives. Ford Credit expects these unfavorable factors to be offset partially by the non-recurrence of costs associated with its North American business transformation initiative, reductions in other operating costs, and higher financing margin. Ford Credit anticipates a pre-tax loss for the second half of 2008, at about the same level as, or better than, its first-half pre-tax loss (excluding its impairment charge).

Ford Credit previously planned to pay regular distributions to Ford in 2008, but given the present credit market conditions and to maintain greater flexibility in the execution of its funding plan, we have elected that Ford Credit not reinstate these distributions in 2008. As a result, Ford Credit's managed leverage, which was 10 to 1 at June 30, 2008, will be lower than the previously-anticipated 11.5 to 1. Ford Credit anticipates its year-end 2008 managed receivables will be in the range of $130 billion to $135 billion.

**Risk Factors**

Statements included or incorporated by reference herein may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on expectations, forecasts and assumptions by our management and involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those stated, including, without limitation:

- Continued decline in market share;
- Continued or increased price competition resulting from industry overcapacity, currency fluctuations or other factors;
- A further increase in or acceleration of the market shift away from sales of trucks, SUVs, or other more profitable vehicles, particularly in the United States;
- A significant decline in industry sales, particularly in the United States, Europe, or South America, resulting from slowing economic growth, geo-political events, or other factors;
- Lower-than-anticipated market acceptance of new or existing products;
- Continued or increased high prices for or reduced availability of fuel;
- Currency or commodity price fluctuations;
- Adverse effects from the bankruptcy or insolvency of, change in ownership or control of, or alliances entered into by a major competitor;
- Economic distress of suppliers that has in the past and may in the future require us to provide financial support or take other measures to ensure supplies of components or materials;
- Labor or other constraints on our ability to restructure our business;
- Work stoppages at Ford or supplier facilities or other interruptions of supplies;
- Single-source supply of components or materials;
- Substantial pension and postretirement health care and life insurance liabilities impairing our liquidity or financial condition;
- Inability to implement the Retiree Health Care Settlement Agreement with the UAW to fund and discharge retiree health care obligations because of failure to obtain court approval or otherwise;
- Worse-than-assumed economic and demographic experience for our postretirement benefit plans (e.g., discount rates, investment returns, and health care cost trends);
- The discovery of defects in vehicles resulting in delays in new model launches, recall campaigns, or increased warranty costs;
- Increased safety, emissions (e.g., $CO_2$), fuel economy, or other regulation resulting in higher costs, cash expenditures, and/or sales restrictions;
- Unusual or significant litigation or governmental investigations arising out of alleged defects in our products or otherwise;
- A change in our requirements for parts or materials where we have entered into long-term supply arrangements that commit us to purchase minimum or fixed quantities of certain parts or materials, or to pay a minimum amount to the seller ("take-or-pay" contracts);
- Adverse effects on our results from a decrease in or cessation of government incentives;
- Adverse effects on our operations resulting from certain geo-political or other events;
- Substantial negative Automotive operating-related cash flows for the near- to medium-term affecting our ability to meet our obligations, invest in our business, or refinance our debt;
- Substantial levels of Automotive indebtedness adversely affecting our financial condition or preventing us from fulfilling our debt obligations (which may grow because we are able to incur substantially more debt, including additional secured debt);
- Inability of Ford Credit to access debt or securitization markets around the world at competitive rates or in sufficient amounts due to additional credit rating downgrades, market volatility, market disruption, or otherwise;
- Higher-than-expected credit losses;
- Increased competition from banks or other financial institutions seeking to increase their share of financing Ford vehicles;
- Changes in interest rates;
- Collection and servicing problems related to finance receivables and net investment in operating leases;
- Lower-than-anticipated residual values or higher-than-expected return volumes for leased vehicles; and
- New or increased credit, consumer or data protection or other regulations resulting in higher costs and/or additional financing restrictions.

We cannot be certain that any expectation, forecast or assumption made by management in preparing forward-looking statements will prove accurate, or that any projection will be realized. It is to be expected that there may be differences between projected and actual results. Our forward-looking statements speak only as of the date of their initial issuance, and we do not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. For additional discussion of these risks, see "Item 1A. Risk Factors" in our 2007 Form 10-K Report.

## CRITICAL ACCOUNTING ESTIMATES

Based on second quarter events, we are updating certain of the Critical Accounting Estimates disclosed in our 2007 Form 10-K Report.

### Other Postretirement Employee Benefits

*Remeasurement Assumptions*. We remeasured the U.S. hourly retiree health care plan as of June 30, 2008 as a result of a curtailment related to the termination of hourly employees. The remeasurement reduced our obligation by about $1.1 billion. The weighted average discount rate used to determine the benefit obligation for U.S. plans at June 30, 2008 was 6.66%, compared with 6.45% at December 31, 2007. The weighted average initial health care cost trend rate was 1% for the 2008 calendar year, compared with the 2007 trend rate of 3%.

*Sensitivity Analysis*. The sensitivity analysis has not changed materially from that in our 2007 Form 10-K Report.

### Impairment of Goodwill and Long-Lived Assets

*Nature of Estimates Required – Long-Lived Assets.* Long-lived asset groups are tested for recoverability when changes in circumstances indicate the carrying value may not be recoverable. Events that trigger a test for recoverability include material adverse changes in projected revenues and expenses, significant underperformance relative to historical or projected future operating results, and significant negative industry or economic trends. A test for recoverability also is performed when management has committed to a plan to sell or otherwise dispose of an asset group and the plan is expected to be completed within a year. Recoverability of an asset group is evaluated by comparing its carrying value to the future net undiscounted cash flows expected to be generated by the asset group. If the comparison indicates that the carrying value of an asset group is not recoverable, an impairment loss is recognized. The impairment loss is the amount by which the carrying value of the asset group exceeds the estimated fair value. When an impairment loss is recognized for assets to be held and used, the adjusted carrying amount of those assets is depreciated over its remaining useful life. Restoration of a previously-recognized long-lived asset impairment loss is not allowed.

#### Automotive Sector – Ford North America Fixed Assets

*Assumptions and Approach Used.* We measure the fair value of an asset group based on market prices (i.e., the amount for which the asset could be sold to a third party), when available. When market prices are not available, we estimate the fair value of the asset group using the income approach and/or the market approach. The income approach uses cash flow projections. Inherent in our development of cash flow projections are assumptions and estimates derived from a review of our operating results, approved business plans, expected growth rates, and cost of capital, similar to those a market participant would use to assess fair value. We also make certain assumptions about future economic conditions and other data. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates may change in future periods.

Changes in assumptions or estimates can materially affect the fair value measurement of an asset group, and therefore can affect the amount of the impairment. The following are key assumptions we use in making cash flow projections:

- *Business Projections* – We make assumptions about the demand for our products in the marketplace. These assumptions drive our planning assumptions for volume, mix, and pricing. We also make assumptions about our cost levels (e.g., capacity utilization, cost performance, etc.). These projections are derived using our internal business plans that are updated quarterly and reviewed by our Board of Directors.

- *Long-Term Growth Rate* – A growth rate is used to calculate the terminal value of the business, and is added to the present value of the debt-free interim cash flows. The growth rate is the expected rate at which a business unit's earnings stream is projected to grow beyond the planning period.

- *Discount Rate* – When measuring a possible impairment, future cash flows are discounted at a rate that is consistent with a weighted-average cost of capital that we anticipate a potential market participant would use. Weighted-average cost of capital is an estimate of the overall risk-adjusted after-tax rate of return required by equity and debt holders of a business enterprise, which is developed with the assistance of external financial advisors.

- *Economic Projections* – Assumptions regarding general economic conditions are included in and affect our assumptions regarding industry sales and pricing estimates for our vehicles. These macro-economic assumptions include, but are not limited to, industry volumes, inflation, interest rates, prices of raw materials (i.e., commodities), and foreign currency exchange rates.

The market approach is another method for measuring the fair value of an asset group. This approach relies on the market value (i.e., market capitalization) of companies that are engaged in the same or similar line of business.

See Note 2 of the Notes to the Financial Statements in our 2007 Form 10-K Report and Notes 3 and 10 of the Notes to the Financial Statements for more information regarding impairment of long-lived assets.

*Sensitivity Analysis*. Due to rapidly-changing U.S. market conditions in the second quarter of 2008 (discussed in Note 3 of the Notes to the Financial Statements), we tested the long-lived assets of our Ford North America segment. The resulting impairment reflected changes in the assumptions used to measure the fair value of the asset group based on these rapidly-changing market conditions (including changes to our business projections). The most notable changes in our business and economic projections included: (1) a more pronounced and accelerated shift in consumer preferences away from full-size trucks and traditional SUVs to smaller and more fuel-efficient vehicles as a result of higher fuel prices, with a return over time to a level between today's mix and recent levels; (2) lowered U.S. industry demand in the near term, with a return to trend levels as the U.S. economy recovers subsequent to 2010; and (3) higher commodity costs over the business plan period compared with prior projections. See Outlook above for additional discussion of our current planning assumptions.

Our testing during the second quarter of 2008 resulted in a pre-tax impairment charge of $5.3 billion. The impairment was driven almost entirely by deterioration in projected cash flows for our near-term business plan period, attributable to changes in our business and economic projections as discussed above. Following this impairment, Ford North America had $11 billion of net property recorded in our financial statements as of June 30, 2008.

Beyond the business and economic projections discussed above, we also have updated our assumptions with regard to long-term growth and discount rates. Our present long-term growth rate assumption is similar to that used in our 2006 North America impairment testing, when we last had an impairment of North America fixed assets. This growth rate, however, when applied to our lowered business plan period projections, results in a less favorable undiscounted long-term outlook. This outlook is consistent with our present projection of lower margins, resulting primarily from the recent shift in consumer preferences discussed above. We estimate that a 0.5 percentage point decrease in the long-term growth rate assumed in our second quarter impairment testing would have decreased the fair value estimate by about $800 million.

The discount rate that we used in our second quarter impairment testing was consistent with a weighted-average cost of capital that we estimate a potential market participant would use. This discount rate was lower than that used in our 2006 impairment testing, primarily reflecting the change in long-term outlook discussed above. A 0.5 percentage point increase in the discount rate assumption used in the impairment testing would have decreased the fair value estimate by about $1.4 billion.

Although at this time we do not anticipate additional impairment charges, a worsening of the business climate would impact the assumptions we use in performing future impairment tests and could result in additional impairments. Over time, as we expand our product line-up in the United States to include additional small, more fuel-efficient vehicles, our product portfolio will more closely match the overall market. We then will be less exposed to rapid changes in vehicle mix, and should be less susceptible to future impairment.

**Financial Services Sector – Ford Credit North America Investment in Operating Leases**

*Assumptions and Approach Used*. As noted above, we measure the fair value of an asset group based on market prices (i.e., the amount for which the asset could be sold to a third party), when available. When market prices are not available, we estimate the fair value of the asset group using the income approach. The income approach uses discounted cash flow projections. Ford Credit measures the fair value of its North America operating lease portfolio using the projected cash flow based on the terms of the operating lease contracts. Inherent in the cash flow assumptions are estimates derived from its quarterly operating lease portfolio adequacy study for accumulated depreciation. Many of the factors used in measuring fair value are outside the control of management, and these assumptions and estimates may change in future periods.

Changes in assumptions or estimates can materially affect the fair value measurement of an asset group, and therefore can affect the amount of the impairment. The following are key assumptions we use in making cash flow projections for Ford Credit's operating leases:

- *Auction Values* – Ford Credit's projection of the market value of the vehicles when Ford Credit sells them at the end of the lease.
- *Return Volume* – Ford Credit's projection of the number of vehicles that will be returned at lease end.
- *Discount Rate* – Ford Credit's estimation of the discount rate, reflecting hypothetical market assumptions regarding borrowing rates, credit loss patterns, and residual value risk.

See Note 2 of the Notes to the Financial Statements in our 2007 Form 10-K Report and Notes 3 and 10 of the Notes to the Financial Statements for more information regarding impairment of long-lived assets.

*Sensitivity Analysis*. Higher fuel prices and the weak economic climate in the United States and Canada during the second quarter of 2008 caused a more pronounced and accelerated shift in consumer preferences away from full-size trucks and traditional SUVs to smaller, more fuel-efficient vehicles. This shift in consumer preferences, combined with the weak economic climate, caused a significant reduction in auction values for used full-size trucks and traditional SUVs (as discussed in Note 3 of the Notes to the Financial Statements). Recognizing these rapidly-changing market conditions, Ford Credit tested its U.S. and Canadian investments in operating leases for recoverability. As a result of this testing, we concluded the operating lease portfolio was impaired and recorded a pre-tax charge of $2.1 billion in our and Ford Credit's second quarter 2008 financial statements. This charge represents the amount by which the carrying value of certain vehicle lines in Ford Credit's lease portfolio, primarily full-size trucks and traditional SUVs, exceeded their fair value. See Residual Risk discussion above for additional information regarding the significant decrease in auction values.

Following this impairment, Ford Credit's total investment in operating leases was $26.6 billion as of June 30, 2008. Ford Credit estimates that a one percentage point decrease in the auction value of the impaired vehicles assumed in the impairment testing would have decreased the fair value estimate by about $50 million. A one percentage point increase in the return rate of the impaired vehicles assumed in the impairment testing would have decreased the fair value estimate by about $30 million. A one percentage point increase in the discount rate assumed in the impairment testing would have decreased the fair value estimate by about $100 million.

Ford Credit assesses the adequacy of its accumulated depreciation quarterly and will prospectively increase depreciation expense if auction values decline further or return volumes increase (see Critical Accounting Estimate – Accumulated Depreciation on Vehicles Subject to Operating Leases in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2007 Form 10-K Report). Although at this time we do not anticipate additional impairment charges, a significant worsening of the business climate could trigger future impairment testing and would impact the assumptions we use therein, which could result in additional impairments.

**ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED**

In June 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP EITF 03-6-1"). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, *Earnings per Share.* Under the guidance of FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and all prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. We are assessing the potential impact of this FSP on our earnings per share calculation.

In June 2008, FASB ratified EITF No. 07-5, *Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock* ("EITF 07-5"). EITF 07-5 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early application is not permitted. We are assessing the potential impact of this EITF on our financial condition and results of operations.

In May 2008, FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments that may be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ("FSP APB 14-1"). FSP APB 14-1 applies to convertible debt securities that, upon conversion, may be settled by the issuer fully or partially in cash. FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years after December 15, 2008, and must be applied on a retrospective basis. Early adoption is not permitted. We are assessing the potential impact of this FSP on our convertible debt issuances.

We have not yet adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133.* See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Quarterly Report on Form 10-Q for the period ended March 31, 2008 for further discussion.

We have not yet adopted SFAS No. 141R, *Business Combinations* or SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2007 Form 10-K Report for further discussion.

## OTHER FINANCIAL INFORMATION

The interim financial information included in this Quarterly Report on Form 10-Q for the periods ended June 30, 2008 and 2007 has not been audited by PricewaterhouseCoopers LLP ("PricewaterhouseCoopers"). In reviewing such information, PricewaterhouseCoopers has applied limited procedures in accordance with professional standards for reviews of interim financial information. Readers should restrict their reliance on PricewaterhouseCoopers' reports on such information accordingly. PricewaterhouseCoopers is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the interim financial information, because such reports do not constitute "reports" or "parts" of the registration statements prepared or certified by PricewaterhouseCoopers within the meaning of Sections 7 and 11 of the Securities Act of 1933.

## ITEM 3. *Quantitative and Qualitative Disclosures About Market Risk.*

### Automotive Sector

*Foreign Currency Risk.* The net asset fair value of foreign exchange forward and option contracts as of June 30, 2008 was $507 million, compared to $632 million as of December 31, 2007. The potential decrease in fair value of foreign exchange forward and option contracts, assuming a 10% adverse change in the underlying foreign currency exchange rates, would be approximately $1.2 billion at June 30, 2008, compared with $2 billion at December 31, 2007.

*Commodity Price Risk.* The net asset fair value of commodity forward and option contracts as of June 30, 2008 was $599 million, compared to $353 million as of December 31, 2007. The potential decrease in fair value of commodity forward and option contracts, assuming a 10% adverse change in the underlying commodity prices, would be approximately $200 million at June 30, 2008, compared with $100 million at December 31, 2007.

### Financial Services Sector

*Interest Rate Risk.* To provide a quantitative measure of the sensitivity of Ford Credit's pre-tax cash flow to changes in interest rates, Ford Credit uses interest rate scenarios that assume a hypothetical, instantaneous increase or decrease in interest rates of 100 basis points (or 1%) across all maturities, as well as a base case that assumes that interest rates remain constant at existing levels. These interest rate scenarios are purely hypothetical and do not represent Ford Credit's view of future interest rate movements. The differences in pre-tax cash flow between these scenarios and the base case over a twelve-month period represent an estimate of the sensitivity of Ford Credit's pre-tax cash flow. Under this model, Ford Credit estimates that at June 30, 2008, all else constant, such an increase in interest rates would reduce Ford Credit's pre-tax cash flow by approximately $24 million over the next twelve months, compared with $5 million at March 31, 2008. The sensitivity analysis presented above assumes a one-percentage point interest rate change to the yield curve that is both instantaneous and parallel. In reality, interest rate changes are rarely instantaneous or parallel and rates could move more or less than the one percentage point assumed in our analysis. As a result, the actual impact to pre-tax cash flow could be higher or lower than the results detailed above.

## ITEM 4. *Controls and Procedures*.

*Evaluation of Disclosure Controls and Procedures.* Alan Mulally, our Chief Executive Officer ("CEO"), and Donat R. Leclair, Jr., our Chief Financial Officer ("CFO"), have performed an evaluation of the Company’s disclosure controls and procedures, as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (“Exchange Act”), as of June 30, 2008, and each has concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by SEC rules and forms, and that such information is accumulated and communicated to the CEO and CFO to allow timely decisions regarding required disclosures.

*Changes in Internal Control over Financial Reporting.* On June 2, 2008, Ford sold its Jaguar Land Rover operations to Tata Motors Limited. As part of the transaction, Ford will continue to supply Jaguar Land Rover for differing periods with powertrains, stampings, and other vehicle components, in addition to a variety of technologies, such as environmental and platform technologies. Ford also has committed to provide engineering support (including research and development) and information technology, accounting, and other services. The transaction results in the separation of systems and business processes, thereby affecting our internal control over financial reporting.

During the second quarter of 2008, Volvo launched a new budgeting, forecasting, and financial reporting system. During this period, we also completed the re-sourcing from one bank to another of our international cash management services.

## PART II. OTHER INFORMATION

**ITEM 1. *Legal Proceedings.***

*Environmental Matters*

*Cleveland Casting Plant (previously reported on page 42 of our Quarterly Report on Form 10-Q for the period ended March 31, 2008).* As reported, federal air regulations (referred to as the MACT standards) required our Cleveland Casting Plant to make significant changes to its cupola furnaces and associated pollution control equipment by April 2008. When we announced the plant's 2010 closure, we had already invested significant resources in the necessary equipment upgrade, but the upgrade was not yet complete. We now have reached agreement with the Ohio Environmental Protection Agency to resolve this matter. The settlement agreement allows us to gradually wrap up operations at the facility, while requiring us to pay $1.4 million in penalties. We still expect the plant's emissions to decrease significantly leading up to its closure.

*Other Matters*

*Apartheid Litigation.* Along with more than 30 other prominent multinational companies, we are defendants in purported class action lawsuits seeking more than $400 billion in damages on behalf of South African citizens who suffered violence and oppression under South Africa's apartheid regime. The lawsuits allege that, by doing business in South Africa, the defendant companies "aided and abetted" the apartheid regime and its human rights violations. These cases, collectively referred to as *In re South African Apartheid Litigation*, were initially filed in 2002 and 2003, and are being handled together as coordinated "multidistrict litigation" in the U.S. District Court for the Southern District of New York. The District Court dismissed these cases in 2004, but in 2007 the U.S. Court of Appeals for the Second Circuit reversed and remanded the cases to the District Court for further proceedings. In May 2008, the U.S. Supreme Court denied defendants' petition for a writ of certiorari due to a lack of quorum. The cases have therefore returned to the District Court, where further proceedings are likely to include amended complaints and further motions to dismiss. We believe these lawsuits are without foundation and intend to continue to vigorously defend against the claims.

**ITEM 2. *Unregistered Sales of Equity Securities and Use of Proceeds*.**

During the second quarter of 2008, we purchased shares of Ford Common Stock as follows:

| Period | Total Number of Shares Purchased* | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly-Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| April 1, 2008 through April 30, 2008 | 0 | $ -- | 0 | ** |
| May 1, 2008 through May 31, 2008 | 25,622 | 8.15 | 0 | ** |
| June 1, 2008 through June 30, 2008 | 191,191 | 6.70 | 0 | ** |
| Total/Average | 216,813 | 6.87 | 0 | ** |

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* We presently have no publicly-announced repurchase program in place. Shares were acquired from our employees or directors in accordance with our various compensation plans as a result of share withholdings to pay income taxes with respect to: (i) the lapse of restrictions on restricted stock, (ii) the issuance of unrestricted stock, including issuances as a result of the conversion of restricted stock equivalents, or (iii) to pay the exercise price and related income taxes with respect to certain exercises of stock options. There were no share purchases from the Ford Motor Savings and Stock Investment Plan for Salaried Employees ("SSIP") or the Tax Efficient Savings Plan for Hourly Employees ("TESPHE"). Purchase of shares when participants in those plans elect to sell units in the Ford Stock Fund ceased as of February 9, 2007.

** No publicly announced repurchase program in place.

**ITEM 4.** ***Submission of Matters to a Vote of Security-Holders.***

On May 8, 2008, we held our 2008 Annual Meeting of Shareholders. The following is a brief description of the matters voted on at the meeting and tabulation of the voting therefor:

*Proposal One: Election of Directors.*

| | Number of Votes | |
|---|---|---|
| **Nominee** | **For** | **Against** |
| John R. H. Bond | 2,811,859,806 | 444,048,758 |
| Stephen G. Butler | 3,179,807,051 | 76,101,513 |
| Kimberly A. Casiano | 3,172,095,830 | 83,812,734 |
| Edsel B. Ford II | 3,150,401,490 | 105,507,074 |
| William C. Ford, Jr. | 3,166,263,563 | 89,645,001 |
| Irvine O. Hockaday, Jr. | 3,161,703,333 | 94,205,231 |
| Richard A. Manoogian | 3,144,348,149 | 111,560,415 |
| Ellen R. Marram | 3,103,932,407 | 151,976,157 |
| Alan Mulally | 3,174,854,466 | 81,054,098 |
| Homer A. Neal | 3,170,970,434 | 84,938,130 |
| Jorma Ollila | 3,178,143,283 | 77,765,281 |
| Gerald L. Shaheen | 3,181,957,712 | 73,950,852 |
| John L. Thornton | 3,106,449,106 | 149,459,458 |

There were no broker non-votes with respect to the election of directors.

*Proposal Two: Ratification of Selection of Independent Registered Public Accounting Firm.* A proposal to ratify the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm to audit the books of account and other corporate records of the Company for 2008 was adopted, with 3,197,587,653 votes cast for, 32,147,816 votes cast against, 26,173,095 votes abstained and 0 broker non-votes.

*Proposal Three: Approval of the Terms of the Company's Annual Incentive Compensation Plan.* A proposal to approve the terms of the Company's Annual Incentive Compensation Plan was adopted, with 3,053,883,140 votes cast for, 162,738,939 votes cast against, 39,196,485 votes abstained and 90,000 broker non-votes.

*Proposal Four: Approval of the Company's 2008 Long-Term Incentive Plan.* A proposal to approve the terms of the Company's 2008 Long-Term Incentive Plan was adopted, with 2,167,609,358 votes cast for, 563,171,162 votes against, 31,720,533 votes abstained and 493,407,511 broker non-votes.

*Proposal Five: Relating to Discontinuing Granting Stock Options to Senior Executives.* A proposal relating to discontinuing granting stock options to senior executives was rejected, with 2,574,096,306 votes cast against, 154,740,716 votes cast for, 33,664,031 votes abstained and 493,407,511 broker non-votes.

*Proposal Six: Relating to Permitting the Minimum Percent of Holders of Common Stock Allowed by Law to Call Special Shareholder Meetings.* A proposal relating to permitting the minimum percent of holders of common stock allowed by law to call special shareholder meetings was rejected, with 2,233,923,348 votes cast against, 492,652,336 votes cast for, 35,925,369 votes abstained and 493,407,511 broker non-votes.

*Proposal Seven: Relating to Consideration of a Recapitalization Plan to Provide that All of the Company's Outstanding Stock Have One Vote Per Share.* A proposal relating to consideration of a recapitalization plan to provide that all of the Company's outstanding stock have one vote per share was rejected, with 1,952,120,067 votes cast against, 730,471,803 votes cast for, 79,909,183 votes abstained and 493,407,511 broker non-votes.

*Proposal Eight: Relating to the Company Issuing a Report Disclosing Policies and Procedures Related to Political Contributions.* A proposal relating to the Company issuing a report disclosing policies and procedures related to political contributions was rejected, with 2,258,210,407 votes cast against, 250,837,128 votes cast for, 253,453,518 votes abstained and 493,407,511 broker non-votes.

*Proposal Nine: Relating to the Company Adopting Comprehensive Health Care Reform Principles.* A proposal relating to the Company adopting comprehensive health care reform principles was rejected, with 2,433,127,650 votes cast against, 116,037,250 votes cast for, 213,336,153 votes abstained and 493,407,511 broker non-votes.

*Proposal Ten: Relating to the Company Issuing a Report on the Effect of the Company's Actions to Reduce Its Impact on Global Climate Change.* A proposal relating to the Company issuing a report on the effect of the Company's actions to reduce its impact on global climate change was rejected, with 2,475,491,179 votes cast against, 77,446,726 votes cast for, 209,562,148 votes abstained and 493,408,511 broker non-votes.

*Proposal Eleven: Relating to Limiting Executive Compensation Until the Company Achieves Five Consecutive Years of Profitability.* A proposal relating to limiting executive compensation until the Company achieves five consecutive years of profitability was rejected, with 2,553,584,476 votes cast against, 177,579,772 votes cast for, 31,336,805 votes abstained and 493,407,511 broker non-votes.

**ITEM 5. *Other Information.***

*Governmental Standards*

*Motor Vehicle Fuel Economy*. The U. S. Environmental Protection Agency ("EPA") has released an Advance Notice of Proposed Rulemaking ("ANPR") related to the potential regulation of greenhouse gases under the federal Clean Air Act ("CAA"). The ANPR seeks public comment on the appropriateness of a finding by EPA that greenhouse gases "endanger" public health and welfare, and on the ramifications of such a finding. The ANPR includes a lengthy discussion of potential regulatory programs under the CAA that EPA might implement to reduce greenhouse gas emissions from both mobile and stationary sources.

With respect to mobile sources, EPA seeks comment on the possibility of setting long-term, fleet-average $CO_2$ standards for motor vehicles, which would be the functional equivalent of establishing fuel economy standards. Depending on the level of stringency, motor vehicle greenhouse gas standards could effectively supplant any Corporate Average Fuel Economy standards set by the National Highway Traffic Safety Administration. The ANPR also discusses the possibility of establishing a cap-and-trade system to reduce mobile source greenhouse gas emissions. With respect to stationary source emissions, the ANPR discusses a host of potential greenhouse gas regulatory programs, including the setting of National Ambient Air Quality Standards, the establishment of performance standards for stationary sources, and the establishment of hazardous air pollutant standards.

The Bush Administration has made it clear that the regulatory proposals outlined in the ANPR do not represent Administration policy. Simultaneous with the release of the ANPR, the White House and a number of federal agencies (such as Departments of Commerce, Transportation, Energy, and Agriculture) issued statements taking the position that greenhouse gases should not be regulated under the Clean Air Act, primarily because of the burdensome nature of the regulations and their adverse effect on the U.S. economy. The public will have 120 days to comment on the ANPR. It is likely that the Alliance of Automobile Manufacturers (an industry trade group representing nine leading domestic and foreign automakers, including Ford) will submit comments. The task of reviewing the comments and determining what, if any, action to take will be left to the next Administration; there is no specific deadline or timetable for EPA decisions on this issue.

**ITEM 6.** ***Exhibits.***

Please see exhibit index below.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FORD MOTOR COMPANY

(Registrant)

Date: August 8, 2008

By: /s/ Peter J. Daniel
Peter J. Daniel
Senior Vice President and Controller

EXHIBIT INDEX

| Designation | Description | Method of Filing |
|---|---|---|
| **Exhibit 10.1** | 2008 Long-Term Incentive Plan | Filed with this Report |
| **Exhibit 10.2** | Annual Incentive Compensation Plan, as amended and restated as of March 1, 2008 | Filed with this Report |
| **Exhibit 12** | Ford Motor Company and Subsidiaries Calculation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends | Filed with this Report |
| **Exhibit 15** | Letter of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, dated August 8, 2008, relating to Financial Information | Filed with this Report |
| **Exhibit 31.1** | Rule 15d-14(a) Certification of CEO | Filed with this Report |
| **Exhibit 31.2** | Rule 15d-14(a) Certification of CFO | Filed with this Report |
| **Exhibit 32.1** | Section 1350 Certification of CEO | Furnished with this Report |
| **Exhibit 32.2** | Section 1350 Certification of CFO | Furnished with this Report |

**Exhibit 10.1**

# Ford Motor Company 2008 Long-Term Incentive Plan
**(Effective as of March 1, 2008)**

## Purpose

1.(a) *Purpose.* This Plan, known as the "2008 Long-Term Incentive Plan" (the "Plan"), is intended to provide an incentive to certain salaried employees of Ford Motor Company (the "Company"), and of its subsidiaries, in order to encourage them to remain in the employ of the Company and to increase their interest in the Company's success. It is intended that this purpose be effected through stock awards and/or various stock-based rights with respect to shares of the Company's Common Stock (collectively, the "Plan Awards"), as provided herein, to eligible employees ("Participants").

(b) *Company; Subsidiary; Employee.* The term "Company" when used with reference to employment shall include subsidiaries of the Company. The term "subsidiary" shall mean (i) any corporation a majority of the voting stock of which is owned directly or indirectly by the Company or (ii) any limited liability company a majority of the membership interest of which is owned, directly or indirectly, by the Company. The term "employee" shall be deemed to include any person who is an employee of any joint venture corporation or partnership, or comparable entity, in which the Company has a substantial equity interest (a "Joint Venture"), provided such person was an employee of the Company immediately prior to becoming employed by such Joint Venture.

## Administration

2.(a) *Compensation Committee.* The Compensation Committee of the Company's Board of Directors (the "Committee") shall administer the Plan and perform such other functions as are assigned to it under the Plan. The Committee is authorized, subject to the provisions of the Plan, from time to time to establish such rules and regulations as it may deem appropriate for the proper administration of the Plan, and to make such determinations under, and such interpretations of, and to take such steps in connection with, the Plan and the Plan Awards as it may deem necessary or advisable, in each case in its sole discretion.

(b) *Delegation of Authority.* The Committee may delegate any or all of its powers and duties under the Plan, including, but not limited to, its authority to grant waivers pursuant to Article 8, to one or more other committees as it shall appoint, pursuant to such conditions or limitations as the Committee may establish; provided, however, that the Committee shall not delegate its authority to (1) make Plan Awards under the Plan, except as otherwise provided in Articles 4, 5, and 6; (2) act on matters affecting any Participant who is subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or the liability provisions of Section 16(b) of the Exchange Act (any such Participant being called a "Section 16 Person"); or (3) amend or modify the Plan pursuant to the provisions of paragraph (b) of Article 14.

(c) *Eligibility of Committee Members.* No person while a member of the Committee or any committee of the Board of Directors administering the Plan shall be eligible to hold or receive a Plan Award.

## Stock Available for Plan Awards

3.(a) *Stock Subject to Plan.* The stock to be subject to or related to Plan Awards shall be shares of the Company's Common Stock of the par value of $.01 per share ("Stock"), and may be either authorized and unissued or held in the treasury of the Company. The maximum number of shares of Stock with respect to which Plan Awards may be granted under the Plan, subject to adjustment in accordance with the provisions of Article 11, in each calendar year during any part of which the Plan is in effect shall be 2% of the total number of issued shares of Stock as of December 31 of the calendar year immediately preceding such year (the number of shares determined by application of such percentage in any calendar year being called the "2% Limit" for such year); provided, however, that such percentage may be increased to up to 3% in any one or more calendar years, in which event the excess over 2% in any such calendar year shall be applied to the reduction of the aggregate number of shares that otherwise would have been available for Plan Awards pursuant to this paragraph (a) and paragraph (c) of this Article 3 in subsequent calendar years during the term of the Plan, in inverse order commencing with the year 2018. Notwithstanding the foregoing, (i) the aggregate number of shares that may be issued upon exercise of "incentive stock options" (as defined in paragraph (a)(l) of Article 5) shall not exceed 2% of the number of shares authorized under the Company's Certificate of Incorporation at the date of adoption of the Plan (subject to adjustment in accordance with the provisions of Article 11), (ii) the maximum number of shares subject to Options (as defined below), with or without any related Stock Appreciation Rights (as defined below), that may be granted pursuant to Article 5 to any Covered Executive (as defined below) during any calendar year during any part of which the Plan is in effect shall be 5,000,000, subject to adjustment in accordance with the provisions of Article 11 and (iii) the maximum number of shares of Stock or Restricted Stock Units (as defined below) that may be granted as Final Awards (as defined below) pursuant to Article 4 to any Covered Executive during any calendar year during any part of which the Plan is in effect shall be 2,500,000, subject to adjustment in accordance with the provisions of Article 11.

(b) *Computation of Stock Available for Plan Awards.* For the purpose of computing the total number of shares of Stock remaining available for Plan Awards at any time in each calendar year during which the Plan is in effect, there shall be debited against the total number of shares determined to be available pursuant to paragraphs (a) and (c) of this Article 3 (i) the maximum number of shares of Stock subject to issuance upon exercise of Options (as defined below) granted in such year, (ii) the maximum number of shares of Stock or Restricted Stock Units that may be granted as Final Awards under Performance-Based Restricted Stock Units (as defined below) granted in such calendar year, and (iii) the number of shares of Stock related to Other Stock-Based Awards (as defined below) granted in such year, as determined by the Committee in each case as at the dates on which such Plan Awards were granted.

(c) *Unused, Forfeited and Reacquired Shares.* Any unused portion of the 2% Limit for any calendar year shall be carried forward and shall be made available for Plan Awards in succeeding calendar years. The shares involved in the unexercised or undistributed portion of any terminated, expired or forfeited Plan Award (including, without limitation, the shares debited under paragraph (b) of Article 3 that are not included in the related Final Award) also shall be made available for further Plan Awards. Any shares of Stock made available for Plan Awards pursuant to this paragraph (c) shall be in addition to the shares available pursuant to paragraph (a) of this Article 3.

**Performance-Based Restricted Stock Units and Final Awards**

4.(a) *Grant of Performance-Based Restricted Stock Units.* The term "Performance-Based Restricted Stock Unit" ("PB-RSU"), shall mean the right to receive, without payment to the Company, up to the number of Restricted Stock Units or shares of Stock described therein, subject to the terms and provisions of the PB-RSU and the Plan. The term "Restricted Stock Unit" shall mean the right to receive, without payment to the Company, one share of Stock upon expiration of the applicable restriction period, subject to the terms and conditions of the award and the Plan. The Committee, at any time and from time to time while the Plan is in effect, may grant, or authorize the granting of, PB-RSUs to such officers and other key salaried employees of the Company, whether or not members of the Board of Directors, as it may select and for such numbers of shares based on such dollar amounts as it shall designate, subject to the provisions of this Article 4 and Article 3. Notwithstanding anything contained in the Plan to the contrary, the Committee may authorize a committee, whose membership shall be consistent with Delaware law, to determine the amount of individual grants of PB-RSUs and related Final Awards to key employees of the Company selected by such committee who are not officers or directors of the Company, subject to the provisions of Articles 3 and 4 and subject to a maximum number of shares of Stock and any other limitations specified by the Committee.

(b) *Terms and Provisions of PB-RSUs.* Prior to the grant of any PB-RSU, the Committee shall determine the terms and provisions of each PB-RSU, including, without limitation, (i) the number of Restricted Stock Units or shares of Stock to be earned under such PB-RSU if 100% of each of the Performance Goals is achieved (the "Target Award"), as adjusted pursuant to Article 11, (ii) one or more performance goals ("Performance Goals") based on one or more Performance Criteria (as defined below) to be used to measure performance under such PB-RSU, (iii) the formula (the "Performance Formula") to be applied against the Performance Goals in determining the percentage (which shall not exceed 200%) of the Target Award (as adjusted pursuant to Article 11) used to determine the number of Restricted Stock Units or shares of Stock earned under such PB-RSU, (iv) the period of time for which such performance is to be measured (the "Performance Period"), which shall commence not earlier than 90 days prior to the date of grant of such PB-RSU, and (v) the period of time, if any, during which the disposition of Restricted Stock Units or shares of Stock covered by any Final Award relating to such PB-RSU shall be restricted as provided in paragraph (a) of Article 9 (the "Restriction Period"); provided, however, that the Committee may establish the Restriction Period applicable to any PB-RSU at the time of or at any time prior to the granting of the related Final Award. Within 90 days of commencement of a Performance Period, the Committee may establish a minimum threshold objective for any Performance Goal for such Performance Period, which if not met, would result in no Final Award being made to any Participant with such Goal for such Period. During and after the Performance Period, but prior to the grant of a Final Award relating to any PB-RSU granted to a Participant who is not a "Covered Executive", the Committee may adjust the Performance Goals, Performance Formula and Target Award and otherwise modify the terms and provisions of such PB-RSU, subject to the terms and conditions of the Plan. Each PB-RSU shall be evidenced by a letter, an agreement or such other document as the Committee may determine. The term "Performance Criteria" shall mean, with respect to any PB-RSU granted to a Participant who is a Covered Executive, one or more of the following objective business criteria established by the Committee with respect to the Company and/or any subsidiary, division, business unit or component thereof upon which the Performance Goals for a Performance Period are based: asset charge, asset turnover, automotive return on sales, capacity utilization, capital employed in the business, capital spending, cash flow, cost structure improvements, complexity reductions, customer loyalty, diversity, earnings growth, earnings per share, economic value added, environmental health and safety, facilities and tooling spending, hours per vehicle, increase in customer base, inventory turnover, market price appreciation, market share, net cash balance, net income, net income margin, net operating cash flow, operating profit margin, order to delivery time, plant capacity, process time, profits before tax, quality/customer satisfaction, return on assets, return on capital, return on equity, return on net operating assets, return on sales, revenue growth, sales margin, sales volume, total shareholder return, vehicles per employee, warranty performance to budget, variable margin, and working capital. The term "Performance Criteria" shall mean, with respect to any PB-RSU granted to a Participant who is not a Covered Executive, one or more of the business criteria listed above and/or any other criteria based on individual, business unit, group or Company performance selected by the Committee for the Performance Period. The Performance Criteria may be expressed in absolute terms or relate to the performance of other companies or to an index. The term "Covered Executive" shall mean executive officers as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended, (the "Code"), or its successors.

(c) *Final Awards.* (1) As soon as practicable following the completion of the Performance Period relating to any PB-RSU, but not later than 12 months following such completion, the Committee shall determine the percentage (which shall not exceed 200%) of the Target Award (as adjusted pursuant to Article 11) which shall be used to determine the number of Restricted Stock Units or shares of Stock to be awarded finally to the Participant who holds such PB-RSU. Such number of Restricted Stock Units or shares of Stock is called the "Final Award". Each Final Award shall represent only full Restricted Stock Units or shares of Stock, and any fractional unit or share that would otherwise result from such Final Award calculation shall be disregarded. In making such determination, the Committee shall apply the applicable Performance Formula for the Participant for the Performance Period against the accomplishment of the related Performance Goals. The Committee may, in its sole discretion, reduce the amount of any Final Award that otherwise would be awarded to any Participant for any Performance Period. In addition, the Committee may, in its sole discretion, increase the amount of any Final Award that otherwise would be awarded to any Participant who is not a Covered Executive, subject to the maximum Final Award amount of 200% of the related Target Award (as adjusted pursuant to Article 11), taking into account (i) the extent to which the Performance Goals provided in such PB-RSU was, in the Committee's sole opinion, achieved, (ii) the individual performance of such Participant during the related Performance Period and (iii) such other factors as the Committee may deem relevant, including, without limitation, any change in circumstances or unforeseen events, relating to the Company, the economy or otherwise, since the date of grant of such PB-RSU. The Committee shall notify such Participant of such Participant's Final Award as soon as practicable following such determination.

(2) Following the determination of each Final Award, the Company shall credit the Restricted Stock Units or, in the case of a Final Award of shares of Stock, issue or cause to be issued shares of Stock, representing such Final Award in the name of the Participant who received such Final Award. Such Participant shall, upon the lapse of restrictions on Restricted Stock Units or upon the issuance of shares of Stock, become the holder of record of the number of shares of Stock, entitled to dividends, voting rights and other rights of a holder thereof, subject to the terms and provisions of the Plan, including, without limitation, the provisions of paragraph (e) of this Article 4 and Articles 8, 9 and 11. If the Final Award is in restricted shares of Stock, the Company may direct the transfer agent or program administrator, as the case may be, to restrict the Restricted Stock Units or shares of Stock in accordance with the terms of the Final Award.

(3) Notwithstanding the provisions of paragraphs (c)(l) and (2) of this Article 4 or any other provision of the Plan, in the case of any PB-RSU held by a Participant who is an employee of a foreign subsidiary or foreign branch of the Company or of a foreign Joint Venture, or held by a Participant who is in any other category specified by the Committee, the Committee may specify that such Participant's Final Award shall not be represented by certificates for shares of Stock but shall be represented by rights approximately equivalent (as determined by the Committee) to the rights that such Participant would have received if certificates for shares of Stock had been issued in the name of such Participant in accordance with paragraphs (c)(l) and (2) of this Article 4 (such rights being called "Stock Equivalents"). Subject to the provisions of Article 11 and the other terms and provisions of the Plan, if the Committee shall so determine, each Participant who holds Stock Equivalents shall be entitled to receive the same amount of cash that such Participant would have received as dividends if certificates for shares of Stock had been issued in the name of such Participant pursuant to paragraphs (c)(l) and (2) of this Article 4 covering the number of shares equal to the number of shares to which such Stock Equivalents relate. Notwithstanding any other provision of the Plan to the contrary, the Stock Equivalents representing any Final Award may, at the option of the Committee, be converted into an equivalent number of shares of Stock or, upon the expiration of the applicable Restriction Period, into cash, under such circumstances and in such manner as the Committee may determine.

(4) If the Restriction Period relating to any Final Award or part thereof shall expire while the Participant who was granted such Award is employed by the Company, the shares of Stock issued in such Participant's name with respect to such Final Award or part thereof, shall be delivered to or credited to an account for such Participant as soon as practicable, free of all restrictions.

(d) *Dividend Equivalents.* (1) The Committee shall have the right to determine whether or not each Participant who receives Restricted Stock Units representing a Final Award shall be entitled to receive payment of the same amount of cash that such Participant would have received as cash dividends if, on each record date during the entire Restriction Period relating to such Restricted Stock Unit, such Participant had been the holder of record of a number of shares of Stock equal to 100% of the related Final Award (as adjusted pursuant to Article 11). Such cash payments are referred to as "dividend equivalents". In the event the Committee authorizes dividend equivalents to be paid for any Restricted Stock Unit awarded to a Participant as a Final Award after the end of the Performance Period related to such Final Award, any such dividend equivalents relating to any dividend payable prior to the date of award of such Restricted Stock Unit shall be made at the same time as the payment relating to the first dividend paid after such date of award.

(2) Notwithstanding the provisions of paragraph (d)(1) of this Article 4 relating to dividend equivalents, the Committee may determine that, in lieu of receiving all or any portion of any such dividend equivalent in cash, a Participant shall receive an award of full Restricted Stock Units or shares of Stock having a value (as determined by the Committee) approximately equal to the portion of such dividend equivalent that was not paid in cash. Restricted Stock Units or shares of Stock so awarded shall be credited or issued as of the payment date for the related cash dividend, and the Restricted Stock Units or shares of Stock covered thereby shall be treated in the same manner as Final Awards, subject to the terms and conditions of the Plan, including, without limitation, the provisions of paragraphs (b), (c) and (e) of Article 4 and Articles 8, 9, and 11.

(e) *Effect of Termination of Employment or Death.* (1) If a Participant's employment with the Company shall be terminated, prior to the expiration of the Restriction Period, or prior to issuance of shares representing the Final Award if there is no Restriction Period, relating to any PB-RSU granted to such Participant, by reason of discharge, release in the best interest of the Company, release under mutually satisfactory conditions, termination under a voluntary or involuntary Company separation program or career transition program, voluntary quit or retirement without the approval of the Company, such PB-RSU, and any Restricted Stock Unit credited or shares of Stock not yet issued in the name of such Participant as a Final Award relating to such PB-RSU, shall be forfeited and cancelled forthwith unless the Committee shall grant an appropriate waiver. Any such waiver shall be granted in accordance with the procedure specified in paragraph (b) of Article 8 (in which event the reference in such paragraph (b) to "the nonfulfillment of such condition" shall be deemed to refer to such Participant's termination for any of the reasons specified above).

(2) If a Participant's employment with the Company shall be terminated for any reason other than a reason specified in paragraph (e)(l) of this Article 4, except death, prior to or concurrently with the expiration of the Restriction Period or prior to issuance of shares of Stock representing the Final Award if there is no restriction period relating to any PB-RSU granted to such Participant, the PB-RSU or Final Award, as the case may be, will remain unaffected except to the extent that the Committee decides to prorate a Final Award based on the number of full months that the Participant was employed during the Performance Period, and distribution of the Final Award will occur according to the normal schedule for such grant.

(3) If a Participant's employment with the Company shall be terminated at any time by reason of a sale or other disposition (including, without limitation, a transfer to a Joint Venture) of the division, operation or subsidiary in which such Participant was employed or to which such Participant was assigned, unless the Committee shall specify otherwise, any PB-RSUs then held by such Participant, and any shares of Stock or Restricted Stock Units issued or credited in the name of such Participant as a Final Award relating to such PB-RSUs, shall be dealt with as provided in paragraph (e)(2) of this Article 4, provided that such termination occurs at least three months after the date of grant.

(4) If a Participant shall die while in the employ of the Company, any PB-RSUs then held by such Participant shall remain in effect, except to the extent that the Committee decides to prorate any Final Award based on the number of full months that the Participant was employed during the Performance Period. Such PB-RSUs, and any shares of Stock awarded to the Participant but not yet issued, and any such shares thereafter issuable with respect to such PB-RSUs, shall be transferred or issued and delivered to the beneficiary designated pursuant to Article 10 or, if no such designation is in effect, to the executor or administrator of the estate of such Participant, free of all restrictions and restrictive legends. With regard to any Restricted Stock Units then held by such Participant, shares of Stock equal to the number of shares represented thereby shall be issued to such beneficiary, executor or administrator, free of all restrictions.

(5) Subject to the provisions of Article 8, if a Participant shall die following termination of employment, any PB-RSUs then held by such Participant shall remain in effect. Such PB-RSUs, and any shares of Stock awarded but not yet issued to the Participant, and any such shares thereafter issuable with respect to such PB-RSUs, shall be transferred or issued to the beneficiary designated pursuant to Article 10 or, if no such designation is in effect, to the executor or administrator of the estate of such Participant, free of all restrictions. With regard to any Restricted Stock Units then held by such Participant, shares of Stock equal to the number of shares represented thereby shall be issued to such beneficiary, executor or administrator, free of all restrictions.

(6) Except as otherwise provided in (e)(3) of this Article 4, notwithstanding any other provision of the Plan to the contrary, if a Participant's employment with the Company shall for any reason terminate prior to the later of (a) the date of expiration of the period of six months following the commencement of the Performance Period relating to any PB-RSU (or such other period as the Committee may specify) or (b) the date six months following the date of grant of such PB-RSU, such PB-RSU shall be forfeited and cancelled forthwith unless the Committee shall determine otherwise.

(7) Notwithstanding any provision of the Plan to the contrary, (i) the Committee may at any time establish a Restriction Period applicable to the Restricted Stock Unit or Stock to be represented by any Final Award, and such Restriction Period shall remain in effect until such time (which may be later than the date of the Participant's retirement or other termination of employment) as the Committee may determine; and (ii) the Committee may determine that no shares of Stock therefor shall be issued to any Participant until the date of expiration of the applicable Restriction Period (or such earlier date as the Committee may determine).

**Options And Stock Appreciation Rights**

5.(a) *Grant of Options.* (1) The Board of Directors, at any time and from time to time while the Plan is in effect, may authorize the granting of Options to such officers and other key salaried employees of the Company, whether or not members of the Board of Directors, as it may select from among those nominated by the Committee, and for such numbers of shares as it shall designate, subject to the provisions of this Article 5 and Article 3; provided, however, that no Option shall be granted to a Participant for a larger number of shares than the Committee shall recommend for such Participant. Each Option granted pursuant to the Plan shall be designated at the time of grant as either an "incentive stock option" ("ISO"), as such term is defined in the Code, or its successors (or shall otherwise be designated as an option entitled to favorable treatment under the Code) or as a "nonqualified stock option" ("NQO") (ISOs and NQOs being individually called an "Option" and collectively called "Options").

(2) Without in any way limiting the authority provided in paragraph (a)(l) of this Article 5, the Board of Directors may authorize the Committee to authorize the granting of Options, at any time and from time to time while the Plan is in effect, to such officers and other key salaried employees of the Company, whether or not members of the Board of Directors, as the Committee may select, subject to the provisions of this Article 5 and Article 3 and subject to such other limitations as the Board of Directors may specify. In addition, to the extent such authority has been delegated to the Committee pursuant to this Article 5, the Committee may authorize a committee of two or more Company officers appointed by it to determine the amount and date of individual Option grants for key employees selected by such committee who are not officers or directors of the Company, subject to Articles 3 and 5 and subject to a maximum number of shares of Stock and any other limitations specified by the Committee.

(3) The date on which an Option shall be granted shall be the date of authorization of such grant or such later date as may be determined at the time such grant is authorized. Any individual may hold more than one Option.

(b) *Price.* In the case of each Option granted under the Plan the option price shall be the fair market value of Stock on the date of grant of such Option; provided, however, that in the case of any Option granted to an employee of a foreign subsidiary or a foreign branch of the Company or of a foreign Joint Venture the Board of Directors may in its discretion fix an option price in excess of the fair market value of Stock on such date. The term "fair market value" when used with reference to the option price shall mean the closing price at which Stock shall have been reported on the New York Stock Exchange on the date of grant of such Option. In the event that any Option shall be granted on a date on which the closing price of Stock is unavailable on such Exchange, the fair market value of Stock on such date shall be deemed to be the closing price on the next preceding day on which there was such closing price.

(c) *Grant of Stock Appreciation Rights.* (1) The Board of Directors may authorize the granting of Stock Appreciation Rights (as defined below) to such Participants who are granted Options under the Plan as it may select from among those nominated therefor by the Committee. The Committee may authorize the granting of Stock Appreciation Rights to such Participants as are granted Options under the Plan pursuant to paragraph (a) of this Article 5. Each Stock Appreciation Right shall relate to a specific Option granted under the Plan and may be granted concurrently with the Option to which it relates or at any time prior to the exercise, termination or expiration of such Option.

(2) The term "Stock Appreciation Right" shall mean the right to receive, without payment to the Company and as the Participant may elect, either (a) that number of shares of Stock determined by dividing (i) the total number of shares of Stock subject to the related Option (or the portion or portions thereof which the Participant from time to time elects to use for purposes of this clause (a)), multiplied by the amount by which the fair market value of a share of Stock on the day the right is exercised exceeds the option price (such amount being hereinafter referred to as the "Spread"), by (ii) the fair market value of a share of Stock on the exercise date; or (b) cash in an amount determined by multiplying (i) the total number of shares of Stock subject to the related Option (or the portion or portions thereof which the Participant from time to time elects to use for purposes of this clause (b)), by (ii) the amount of the Spread; or (c) a combination of shares of Stock and cash, in amounts determined as set forth in clauses (a) and (b) above; provided, however, that the total number of shares which may be received upon exercise of a Stock Appreciation Right for Stock shall not exceed the total number of shares subject to the related Option or portion thereof, and the total amount of cash which may be received upon exercise of a Stock Appreciation Right for cash shall not exceed the fair market value on the date of exercise of the total number of shares subject to the related Option or portion thereof.

(3) The Committee may impose such conditions as it may deem appropriate upon the exercise of an Option or a Stock Appreciation Right, including, without limitation, a condition that the Stock Appreciation Right may be exercised only in accordance with rules and regulations adopted by the Committee from time to time.

(4) The right of a Participant to exercise a Stock Appreciation Right shall be cancelled if and to the extent the related Option is exercised. The right of a Participant to exercise an Option shall be cancelled if and to the extent that shares covered by such Option are used to calculate shares or cash received upon exercise of a related Stock Appreciation Right.

(5) The fair market value of Stock on the date of exercise of a Stock Appreciation Right shall be determined as of such exercise date in the same manner as the fair market value of Stock on the date of grant of an Option is determined pursuant to paragraph (b) of this Article 5.

(6) If any fractional share of Stock would otherwise be payable to a Participant upon the exercise of a Stock Appreciation Right, the Participant shall be paid a cash amount equal to the same fraction of the fair market value (determined as described above) of the Stock on the date of exercise.

(d) *Stock Option Agreement.* Each Option and related Stock Appreciation Right shall be evidenced by a Stock Option Agreement in such form and containing such provisions not inconsistent with the provisions of the Plan as the Committee from time to time shall approve. Each Stock Option Agreement shall provide that the Participant shall agree to remain in the employ of the Company for such period from the date of grant of such Option or combination of Options or related Stock Appreciation Rights as shall be provided in the Stock Option Agreement; provided, however, that the Company's right to terminate the employment of the Participant at any time, with or without cause, shall not be restricted by such agreement.

(e) *Terms of Options and Stock Appreciation Rights.* Each Option and related Stock Appreciation Right granted under the Plan shall be exercisable on such date or dates, during such period, for such number of shares and subject to such further conditions as shall be determined pursuant to the provisions of the Stock Option Agreement with respect to such Option and related Stock Appreciation Right; provided, however, that a Stock Appreciation Right shall not be exercisable prior to or later than the time the related Option could be exercised; and provided, further, that in any event no Option or related Stock Appreciation Right shall be exercised beyond ten years from the date of grant of the Option.

(f) *Effect of Termination of Employment or Death.* (1) Except as provided in paragraphs (f)(2) and (3) of this Article 5, if, prior to the date that any Option or Stock Appreciation Right shall first have become exercisable, the Participant's employment with the Company shall be terminated by the Company, with or without cause, or by the act, death, incapacity or retirement of the Participant, the Participant's right to exercise such Option or Stock Appreciation Right shall terminate on the date of such termination of employment and all rights thereunder shall cease.

(2) Notwithstanding the provisions of paragraph (f)(l) of this Article 5, if the Participant's employment with the Company shall be terminated by reason of retirement, release because of disability or death, and the Participant had remained in the employ of the Company for at least six months following the date of any Stock Option Agreement under the Plan between such Participant and the Company, and subject to the provisions of Article 8, all such Participant's rights under such Stock Option Agreement shall continue in effect or continue to accrue for the period ending on the date ten years from the date of grant of any Option (or such shorter period as the Committee may specify), subject, in the event of the Participant's death prior to such date, to the provisions of paragraph (f)(6) of this Article 5 and subject to any other limitation on the exercise of such rights in effect at the date of exercise.

(3) Notwithstanding any other provision of the Plan to the contrary, if a Participant's employment with the Company shall be terminated at any time by reason of a sale or other disposition (including, without limitation, a transfer to a Joint Venture) of the division, operation or subsidiary in which such Participant was employed or to which such Participant was assigned, all such Participant's rights under any Option and any related Stock Appreciation Right granted to him or her shall continue in effect and continue to accrue until the date five years after the date of such termination or such earlier or later date as the Committee may specify (but not later than the date ten years from the date of grant of any Option), provided such Participant shall satisfy both of the following conditions:

(a) such Participant, at the date of such termination, had remained in the employ of the Company for at least three months following the grant of such Option and Stock Appreciation Right, and

(b) such Participant continues to be or becomes employed in such division, operation or subsidiary following such sale or other disposition and remains in such employ until the date of exercise of such Option or Stock Appreciation Right (unless the Committee, or any committee appointed by it for the purpose, shall waive this condition (b)).

Upon termination of such Participant's employment with such (former) division, operation or subsidiary following such sale or other disposition, any then existing right of such Participant to exercise any such Option or Stock Appreciation Right shall be subject to the following limitations: (i) if such Participant's employment is terminated by reason of disability, death or retirement with the approval of his or her employer, such Participant's rights shall continue as provided in the preceding sentence with the same effect as if his or her employment had not terminated; (ii) if such Participant's employment is terminated by reason of discharge or voluntary quit, such Participant's rights shall terminate on the date of such termination of employment and all rights under such Option and Stock Appreciation Right shall cease; and (iii) if such Participant's employment is terminated for any reason other than a reason set forth in the preceding clauses (i) and (ii), such Participant shall have the right, within three months after such termination, to exercise such Option or Stock Appreciation Right to the extent that it or any installment thereof shall have accrued at the date of such termination and shall not have been exercised, subject in the case of any such termination to the provisions of Article 8 and any other limitation on the exercise of such Option and Stock Appreciation Right in effect at the date of exercise.

(4) If, on or after the date that any Option or Stock Appreciation Right shall first have become exercisable, a Participant's employment with the Company shall be terminated for any reason except retirement, release because of disability, death, release because of a sale or other disposition of the division, operation or subsidiary in which such Participant was employed or to which such Participant was assigned, discharge, release in the best interest of the Company or voluntary quit, such Participant shall have the right, within three months after such termination, to exercise such Option or Stock Appreciation Right to the extent that it or any installment thereof shall have accrued at the date of such termination of employment and shall not have been exercised, subject to the provisions of Article 8 and any other limitation on the exercise of such Option or Stock Appreciation Right in effect at the date of exercise.

(5) If a Participant's employment with the Company shall be terminated at any time by reason of discharge, release in the best interest of the Company or voluntary quit, the Participant's right to exercise such Option or Stock Appreciation Right shall terminate on the date of such termination of employment and all rights thereunder shall cease.

(6) If a Participant shall die within the applicable period specified in paragraph (f)(2), (3), or (4) of this Article 5, the beneficiary designated pursuant to Article 10 or, if no such designation is in effect, the executor or administrator of the estate of the decedent or the person or persons to whom the Option or Stock Appreciation Right shall have been validly transferred by the executor or administrator pursuant to will or the laws of descent and distribution shall have the right, within the same period of time as the period during which the Participant would have been entitled to exercise such Option or Stock Appreciation Right (except that (a) in the case of a Participant to whom paragraph (f)(4) of this Article 5 applies, such Participant's Option or Stock Appreciation Right may be exercised only to the extent that it or any installment thereof shall have accrued at the date of death and shall not have been exercised; and (b) the period of time within which any Option or Stock Appreciation Right shall be exercisable following the date of the Participant's death shall not be less than one year (unless the Option by its terms expires earlier)), subject to the provision that no Option or related Stock Appreciation Right shall be exercised under any circumstances beyond ten years from the date of grant of such Option, and to any other limitation on the exercise of such Option or Stock Appreciation Right in effect at the date of exercise. No transfer of an Option or Stock Appreciation Right by the Participant, other than by filing a written designation of beneficiary pursuant to Article 10, shall be effective to bind the Company unless the Company shall have been furnished with written notice of such transfer and a copy of the will and/or such other evidence as the Committee may deem necessary to establish the validity of the transfer. No transfer shall be effective without the acceptance by the designated beneficiary or other transferee of the terms and conditions of such Option or Stock Appreciation Right.

(7) Notwithstanding anything contained in the Plan to the contrary, for any Options granted under the Plan to Participants whose employment with the Company terminates by reason of a sale or other disposition (including, without limitation, a transfer to a Joint Venture) of the division, operation or subsidiary in which such Participant was employed or to which such Participant was assigned, effective as of the date of such termination of employment, all such Participant's rights under such Options shall become immediately vested and continue for the period specified in paragraph (f)(3) of this Article 5, subject to the conditions specified therein and in Article 8.

(g) *Payment for Option Shares.* (1) Payment for shares of Stock purchased upon exercise of an Option granted hereunder shall be made, either in full or, if the Committee shall so determine and at the election of the Participant, in installments, in such manner as provided in the applicable Stock Option Agreement.

(2) Unless the Committee shall provide otherwise in any form of Stock Option Agreement, any payment for shares of Stock purchased upon exercise of an Option granted hereunder may be made in cash, by delivery of shares of Stock beneficially owned by the Participant or by a combination of cash and Stock, at the election of the Participant; provided, however, that any shares of Stock so delivered shall have been beneficially owned by the Participant for a period of not less than six months prior to the date of exercise. Any such shares of Stock so delivered shall be valued at their fair market value on the date of such exercise, which shall be determined as of such date in the same manner as the fair market value of Stock on the date of grant of an Option is determined pursuant to paragraph (b) of this Article 5. The Committee shall determine whether and if so the extent to which actual delivery of share certificates to the Company shall be required.

**Stock and Other Stock-Based**
**and Combination Awards**

6.(a) (1) *Grants of Other Stock-Based Awards.* The Committee, at any time and from time to time while the Plan is in effect, may grant to such officers and other salaried employees of the Company, whether or not members of the Board of Directors, as it may select, Plan Awards pursuant to which Stock is or may in the future be acquired, or Plan Awards valued or determined in whole or part by reference to, or otherwise based on, Stock (including but not limited to Plan Awards denominated in the form of "stock units", grants of so-called "phantom stock" and options containing terms or provisions differing in whole or in part from Options granted pursuant to Article 5) (such Plan Awards being hereinafter called "Other Stock-Based Awards"). Other Stock-Based Awards may be granted either alone, in addition to, in tandem with or as an alternative to any other kind of Plan Award, grant or benefit granted under the Plan or under any other employee plan of the Company, including a plan of any acquired entity.

(2) In addition, the Committee may authorize a committee, whose membership shall be consistent with Delaware law to determine the amount and date of individual Other Stock-Based Awards for key employees selected by such committee who are not officers or directors of the Company, subject to this Article 6 and Article 3, to a maximum number of shares of Stock, and to such other limitations, terms, and conditions of such Awards as shall be determined by the Committee.

(b) *Terms and Conditions.* Subject to the provisions of the Plan, the Committee shall have authority to determine the time or times at which Other Stock-Based Awards shall be made, the number of shares of Stock or stock units and the like to be granted or covered pursuant to such Plan Awards (subject to the provisions of Article 3) and all other terms and conditions of such Plan Awards, including, but not limited to, whether such Plan Awards shall be payable or paid in cash, Stock or otherwise.

(c) *Consideration for Other Stock-Based Awards.* In the discretion of the Committee, any Other-Stock Based Award may be granted as a Stock bonus for no consideration other than services rendered; provided, however, that in the event an Other Stock-Based Award shall be granted to a Participant who is a Section 16 Person under which shares of Stock are or may in the future be issued for any other type of consideration, the amount of such consideration shall either be (i) equal to the amount (such as the par value of such shares) required to be received by the Company in order to assure compliance with applicable state law or (ii) equal to or greater than 50% of the fair market value of such shares (as determined in accordance with paragraph (b) of Article 5) on the date of grant of such Other Stock-Based Award.

(d) *Salaried Employee*. Notwithstanding anything contained in the Plan to the contrary, the term "salaried employee", for purposes of this Article 6, shall be deemed to include any salaried employee of the Company or any other person designated by the Committee for an award under this Article 6.

(e) *Effect of Termination of Employment or Death.* Unless the Committee otherwise determines, the following provisions shall apply to any Plan Award made pursuant to this Article 6:

(1) If a Participant's employment with the Company shall be terminated, prior to vesting, or prior to issuance of shares if there is no vesting period, relating to any Plan Award granted to such Participant, by reason of discharge, release in the best interest of the Company, release under mutually satisfactory conditions, termination under a voluntary or involuntary Company separation program or career transition program, voluntary quit or retirement without the approval of the Company, such Plan Award shall be forfeited and cancelled forthwith unless the Committee shall grant an appropriate waiver. Any such waiver shall be granted in accordance with the procedure specified in paragraph (b) of Article 8 (in which event the reference in such paragraph (b) to "the nonfulfillment of such condition" shall be deemed to refer to such Participant's termination for any of the reasons specified above).

(2) If a Participant's employment with the Company shall be terminated for any reason other than a reason specified in paragraph (e)(l) of this Article 6, except death, prior to or concurrently with the expiration of any performance period or vesting period or prior to issuance of shares of Stock if there is no vesting period relating to any Plan Award granted to such Participant, such Plan Award will remain unaffected except to the extent that the Committee decides to prorate a Final Award based on the number of full months that the Participant was employed during the performance period or vesting period.

(3) If a Participant's employment with the Company shall be terminated at any time by reason of a sale or other disposition (including, without limitation, a transfer to a Joint Venture) of the division, operation or subsidiary in which such Participant was employed or to which such Participant was assigned, unless the Committee shall specify otherwise, any unvested Plan Award shall be dealt with as provided in paragraph (e)(2) of this Article 6, provided that such termination occurs at least three months after the date of grant.

(4) If a Participant shall die while in the employ of the Company, any unvested Plan Award then held by such Participant shall remain in effect, except to the extent that the Committee decides to prorate any Plan Award based on the number of full months that the Participant was employed during the vesting period. Such Plan Award, and any shares of Stock awarded to the Participant but not yet issued, and any such shares thereafter issuable with respect to such Plan Award, shall be transferred or issued and delivered to the beneficiary designated pursuant to Article 10 or, if no such designation is in effect, to the executor or administrator of the estate of such Participant, free of all restrictions.

(5) Subject to the provisions of Article 8, if a Participant shall die following termination of employment, any unvested Plan Award then held by such Participant shall remain in effect. Such Plan Award, and any shares of Stock awarded but not yet issued to the Participant, and any such shares thereafter issuable with respect to such Plan Award, shall be transferred or issued to the beneficiary designated pursuant to Article 10 or, if no such designation is in effect, to the executor or administrator of the estate of such Participant, free of all restrictions.

(6) Except as otherwise provided in (e)(3) of this Article 6, notwithstanding any other provision of the Plan to the contrary, if a Participant's employment with the Company shall for any reason terminate prior to the date six months following the date of grant of any unvested Plan Award, such Plan Award shall be forfeited and cancelled forthwith unless the Committee shall determine otherwise.

(7) Notwithstanding any provision of the Plan to the contrary, (i) the Committee may at any time establish a restriction period applicable to a Plan Award, and such restriction period shall remain in effect until such time (which may be later than the date of the Participant's retirement or other termination of employment) as the Committee may determine; and (ii) the Committee may determine that no shares of Stock therefor shall be issued to any Participant until the date of expiration of the applicable restriction period (or such earlier date as the Committee may determine).

**Cash Awards**

7. Notwithstanding any other provision of the Plan to the contrary, the Committee may determine to permit a Participant, other than a Section 16 Person, who is an employee of a foreign subsidiary or a foreign branch of the Company or of a foreign Joint Venture to receive cash in lieu of any Plan Award or shares of Stock that would otherwise have been granted to or delivered to such Participant under the Plan, in such amount as the Committee may determine in its sole discretion. In addition, prior to payment of any Plan Award that is otherwise payable in Stock, the Committee may determine to pay the Plan Award in whole or in part in cash of equal value. The value of such Plan Award on the date of distribution shall be determined in the same manner as the fair market value of Stock on the date of grant of an Option pursuant to paragraph (b) of Article 5.

## Payment of Plan Awards and Conditions Thereon

8.(a) *Effect of Competitive Activity.* Anything contained in the Plan to the contrary notwithstanding, if the employment of any Participant shall terminate, for any reason other than death, while any Plan Award to such Participant is outstanding hereunder, and such Participant has not yet received the Stock covered by such Plan Award or otherwise received the full benefit of such Plan Award, such Participant, if otherwise entitled thereto, shall receive such Stock or benefit only if, during the entire period from the date of such Participant's termination to the date of such receipt, such Participant shall have earned out such Plan Award by (i) making himself or herself available, upon request, at reasonable times and upon a reasonable basis, to consult with, supply information to and otherwise cooperate with the Company or any subsidiary thereof with respect to any matter that shall have been handled by him or her or under his or her supervision while he or she was in the employ of the Company or of any subsidiary thereof, and (ii) refraining from engaging in any activity that is directly or indirectly in competition with any activity of the Company or any subsidiary thereof.

(b) *Nonfulfillment of Competitive Activity Conditions: Waivers Under the Plan.* In the event of a Participant's nonfulfillment of any condition set forth in paragraph (a) of this Article 8 such Participant's rights under any Plan Award shall be forfeited and cancelled forthwith; provided, however, that the nonfulfillment of such condition may at any time (whether before, at the time of or subsequent to termination of employment) be waived in the following manner:

(i) with respect to any such Participant who at any time shall have been a Section 16 Person, such waiver may be granted by the Committee upon its determination that in its sole judgment there shall not have been and will not be any substantial adverse effect upon the Company or any subsidiary thereof by reason of the nonfulfillment of such condition; and

(ii) with respect to any other such Participant, such waiver may be granted by the Committee (or any committee appointed by it for the purpose) upon its determination that in its sole judgment there shall not have been and will not be any such substantial adverse effect.

(c) *Effect of Inimical Conduct.* Anything contained in the Plan to the contrary notwithstanding, all rights of a Participant under any Plan Award shall cease on and as of the date on which it has been determined by the Committee that such Participant at any time (whether before or subsequent to termination of such Participant's employment) acted in a manner inimical to the best interests of the Company or any subsidiary thereof.

(d) *Tax and Other Withholding.* Prior to any distribution of cash, Stock or Other Stock-Based Awards (including payments under paragraph (d) of Article 4) to any Participant, appropriate arrangements (consistent with the Plan and any rules adopted hereunder) shall be made for the payment of any taxes and other amounts required to be withheld by federal, state or local law.

(e) *Substitution.* The Committee, in its sole discretion, may substitute a Plan Award (except ISOs) for another Plan Award or Plan Awards of the same or different type.

## Non-Transferability of Plan Awards;<br>Restrictions on Disposition and Exercise of Plan Awards

9.(a) *Restrictions on Transfer of Rights or Final Awards.* (i) No PB-RSU or (ii) until the expiration of the applicable Restriction Period, no shares of Stock or Restricted Stock Units covered by any Final Award determined under paragraph (c) of Article 4, shall be transferred, pledged, assigned or otherwise disposed of by a Participant, except as permitted by the Plan, without the consent of the Committee, otherwise than by will or the laws of descent and distribution; provided, however, that the Committee may permit, on such terms as it may deem appropriate, use of Stock included in any Final Award as partial or full payment upon exercise of an Option under the Plan or a stock option under any Stock Option Plan of the Company prior to the expiration of the Restriction Period relating to such Final Award.

(b) *Restrictions on Transfer of Options or Stock Appreciation Rights.* Unless the Committee determines otherwise, no Option or related Stock Appreciation Right shall be transferable by a Participant otherwise than by will or the laws of descent and distribution, and during the lifetime of a Participant the Option or Stock Appreciation Right shall be exercisable only by such Participant or such Participant's guardian or legal representative.

(c) *Restrictions on Transfer of Certain Other Stock-Based Awards.* Unless the Committee determines otherwise, no Other-Stock Based Award which constitutes an option or similar right shall be transferable by a Participant otherwise than by will or the laws of descent and distribution, and during the lifetime of a Participant any such Other-Stock Based Award shall be exercisable only by such Participant or such Participant's guardian or legal representative.

**Designation of Beneficiaries**

10. Anything contained in the Plan to the contrary notwithstanding, a Participant may file with the Company a written designation of a beneficiary or beneficiaries under the Plan (subject to such limitations as to the classes and number of beneficiaries and contingent beneficiaries and such other limitations as the Committee from time to time may prescribe), subject to the provisions of paragraph (e) of Article 4, paragraph (f) of Article 5, and paragraph (e) of Article 6. A Participant shall be deemed to have designated as beneficiary or beneficiaries under the Plan the person or persons who receive such Participant's life insurance proceeds under the basic Company Life Insurance Plan unless such Participant shall have assigned such life insurance or shall have filed with the Company a written designation of a different beneficiary or beneficiaries under the Plan. A Participant may from time to time revoke or change any such designation of beneficiary. Any designation of beneficiary under the Plan shall be controlling over any other disposition, testamentary or otherwise; provided, however, that if the Committee shall be in doubt as to the entitlement of any such beneficiary to any PB-RSU, Final Award, Option, Stock Appreciation Right or Other Stock-Based Award, the Committee may determine to recognize only the legal representative of such Participant, in which case the Company, the Committee and the members thereof shall not be under any further liability to anyone. In the event of the death of any Participant, the term "Participant" as used in the Plan shall thereafter be deemed to refer to the beneficiary designated pursuant to this Article 10 or, if no such designation is in effect, the executor or administrator of the estate of such Participant, unless the context otherwise requires.

**Merger, Consolidation, Stock Dividends, Etc.**

11.(a) *Adjustments.* In the event of any merger, consolidation, reorganization, stock split, stock dividend or other event affecting Stock, an appropriate adjustment shall be made in the total number of shares available for Plan Awards and in all other provisions of the Plan that include a reference to a number of shares, and in the numbers of shares covered by, and other terms and provisions of, outstanding Plan Awards.

(b) *Committee Determinations.* The foregoing adjustments and the manner of application of the foregoing provisions shall be determined by the Committee in its sole discretion. Any such adjustment may provide for the elimination of any fractional share which might otherwise become subject to a Plan Award.

**Acceleration of Payment, Modification of Plan Awards and Fair Market Value of Plan Awards**

12. (a) *Acceleration of Payment, Modification of Plan Awards.* Notwithstanding any other provision of the Plan, the Committee, in the event of the death of a Participant or in any other circumstance, may accelerate distribution of any Plan Award in its entirety or in a reduced amount, in cash or in Stock, or modify any Plan Award, in each case on such basis and in such manner as the Committee may determine in its sole discretion.

(b) *Fair Market Value of Plan Awards.* All Plan Awards shall be valued on the date of grant at the fair market value of Stock determined pursuant to paragraph (b) of Article 5.

**Rights as a Stockholder**

13. A Participant shall not have any rights as a stockholder with respect to any share covered by any Plan Award until such Participant shall have become the holder of record of such share.

**Term, Amendment, Modification, Termination of the Plan, and Code Section 409A**

14.(a) *Term.* The Plan shall terminate on May 1, 2018, except with respect to Plan Awards then outstanding.

(b) *Amendment, Modification and Termination.* The Board of Directors, upon recommendation of the Committee, at any time may amend, modify or terminate the Plan, and the Committee at any time may amend or modify the Plan; provided, however, that no such action of the Board of Directors or the Committee, without approval of the stockholders, may (a) increase the total number of shares of Stock with respect to which Plan Awards may be granted under the Plan, (b) extend the term of the Plan as set forth in paragraph (a) of this Article 14 or (c) permit any person while a member of the Committee or any committee of the Board of Directors administering the Plan to be eligible to receive or hold a Plan Award; provided, however, that neither the Board of Directors nor the Committee may amend or modify the Plan so as to increase the maximum number of shares determinable pursuant to the last sentence of paragraph (a) of Article 3.

(c) *Code Section 409A.* The Plan and all Plan Awards are designed and intended to meet the requirements of Section 1.409A-1(b)(5) of the U.S. Treasury Department Regulations so that no Plan Award is determined to provide or is treated as providing for the deferral of compensation under Code Section 409A such that the Plan Award becomes subject to the general provisions of Code Section 409A, or the regulations issued thereunder. To the extent any Plan Award ultimately is determined or treated as providing for the deferral of compensation under Code Section 409A, the Company reserves the right to take such action, on a uniform basis, as the Company deems necessary or desirable to ensure compliance with Code Section 409A, and the regulations thereunder, or to achieve the goals of the Plan without having adverse tax consequences under the Plan for any employee or beneficiary.

**Indemnification and Exculpation**

15.(a) *Indemnification.* Each person who is or shall have been a member of the Board of Directors or of the Committee or of any committee of the Board of Directors administering the Plan or of any committee appointed by the foregoing committees shall be indemnified and held harmless by the Company against and from any and all loss, cost, liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be or become a party or in which such person may be or become involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by such person in settlement thereof (with the Company's written approval) or paid by such person in satisfaction of a judgment in any such action, suit or proceeding, except a judgment in favor of the Company based upon a finding of such person's lack of good faith; subject, however, to the condition that, upon the institution of any claim, action, suit or proceeding against such person, such person shall in writing give the Company an opportunity, at its own expense, to handle and defend the same before such person undertakes to handle and defend it on such person's behalf. The foregoing right of indemnification shall not be exclusive of any other right to which such person may be entitled as a matter of law or otherwise, or any power that the Company may have to indemnify or hold such person harmless.

(b) *Exculpation.* Each member of the Board of Directors or of the Committee or of any committee of the Board of Directors administering the Plan or any committee appointed by the foregoing committees, and each officer and employee of the Company, shall be fully justified in relying or acting in good faith upon any information furnished in connection with the administration of the Plan by any appropriate person or persons other than such person. In no event shall any person who is or shall have been a member of the Board of Directors or of the Committee or of any committee of the Board of Directors administering the Plan or of any committee appointed by the foregoing committees, or an officer or employee of the Company, be held liable for any determination made or other action taken or any omission to act in reliance upon any such information, or for any action (including the furnishing of information) taken or any failure to act, if in good faith.

**Expenses of Plan**

16. The entire expense of offering and administering the Plan shall be borne by the Company and its participating subsidiaries.

**Finality of Determinations**

17. Each determination, interpretation, or other action made or taken pursuant to the provisions of the Plan by the Board of Directors or the Committee or any committee of the Board of Directors administering the Plan or any committee appointed by the foregoing committees shall be final and shall be binding and conclusive for all purposes and upon all persons, including, but without limitation thereto, the Company, the stockholders, the Committee and each of the members thereof, and the directors, officers, and employees of the Company and its subsidiaries, the Participants, and their respective successors in interest.

**Exhibit 10.2**

**FORD MOTOR COMPANY ANNUAL INCENTIVE COMPENSATION PLAN**
**(Amended and Restated as of March 1, 2008)**

1. Purpose. This Plan, which shall be known as the "Ford Motor Company Annual Incentive Compensation Plan" and is hereinafter referred to as the "Plan", is intended to provide annual incentive compensation to Plan participants based on the achievement of established performance objectives.

2. Definitions. As used in the Plan, the following terms shall have the following meanings, respectively:

(a) The term "Affiliate" shall mean, as applied with respect to any person or legal entity specified, a person or legal entity that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, the person or legal entity specified.

(b) The term "Annual Incentive Compensation Committee" shall mean the committee comprised of two or more officers of the Company designated members of such Committee by the Compensation Committee.

(c) The term "Award" shall mean the cash compensation awarded under the Plan with respect to a Performance Period to a participant eligible under Section 5(b).

(d) The term "Committee" shall mean, unless the context otherwise requires:

(i) The Compensation Committee for all matters affecting any Section 16 Person.

(ii) The Annual Incentive Compensation Committee for all matters affecting employees other than Section 16 Persons.

(e) The term "Company" or "Ford" generally shall mean Ford Motor Company. When used in the Plan with respect to employment, the term "Company" shall include subsidiaries of the Company.

(f) The term "Compensation Committee" shall mean the Compensation Committee of the Board of Directors of the Company.

(g) The term "Covered Employee" shall mean a Key Employee who is a "covered employee" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

(h) The term "DC Plan" shall mean the Company's Deferred Compensation Plan, as amended.

(i) The term "Employee"' shall mean any person who is regularly employed by the Company or one of its Subsidiaries at a salary (as distinguished from a pension, retirement allowance, severance pay, retainer, commission, fee under a contract or other arrangement, or hourly, piecework or other wage) and is enrolled on the active employment rolls of the Company or a Subsidiary, including, but without limitation, any employee who also is an officer or director of the Company or one of its Subsidiaries.

(j) The term "Exceptional Contribution Fund" shall mean, with respect to Awards for a Performance Period, the dollar amount designated by the Compensation Committee pursuant to Section 13 for purposes of increasing the amount of Awards to be made to participants who are not Covered Employees based on exceptional individual, unit, group or Company performance.

(k) The term "Key Employee" shall mean an Employee of the Company determined by the Committee to be a Key Employee for purposes of the Plan.

(l) The term "Maximum Award Pool" shall mean the maximum aggregate amount of all Awards which may be made to participants for a Performance Period determined by the Compensation Committee pursuant to Section 12.

(m) The term "Maximum Individual Award" shall mean the maximum amount of an Award to a Covered Employee for a Performance Period, as set forth in Section 10.

(n) The term "participant" shall mean a Key Employee selected by the Committee to participate in the Plan for a Performance Period.

(o) The term "Performance Criteria" shall mean, with respect to any Award for a Performance Period that may be made to a participant who is a Covered Employee, one or more of the following objective business criteria established by the Compensation Committee with respect to the Company and/or any Subsidiary, division, business unit or component thereof upon which the Performance Goals for a Performance Period are based: asset charge, asset turnover, automotive return on sales, capacity utilization, capital employed in the business, capital spending, cash flow, cost structure improvements, complexity reductions, customer loyalty, diversity, earnings growth, earnings per share, economic value added, environmental health and safety, facilities and tooling spending, hours per vehicle, increase in customer base, inventory turnover, market price appreciation, market share, net cash balance, net income, net income margin, net operating cash flow, operating profit margin, order to delivery time, plant capacity, process time, profits before tax, quality/customer satisfaction, return on assets, return on capital, return on equity, return on net operating assets, return on sales, revenue growth, sales margin, sales volume, total shareholder return, vehicles per employee, warranty performance to budget, variable margin and working capital. The term "Performance Criteria" shall mean, with respect to any Award that may be made to a participant who is not a Covered Employee, one or more of the business criteria applicable to Covered Employees for the Performance Period and any other criteria based on individual, business unit, group or Company performance selected by the Compensation Committee.

(p) The term "Performance Goals" shall mean the one or more goals established by the Compensation Committee based on one or more Performance Criteria pursuant to Section 7 for the purpose of measuring performance in determining the amount, if any, of an Award for a Performance Period.

(q) The term "Performance Formula" shall mean, with respect to a Performance Period, the one or more objective formulas established by the Compensation Committee pursuant to Section 7 and applied against the Performance Goals in determining whether and the extent to which Awards have been earned for the Performance Period.

(r) The term "Performance Period" or "Period" shall mean, with respect to which a particular Award may be made under the Plan, the Company's fiscal year or other twelve consecutive month period designated by the Compensation Committee for the purpose of measuring performance against Performance Goals.

(s) The term "Pro Forma Award Amount" shall mean, with respect to an Award to be made for a Performance Period, the amount determined by the Committee pursuant to Section 9.

(t) The term "SC Plan" shall mean the Company's Supplemental Compensation Plan, as amended.

(u) The term "Section 16 Person" shall mean any employee who is subject to the reporting requirements of Section 16(a) or the liability provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended.

(v) The term "Subsidiary" shall mean (i) any corporation a majority of the voting stock of which is owned or controlled, directly or indirectly, by the Company or (ii) any limited liability company a majority of the membership interest of which is owned or controlled, directly or indirectly, by the Company.

(w) The term "Target Award" shall mean, with respect to a Performance Period, the Target Award amount established for each applicable Leadership Level, band or other group of participants by the Committee pursuant to Section 6 hereof.

(x) The term "Total Pro Forma Award Pool" shall mean, with respect to Awards for a Performance Period, the amount described in Section 11.

3. Effective Date. The Plan shall be effective as of January 1, 1998.

4. Administration. Except as otherwise expressly provided, the Compensation Committee shall have full power and authority to construe, interpret and administer the Plan. The Compensation Committee shall make all decisions relating to matters affecting Section 16 Persons, but may otherwise delegate any of its authority under the Plan. The Compensation Committee and the Annual Incentive Compensation Committee each may at any time adopt or terminate, and may from time to time, amend, modify or suspend such rules, regulations, policies and practices as they in their sole discretion may determine in connection with the administration of, or the performance of their respective responsibilities under, the Plan.

5. Eligibility.

(a) Eligibility to Participate. All Key Employees are eligible to be selected to participate in the Plan. The Committee shall, in its sole discretion, designate which Key Employees will be participants for the applicable Performance Period.

(b) Eligibility for Awards. An Award with respect to a Performance Period may be made pursuant to Section 14 of the Plan to (i) participants for such Performance Period who shall have been an employee at any time during such Performance Period, or to (ii) the beneficiary or beneficiaries or legal representatives, as the Committee in its sole discretion shall determine, of any such person whose employment shall have been terminated by reason of his or her death during such Performance Period.

(c) Eligibility of Compensation Committee Members. No person while a member of the Compensation Committee shall be eligible to participate under the Plan or receive an Award.

6. Determination of Target Awards. Within 90 days of the commencement of a Performance Period, the Committee shall establish the Target Award for each applicable Leadership Level, band or other group of Key Employees selected to participate in the Plan with respect to a Performance Period, subject to any limitations established by the Compensation Committee. The fact that a Target Award is established for a participant's Leadership Level, band or other group for a Performance Period shall not entitle such participant to receive an Award.

7. Selection of Performance Criteria and Establishment of Performance Goals and Performance Formula; Minimum Threshold Objective. Within 90 days of the commencement of a Performance Period, the Compensation Committee shall select the Performance Criteria and establish the related Performance Goals be used to measure performance for a Performance Period and the Performance Formula to be used to determine what portion, if any, of an Award has been earned for the Performance Period. The Performance Criteria may be expressed in absolute terms or relate to the performance of other companies or to an index. Within that same 90 day period, the Compensation Committee may establish a minimum threshold objective for any Performance Goal for any Performance Period, which if not met, would result in no Award being made to any participant with such Performance Goal for such Performance Period.

8. Adjustments to Performance Goals, Performance Formula or Performance Criteria. For purposes of determining Awards for participants who are not Covered Employees, the Compensation Committee may adjust or modify any of the Performance Goals, Performance Formula and/or the Performance Criteria for any Performance Period in order to prevent the dilution or enlargement of the rights of such participants under the Plan (i) in the event of, or in anticipation of, any unusual or extraordinary item, transaction, event or development, (ii) in recognition of, or in anticipation of, any other unusual or nonrecurring event affecting the Company or the financial statements of the Company or Ford Credit, or in anticipation of, changes in applicable laws, regulations, accounting principles or business conditions, and (iii) for any other reason or circumstance deemed relevant to the Compensation Committee in its sole discretion.

9. Determination of Pro Forma Award Amount. As soon as practicable following the end of a Performance Period, the Committee shall determine the Pro Forma Award Amount for any Award to be made to a participant for a Performance Period by applying the applicable Performance Formula for the participant for the Performance Period against the accomplishment of the related Performance Goals for such participant.

10. Maximum Individual Award for Covered Employees. The Maximum Individual Award for a Performance Period to a participant who is a Covered Employee is $10,000,000.

11. Total Pro Forma Award Pool. The Total Pro Forma Award Pool for all Awards for a Performance Period shall equal the sum of the Pro Forma Award Amounts for all participants for the Performance Period.

12. Determination of Maximum Award Pool. The Compensation Committee shall determine the amount of the Maximum Award Pool for a Performance Period which shall not exceed the sum of the Total Pro Forma Award Pool plus the amount of the Exceptional Contribution Fund for such Period.

13. Determination of Exceptional Contribution Fund. The Compensation Committee shall determine the amount of the Exceptional Contribution Fund which may be used for increasing the size of Awards for a Performance Period above the applicable Pro Forma Award Amount to participants who are not Covered Employees. Unless otherwise determined by the Compensation Committee, the amount of the Exceptional Contribution Fund shall not exceed 15% of the Total Pro Forma Award Pool for the applicable Performance Period.

14. Determination of Individual Awards. Subject to achievement of any applicable minimum threshold objectives established under Section 7, fulfillment of the conditions set forth in Section 17 and compliance with the Maximum Individual Award limitation under Section 10 and the eligibility requirements set forth in paragraph (b) of Section 5, the Committee shall, as soon as practicable following the end of a Performance Period, determine the amount of each Award to be made to a participant under the Plan for the Performance Period, which amount shall, except as otherwise provided below, be the Pro Forma Award Amount determined for such participant for such Period pursuant to Section 9. The Committee may in its sole discretion reduce the amount of any Award that otherwise would be awarded to any participant for any Performance Period. In addition, the Committee may in its sole discretion increase the amount of any Award that otherwise would be awarded to any participant who is not a Covered Employee for a Performance Period to an amount that is higher than the applicable Pro Forma Award Amount based on exceptional individual, unit, group or Company performance; provided, however, that the total amount of all Awards made for a Performance Period shall not exceed the related Maximum Award Pool. Individual Award amounts may be less than or greater than 100% of the related Target Award. The determinations by the Annual Incentive Compensation Committee of individual Award amounts for Employees who are not Section 16 Persons shall be subject to a maximum funding amount and any other limitations specified by the Compensation Committee. Notwithstanding anything contained in the Plan to the contrary, the Committee may determine in its sole discretion not to make an Award to a particular participant or to all participants selected to participate in the Plan for any Performance Period.

15. Distribution and Form of Awards.

(a) General. Except as otherwise provided in paragraph (b) or (c) of this Section 15 or in Section 17, distribution of Awards for a Performance Period shall be made on or as soon as practicable after the distribution date for such Awards determined by the Compensation Committee, which date shall be on or before March 15 following the end of the applicable Performance Period, but in no event shall such date be later than the December 31 immediately following such March 15, and shall be payable in cash.

(b) Deferral of Awards. Subject to the terms, conditions and eligibility requirements of the DC Plan, Key Employees who receive an Award under the Plan are eligible to defer payment of all or part of such Award under the DC Plan under the same terms as if such Award had been an award of supplemental compensation made under the SC Plan. In no event may any deferral election made under the DC Plan pursuant to this paragraph be made later than the last day of the sixth month of the applicable Performance Period. Additionally, no deferral election may be made under the DC Plan pursuant to this paragraph if, at the time of such election, the amount of any Award subject to such deferral election is substantially certain.

(c) Mandatory Deferral of Awards. The Compensation Committee shall determine whether and the extent to which any Awards under the Plan will be mandatorily deferred and the terms of any such deferral. Unless otherwise determined by the Compensation Committee, Awards may be mandatorily deferred by such Committee in the same manner as if they had been awards of supplemental compensation made under the SC Plan. In no event may any mandatory deferral pursuant to this paragraph be made later than the last day of the sixth month of the applicable Performance Period. Additionally, no mandatory deferral may be made pursuant to this paragraph if, at the time of such mandatory deferral, the amount of any Award subject to such mandatory deferral is substantially certain.

16. Designation of Beneficiaries and Effect of Death.

(a) Designation of Beneficiaries. A participant may file with the Company a written designation of a beneficiary or beneficiaries (subject to such limitations as to the classes and number of beneficiaries and contingent beneficiaries and such other limitations as the Compensation Committee from time to time may prescribe) to receive, in the event of the death of the participant, undistributed amounts of any Award that would have been payable to such participant had he or she been living and that was not deferred under any Company deferral arrangement or plan. A participant shall be deemed to have designated as beneficiary or beneficiaries under the Plan the person or persons who receive such participant's life insurance proceeds under the basic Company Life Insurance Plan unless such participant shall have assigned such life insurance or shall have filed with the Company a written designation of a different beneficiary or beneficiaries under the Plan. A participant may from time to time revoke or change any such designation of beneficiary and any designation of beneficiary under the Plan shall be controlling over any testamentary or other disposition; provided, however, that if the Committee shall be in doubt as to the right of any such beneficiary to receive any such payment, or if applicable law requires the Company to do so, the same may be paid to the legal representatives of the participant, in which case the Company, the Committee and the members thereof shall not be under any further liability to anyone.

(b) Distribution Upon Death. Subject to the provisions of Section 15, paragraph (a) of this Section 16 and, if applicable, the DC Plan or any other deferral plan or arrangement, in the event of the death of any participant prior to distribution of an Award, the total value of such participant's Award shall be distributed in cash in one lump sum in accordance with paragraph (a) of Section 15 to any beneficiary or beneficiaries designated or deemed designated by the participant pursuant to paragraph (a) of this Section 16 who shall survive such participant (to the extent such designation is effective and enforceable at the time of such participant's death) or, in the absence of such designation or such surviving beneficiary, or if applicable law requires the Company to do so, to the legal representative of such person, at such time (or as soon thereafter as practicable) and otherwise as if such person were living and had fulfilled all applicable conditions as to earning out set forth in, or established pursuant to Section 17 and, if applicable, the DC Plan or any other deferral plan or arrangement, provided such conditions shall have been fulfilled by such person until the time of his or her death.

17. Conditions to Payment of Awards.

(a) Effect of Competitive Activity. Anything in the Plan notwithstanding, and subject to paragraph (c) hereof and, if applicable, any conditions under the DC Plan or any other deferral plan or arrangement relating to payment of an Award, if the employment of any participant shall terminate, for any reason other than death, prior to the distribution date established pursuant to paragraph (a) of Section 15 for payment of an Award, such participant shall receive payment of an Award only if, during the entire period from the making of an Award until such distribution date, such participant shall have earned out such Award

(i) by continuing in the employ of the Company or a Subsidiary thereof, or

(ii) if his or her employment shall have been terminated for any reason other than death, by (a) making himself or herself available, upon request, at reasonable times and upon a reasonable basis, to consult with, supply information to and otherwise cooperate with the Company or any Subsidiary thereof with respect to any matter that shall have been handled by him or her or under his or her supervision while he or she was in the employ of the Company or any Subsidiary thereof, and (b) refraining from engaging in any activity that is directly or indirectly in competition with any activity of the Company or any Subsidiary thereof.

(b) Nonfulfillment of Competitive Activity Conditions; Waiver of Conditions Under the Plan. In the event of a participant's nonfulfillment of any condition set forth in paragraph (a) above, such participant's rights under the Plan to receive or defer payment of an Award under the Plan shall be forfeited and canceled; provided, however, that the nonfulfillment of such condition may at any time (whether before, at the time of or subsequent to termination of employment) be waived in the following manner:

(i) with respect to a participant who at any time shall have been a Section 16 Person, such waiver may be granted by the Compensation Committee upon its determination that in its sole judgment there shall not have been and will not be any substantial adverse effect upon the Company or any Subsidiary thereof; and

(ii) with respect to any other participant, such waiver may be granted by the Annual Incentive Compensation Committee (or any committee appointed by it) upon its determination that in its sole judgment there shall not have been and will not be any such substantial adverse effect.

(c) Effect of Inimical Conduct. Anything in the Plan to the contrary, the right of a participant, following termination of such participant's employment with the Company, to receive payment or to defer payment of an Award under Section 15 shall terminate on and as of the date on which it his been determined that such participant at any time (whether before or subsequent to termination of such participant's employment) acted in a manner inimical to the best interests of the Company. Any such determination shall be made by (i) the Compensation Committee with respect to any participant who at any time shall have been a Section 16 Person, and (ii) the Annual Incentive Compensation Committee (or any committee appointed by it for the purpose) with respect to any other participant. Such Committee (or any such other committee) may make such determination at any time prior to payment in full of an Award. Conduct which constitutes engaging in any activity that is directly or indirectly in competition with any activity of the Company or any Subsidiary thereof shall be governed by paragraph (a)(ii) of this Section 17 and shall not be subject to any determination under this paragraph (c).

18. Limitations. A participant shall not have any interest in any Award until it is distributed in accordance with the Plan. The fact that a Key Employee has been selected to be a participant for a Performance Period shall not in any manner entitle such participant to receive an Award for such period. The determination as to whether or not such participant shall be paid an Award for such Performance Period shall be determined solely in accordance with the provisions of Sections 14 and 17 hereof. All payments and distributions to be made thereunder shall be paid from the general assets of the Company. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any employee, former employee or any other person. The Plan shall not constitute part of any participant's or employee's employment contract with the Company or any participating subsidiary. Participation in the Plan shall not create or imply a right to continued employment.

19. Withholding of Taxes, etc. The Company shall have the right to withhold an amount sufficient to satisfy any federal, state or local income taxes, FICA or Medicare taxes or other amounts that the Company may be required by law to pay with respect to any Award, including withholding payment from a participant's current compensation.

20. No Assignment of Benefits. No rights or benefits under the Plan shall, except as otherwise specifically provided by law, be subject to assignment (except for the designation of beneficiaries pursuant to paragraph (a) of Section 16), nor shall such rights or benefits be subject to attachment or legal process for or against a participant or his or her beneficiary or beneficiaries, as the case may be.

21. Administration Expense. The entire expense of offering and administering the Plan shall be borne by the Company and its participating Subsidiaries.

22. Access of Independent Certified Public Accountants and Committee to Information. The Company's independent certified public accountants shall have full access to the books and records of the Company and its Subsidiaries, and the Company shall furnish to such accountants such information as to the financial condition and operations of the Company and its Subsidiaries as such accountants may from time to time request, in order that such accountants may take any action required or requested to be taken by them under the Plan. The Group Vice President and Chief Financial Officer or, in the event of his or her absence or disability to act, the principal accounting officer of the Company shall furnish to the Committee such information as the Committee may request to assist it in carrying out or interpreting this Plan. Neither such accountants, in reporting amounts required or requested under the Plan, nor the Group Vice President and Chief Financial Officer, or any other director, officer or employee of the Company, in furnishing information to such accountants or to the Committee, shall be liable for any error therein, if such accountants or other person, as the case may be, shall have acted in good faith.

23. Amendment, Modification, Suspension and Termination of the Plan; Rescissions and Corrections. The Compensation Committee, at any time may terminate, and at any time and from time to time, and in any respect, may amend or modify the Plan or suspend any of its provisions; provided, however, that no such amendment, modification, suspension or termination shall, without the consent of a participant, adversely affect any right or obligation with respect to any Award theretofore made. The Committee at any time may rescind or correct any actions made in error or that jeopardize the intended tax status or legal compliance of the Plan.

24. Indemnification and Exculpation.

(a) Indemnification. Each person who is or shall have been a member of the Compensation Committee or a member of the Annual Incentive Compensation Committee shall be indemnified and held harmless by the Company against and from any and all loss, cost, liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be or become a party or in which such person may be or become involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by such person in settlement thereof (with the Company's written approval) or paid by such person in satisfaction of a judgment in any such action, suit or proceeding, except a judgment in favor of the Company based upon a finding of such person's lack of good faith; subject, however, to the condition that upon the institution of any claim, action, suit or proceeding against such person, such person shall in writing give the Company an opportunity, at its own expense, to handle and defend the same before such person undertakes to handle and defend it on such person's behalf. The right of indemnification shall not be exclusive of any other right to which such person may be entitled as a matter of law or otherwise, or any power that the Company may have to indemnify or hold such person harmless.

(b) Exculpation. Each member of the Compensation Committee and each member of the Annual Incentive Compensation Committee shall be fully justified in relying or acting in good faith upon any information furnished in connection with the administration of the Plan or any appropriate person or persons other than such person. In no event shall any person who is or shall have been a member of the Compensation Committee or a member of the Annual Incentive Compensation Committee be held liable for any determination made or other action taken or any omission to act in reliance upon any such information, or for any action (including the furnishing of information) taken or any failure to act, if in good faith.

25. Finality of Determinations. Each determination, interpretation or other action made or taken pursuant to the provisions of the Plan by the Compensation Committee or the Annual Incentive Compensation Committee shall be final and shall be binding and conclusive for all purposes and upon all persons, including, but without limitation thereto, the Company, its stockholders, the Compensation Committee and each of the members thereof, the Annual Incentive Compensation Committee and each of the members thereof, and the directors, officers, and employees of the Company, the Plan participants, and their respective successors in interest.

26. Code Section 409A. The Plan, and all Awards distributed thereunder, are designed and intended to meet the requirements of Section 1.409A-1(b)(4) of the U.S. Treasury Department Regulations issued under Section 409A of the Internal Revenue Code of 1986, as amended ("Code"), governing "short-term deferrals" so that no Award distributed under the Plan is determined to provide, or treated as providing, for a deferral of compensation under Code Section 409A. To the extent the Plan, or an Award thereunder, ultimately is determined to provide, or treated as providing, for the deferral of compensation under Code Section 409A, the Company reserves the right to take such action, on a uniform basis, as the Company deems necessary or desirable to ensure compliance with Code Section 409A, and the regulations thereunder, or to achieve the goals of the Plan without having adverse tax consequences under the Plan for any Plan participant or beneficiary.

27. Governing Law. The Plan shall be governed by and construed in accordance with the laws of the State of Michigan.

**Exhibit 12**

## FORD MOTOR COMPANY AND SUBSIDIARIES

### CALCULATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS (a)
**(in millions)**

| | First Half 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|---|
| Earnings | | | | | | |
| Income/(Loss) before income taxes and cumulative effects of changes in accounting principles (b) | $ (8,714) | $ (3,746) | $(15,074) | $1,054 | $ 4,087 | $ 893 |
| Less: Equity in net (income)/loss of affiliates included in income before income taxes | (106) | (412) | (426) | (303) | (240) | (155) |
| Adjusted income/(loss) | (8,820) | (4,158) | (15,500) | 751 | 3,847 | 738 |
| Adjusted fixed charges (c) | 5,298 | 11,538 | 9,321 | 9,091 | 9,136 | 9,996 |
| Earnings/(Losses) | $ (3,522) | $ 7,380 | $ (6,179) | $9,842 | $12,983 | $10,734 |
| Combined Fixed Charges and Preferred Stock Dividends | | | | | | |
| Interest expense (d) | $ 4,984 | $10,978 | $ 8,841 | $8,484 | $ 8,528 | $ 9,235 |
| Interest portion of rental expense (e) | 166 | 348 | 329 | 514 | 565 | 524 |
| Preferred Stock dividend requirements of majority owned subsidiaries and trusts | • | • | • | • | • | 190 |
| Total combined fixed charges and Preferred Stock dividends | $ 5,150 | $11,326 | $ 9,170 | $8,998 | $ 9,093 | $ 9,949 |
| Ratios | | | | | | |
| Ratio of earnings to fixed charges | (f) | (f) | (f) | 1.1 | 1.4 | 1.1 |
| Ratio of earnings to combined fixed charges and Preferred Stock dividends | (f) | (f) | (f) | 1.1 | 1.4 | 1.1 |

(a) Discontinued operations are excluded from all amounts.

(b) Income/(Loss) before taxes includes equity income from unconsolidated subsidiaries.

(c) Combined fixed charges, as shown above, adjusted to exclude capitalized interest, and to include dividends from unconsolidated subsidiaries as well as amortization of capitalized interest. (Capitalized interest (in millions): 2008 YTD • $26; 2007 • $51; 2006 • $58; 2005 • $67; 2004 • $57; 2003 • $63)

(d) Includes interest, as defined on our income statement, plus capitalized interest.

(e) One-third of all rental expense is deemed to be interest.

(f) Earnings/(Losses) for 2008, 2007, and 2006 were inadequate to cover fixed charges by $8.7 billion, $3.9 billion and $15.4 billion, respectively.

**Exhibit 15**

August 8, 2008

Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: Ford Motor Company Registration Statement Nos. 33-39402, 33-54348, 33-55847, 33-62227, 333-02735, 333-20725, 333-31466, 333-46295, 333-47733, 333-56660, 333-57596, 333-58697, 333-65703, 333-71380, 333-74313, 333-85138, 333-87619, 333-104063, 333-113584, 333-123251, 333-138819, 333-138821, 333-149453 and 333-149456 on Form S-8 and Nos. 333-75214, 333-139149, and 333-151355 on Form S-3.

Commissioners:

We are aware that our report dated August 8, 2008 on our review of interim financial information of Ford Motor Company (the "Company") for the three-month and six-month periods ended June 30, 2008 and 2007 and included in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 is incorporated by reference in the aforementioned Registration Statements.

Very truly yours,

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Detroit, Michigan

**Exhibit 31.1**

## CERTIFICATION

I, Alan Mulally, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 of Ford Motor Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 8, 2008

/s/ Alan Mulally
Alan Mulally
President and Chief Executive Officer

**Exhibit 31.2**

## CERTIFICATION

I, Donat R. Leclair, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 of Ford Motor Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 8, 2008

/s/ Donat R. Leclair, Jr.
Donat R. Leclair, Jr.
Executive Vice President and
Chief Financial Officer

**Exhibit 32.1**

**FORD MOTOR COMPANY**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Alan Mulally, President and Chief Executive Officer of Ford Motor Company (the "Company"), hereby certify pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code that to my knowledge:

1. the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, to which this statement is furnished as an exhibit (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2008

/s/ Alan Mulally
Alan Mulally
President and Chief Executive Officer

**Exhibit 32.2**

## FORD MOTOR COMPANY

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donat R. Leclair, Jr., Executive Vice President and Chief Financial Officer of Ford Motor Company (the "Company"), hereby certify pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code that to my knowledge:

1. the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, to which this statement is furnished as an exhibit (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2008

/s/ Donat R. Leclair, Jr.
Donat R. Leclair, Jr.
Executive Vice President and
Chief Financial Officer