FORD MOTOR CO
Form 10-K
February 25, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
R Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2009

or

£ 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 (State of incorporation)	38-0549190 (I.R.S. employer identification no.)
One American Road, Dearborn, Michigan (Address of principal executive offices)	48126 (Zip code)

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

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

Title of each class	Name of each exchange on which registered *
Common Stock, par value $.01 per share	New York Stock Exchange
7.50% Notes Due June 10, 2043	New York Stock Exchange
Ford Motor Company Capital Trust II 6.50% Cumulative Convertible Trust Preferred Securities, liquidation preference $50 per share	New York Stock Exchange

* In addition, shares of Common Stock of Ford are listed on certain stock exchanges in Europe.

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes R No £

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or Section 15(d) of the Act.
Yes £ No R

Indicate by check mark if 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 R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No £

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.   Large accelerated filer R   Accelerated filer £   Non-accelerated filer £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes £ No R

As of June 30, 2009, Ford had outstanding 3,149,667,003 shares of Common Stock and 70,852,076 shares of Class B Stock. Based on the New York Stock Exchange Composite Transaction closing price of the Common Stock on that date ($6.07 per share), the aggregate market value of such Common Stock was $19,118,478,708. Although there is no quoted market for our Class B Stock, shares of Class B Stock may be converted at any time into an equal number of shares of Common Stock for the purpose of effecting the sale or other disposition of such shares of Common Stock. The shares of Common Stock and Class B Stock outstanding at June 30, 2009 included shares owned by persons who may be deemed to be "affiliates" of Ford. We do not believe, however, that any such person should be considered to be an affiliate. For information concerning ownership of outstanding Common Stock and Class B Stock, see the Proxy Statement for Ford's Annual Meeting of Stockholders currently scheduled to be held on May 13, 2010 (our "Proxy Statement"), which is incorporated by reference under various Items of this Report as indicated below.

As of February 12, 2010, Ford had outstanding 3,297,413,605 shares of Common Stock and 70,852,076 shares of Class B Stock. Based on the New York Stock Exchange Composite Transaction closing price of the Common Stock on that date ($11.12 per share), the aggregate market value of such Common Stock was $36,667,239,288.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated
Proxy Statement*	Part III (Items 10, 11, 12, 13 and 14)

* As stated under various Items of this Report, only certain specified portions of such document are incorporated by reference in this Report.

Exhibit Index begins on page 100.

PART I

ITEM 1. Business

Ford Motor Company (referred to herein as "Ford", the "Company", "we", "our" or "us") was incorporated in Delaware in 1919. We acquired the business of a Michigan company, also known as Ford Motor Company, that had been incorporated in 1903 to produce and sell automobiles designed and engineered by Henry Ford. We are one of the world's largest producers of cars and trucks. We and our subsidiaries also engage in other businesses, including financing vehicles.

In addition to the information about Ford and its subsidiaries contained in this Annual Report on Form 10-K for the year ended December 31, 2009 ("2009 Form 10-K Report" or "Report"), extensive information about our Company can be found at www.ford.com, including information about our management team, our brands and products, and our corporate governance principles.

The corporate governance information on our website includes our Corporate Governance Principles, Code of Ethics for Senior Financial Personnel, Code of Ethics for Directors, Standards of Corporate Conduct for all employees, and the Charters for each of the Committees of our Board of Directors. In addition, any amendments to our Code of Ethics or waivers granted to our directors and executive officers will be posted in this area of our website. All of these documents may be accessed by logging onto our website and clicking on "Investors," then "Company Information," and then "Corporate Governance," or may be obtained free of charge by writing to our Shareholder Relations Department, Ford Motor Company, One American Road, P.O. Box 1899, Dearborn, Michigan 48126-1899.

In addition, all of our recent periodic report filings with the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge through our website. This includes recent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, as well as any amendments to those Reports. Recent Section 16 filings made with the SEC by the Company or any of its executive officers or directors with respect to our Common Stock also are made available free of charge through our website. We post each of these documents on our website as soon as reasonably practicable after it is electronically filed with the SEC.

To access our SEC reports or amendments or the Section 16 filings, log onto our website and click "Investors," then "Company Reports," and then "View SEC Filings," which links to a list of reports filed with the SEC.

The foregoing information regarding our website and its content is for convenience only. The content of our website is not deemed to be incorporated by reference into this Report nor should it be deemed to have been filed with the SEC.

ITEM 1. Business (continued)

OVERVIEW

Segments. We review and present our business results in two sectors: Automotive and Financial Services. Within these sectors, our business is divided into reportable segments based upon the organizational structure that 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.

Our Automotive and Financial Services segments as of December 31, 2009 are described in the table below:

Business Sector	Reportable Segments*	Description
Automotive:	Ford North America	Primarily includes the sale of Ford, Lincoln and Mercury brand vehicles and related service parts in North America (the United States, Canada and Mexico), together with the associated costs to design, develop, manufacture and service these vehicles and parts, as well as, for periods prior to January 1, 2010, the sale of Mazda6 vehicles produced by our consolidated subsidiary AutoAlliance International, Inc. ("AAI").
	Ford South America	Primarily includes the sale of Ford-brand vehicles and related service parts in South America, together with the associated costs to design, develop, manufacture and service these vehicles and parts.
	Ford Europe	Primarily includes the sale of Ford-brand vehicles and related service parts in Europe, Turkey and Russia, together with the associated costs to design, develop, manufacture and service these vehicles and parts.
	Ford Asia Pacific Africa	Primarily includes the sale of Ford-brand vehicles and related service parts in the Asia Pacific region and South Africa, together with the associated costs to design, develop, manufacture and service these vehicles and parts.
	Volvo	Primarily includes the sale of Volvo-brand vehicles and related service parts throughout the world (including Europe, North and South America, and Asia Pacific Africa), together with the associated costs to design, develop, manufacture and service these vehicles and parts.
Financial Services:	Ford Motor Credit Company	Primarily includes vehicle-related financing, leasing, and insurance.
	Other Financial Services	Includes a variety of businesses including holding companies, real estate, and the financing and leasing of some Volvo vehicles in Europe.

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*We have experienced changes to our reportable segments in recent years, including:

§ As first reported in our Quarterly Report on Form 10-Q for the period ended March 31, 2009, Volvo currently is held for sale.

- § During the fourth quarter of 2008, we sold a portion of our equity in Mazda Motor Corporation ("Mazda"), reducing our ownership percentage from approximately 33.4% at the time of sale to about 11% ownership currently. As a result, beginning with the fourth quarter of 2008, we account for our interest in Mazda as a marketable security and no longer report Mazda as an operating segment.
- § As reported in our Quarterly Report on Form 10-Q for the period ended June 30, 2008, we sold our Jaguar Land Rover operations on June 2, 2008.
- § As reported in our Quarterly Report on Form 10-Q for the period ended June 30, 2007, we sold Aston Martin on May 31, 2007.

We provide financial information (such as revenue, income, and assets) for each business sector and reportable segment in three areas of this Report: (1) "Item 6. Selected Financial Data;" (2) "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" ("Item 7"); and (3) Note 28 of the Notes to the Financial Statements located at the end of this Report. Financial information relating to certain geographic areas is included in Note 29 of the Notes to the Financial Statements.

ITEM 1. Business (continued)

AUTOMOTIVE SECTOR

General

We sell cars and trucks throughout the world. In 2009, our total ongoing Automotive operations (including unconsolidated affiliates in China) sold approximately 4,817,000 vehicles at wholesale throughout the world. See Item 7 for additional discussion of wholesale unit volumes.

As of December 31, 2009, our vehicle brands included Ford, Mercury, Lincoln, and Volvo, although Volvo is held for sale. Substantially all of our cars, trucks and parts are marketed through retail dealers in North America, and through distributors and dealers (collectively, "dealerships") outside of North America, the substantial majority of which are independently owned. At December 31, 2009, the approximate number of dealerships worldwide distributing our vehicle brands was as follows:

Brand	Number of Dealerships at December 31, 2009*
Ford	11,682
Mercury	1,780
Lincoln	1,376
Volvo	2,269

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* Because many of these dealerships distribute more than one of our brands from the same sales location, a single dealership may be counted under more than one brand.

In addition to the products we sell to our dealerships for retail sale, we also sell cars and trucks to our dealerships for sale to fleet customers, including daily rental car companies, commercial fleet customers, leasing companies, and governments. We do not depend on any single customer or small group of customers to the extent that the loss of such customer or group of customers would have a material adverse effect on our business.

Through our dealer network and other channels, we provide retail customers with a wide range of after-sale vehicle services and products, including maintenance and light repair, heavy repair, collision, vehicle accessories and extended service warranty. In North America, we market these products and services under several brands, including Genuine Ford and Lincoln-Mercury Parts and ServiceSM, Ford Custom AccessoriesTM, Ford Extended Service PlanSM, and MotorcraftSM.

The worldwide automotive industry, Ford included, is affected significantly by general economic conditions (among other factors) over which we have little control. This is especially so because vehicles are durable goods, which provide consumers latitude in determining whether and when to replace an existing vehicle. The decision whether to purchase a vehicle may be affected significantly by slowing economic growth, geo-political events, and other factors (including the cost of purchasing and operating cars and trucks and the availability and cost of credit and fuel). As we recently have seen in the United States and Europe in particular, the number of cars and trucks sold may vary substantially from year to year. Further, the automotive industry is a highly competitive, cyclical business that has a wide and growing variety of product offerings from a growing number of manufacturers.

Our wholesale unit volumes vary with the level of total industry demand and our share of that industry demand. In the short term, our wholesale unit volumes also are influenced by the level of dealer inventory. Our share is influenced by how our products are perceived in comparison to those offered by other manufacturers based on many factors, including price, quality, styling, reliability, safety, fuel efficiency, functionality, and reputation. Our share also is affected by the timing and frequency of new model introductions. Our ability to satisfy changing consumer preferences with respect to type or size of vehicle, as well as design and performance characteristics, impacts our sales and earnings significantly.

ITEM 1. Business (continued)

The profitability of our business is affected by many factors, including:

- § Wholesale unit volumes;
- § Margin of profit on each vehicle sold; which in turn is affected by many factors, including:
  - Mix of vehicles and options sold;
  - Costs of components and raw materials necessary for production of vehicles;
  - Level of "incentives" (e.g., price discounts) and other marketing costs;
  - Costs for customer warranty claims and additional service actions; and
  - Costs for safety, emissions and fuel economy technology and equipment; and
- § As with other manufacturers, a high proportion of relatively fixed structural costs, including labor costs, which mean that small changes in wholesale unit volumes can significantly affect overall profitability.

Our industry continues to face a very competitive pricing environment, driven in part by industry excess capacity. For the past several decades, manufacturers typically have given price discounts and other marketing incentives to maintain market share and production levels. A discussion of our strategies to compete in this pricing environment is set forth in the "Overview" section in Item 7.

Competitive Position. The worldwide automotive industry consists of many producers, with no single dominant producer. Certain manufacturers, however, account for the major percentage of total sales within particular countries, especially their countries of origin. Detailed information regarding our competitive position in the principal markets where we compete may be found below as part of the overall discussion of the automotive industry in those markets.

Seasonality. We generally record the sale of a vehicle (and recognize sales proceeds in revenue) when it is produced and shipped or delivered to our customer (i.e., the dealership). See the "Overview" section in Item 7 for additional discussion of revenue recognition practices.

We manage our vehicle production schedule based on a number of factors, including retail sales (i.e., units sold by our dealerships to their customers at retail) and dealer stock levels (i.e., the number of units held in inventory by our dealerships for sale to retail and fleet customers). In the past, we have experienced some seasonal fluctuation in the business, with production in many markets tending to be higher in the first half of the year to meet demand in the spring and summer (typically the strongest sales months of the year). Third quarter production has tended to be the lowest. As a result, operating results for the third quarter typically have been less favorable than other quarters.

Raw Materials. We purchase a wide variety of raw materials from numerous suppliers around the world for use in production of our vehicles. These materials include non-ferrous metals (e.g., aluminum), precious metals (e.g., palladium), ferrous metals (e.g., steel and iron castings), energy (e.g., natural gas), and resins (e.g., polypropylene). We believe that we have adequate supplies or sources of availability of the raw materials necessary to meet our needs. There are always risks and uncertainties, however, with respect to the supply of raw materials that could impact availability in sufficient quantities to meet our needs. See the "Overview" section of Item 7 for a discussion of commodity and energy price trends, and "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" ("Item 7A") for a discussion of commodity price risks.

Backlog Orders. We generally produce and ship our products on average within approximately 20 days after an order is deemed to become firm. Therefore, no significant amount of backlog orders accumulates during any period.

Intellectual Property. We own or hold licenses to use numerous patents, copyrights and trademarks on a global basis. Our policy is to protect our competitive position by, among other methods, filing U.S. and international patent applications to protect technology and improvements that we consider important to the development of our business. We have generated a large number of patents, and expect this portfolio to continue to grow as we actively pursue additional technological innovation. We currently have approximately 15,900 active patents and pending patent applications globally, with an average age for patents in our active patent portfolio of just over 5 years. In addition to this intellectual property, we also rely on our proprietary knowledge and ongoing technological innovation to develop and maintain our competitive position. Although we believe that these patents, patent applications, and know-how, in the aggregate, are important to the conduct of our business, and we obtain licenses to use certain intellectual property owned by others, none is individually considered material to our business. We also own numerous trademarks and service marks that contribute to the identity and recognition of our Company and its products and services globally. Certain of these marks are integral to the conduct of our business, a loss of any of which could have a material adverse effect on our business.

ITEM 1. Business (continued)

Warranty Coverage and Additional Service Actions. We currently provide warranties on vehicles we sell. Warranties are offered for specific periods of time and/or mileage, and vary depending upon the type of product, usage of the product and the geographic location of its sale. Types of warranty coverage offered include base coverage (e.g., "bumper-to-bumper" coverage in the United States on Ford-brand vehicles for 36 months or 36,000 miles, whichever occurs first), safety restraint coverage, and corrosion coverage. Beginning with 2007 model-year passenger cars and light trucks, Ford extended the powertrain warranty coverage offered on Ford, Lincoln and Mercury vehicles sold in the United States, Canada, and select U.S. export markets (e.g., powertrain coverage for certain vehicles sold in the United States from three years or 36,000 miles to five years or 60,000 miles on Ford and Mercury brands, and from four years or 50,000 miles to six years or 70,000 miles on the Lincoln brand). In compliance with regulatory requirements, we also provide emissions-defects and emissions-performance warranty coverage. Pursuant to these warranties, Ford will repair, replace, or adjust all parts on a vehicle that are defective in factory-supplied materials or workmanship during the specified warranty period.

In addition to the costs associated with the warranty coverage provided on our vehicles, we also incur costs as a result of additional service actions not covered by our warranties, including product recalls and customer satisfaction actions.

Estimated warranty and service action costs for each vehicle sold by us are accrued for at the time of sale. Accruals for estimated warranty and service action costs are based on historical experience and subject to adjustment from time to time depending on actual experience. Warranty accrual adjustments required when actual warranty claim experience differs from our estimates may have a material impact on our results.

For additional information with respect to costs for warranty and additional service actions, see "Critical Accounting Estimates" in Item 7, as well as Note 31 of the Notes to the Financial Statements.

Industry Sales Volume

The following chart shows industry sales volume for the United States, and for the markets we track in Europe, South America and Asia Pacific Africa for the last five years (in millions of units):

	Industry Sales Volume *				
	2009	2008	2007	2006	2005
United States	10.6	13.5	16.5	17.1	17.5
Europe	15.8	16.6	18.0	17.8	17.6
South America	4.2	4.3	4.1	3.2	2.7
Asia Pacific Africa	24.5	20.9	20.4	18.6	17.3

* Throughout this section, industry sales volume includes sales of medium and heavy trucks. See discussion of each market below for definition of the markets we track.

U.S. and European industry sales volume declined in 2009 compared with 2008, reflecting weak economic conditions in both markets. The decline in Europe was more modest because the impact of the economic slowdown was offset somewhat by substantial government-sponsored vehicle scrappage program incentives. Asia Pacific Africa industry sales increased in 2009 as compared to 2008, largely driven by growth in China.

United States

Industry Sales Data. The following table shows U.S. industry sales of cars and trucks (in millions of units):

	U.S. Industry Sales Years Ended December 31,				
	2009	2008	2007	2006	2005
Cars	5.6	7.1	7.9	8.1	7.9
Trucks	5.0	6.4	8.6	9.0	9.6

ITEM 1. Business (continued)

We classify cars by small, medium, large, and premium segments, and trucks by compact pickup, bus/van (including minivans), full-size pickup, crossover utility vehicles ("CUVs") and traditional sport utility vehicles ("SUVs"), and medium/heavy segments. We refer to CUVs, which are based on car platforms, and SUVs, which are based on truck platforms, collectively as "utilities" or "utility vehicles." In the tables, we have classified all of our luxury cars as "premium," regardless of size. Annually, we review various factors to determine the appropriate classification of vehicle segments and the vehicles within those segments, and this review occasionally results in a change of classification for certain vehicles.

The following tables show the proportion of U.S. car and truck unit sales by segment for the industry (including domestic and foreign-based manufacturers) and for Ford:

	U.S. Industry Vehicle Mix of Sales by Segment Years Ended December 31,									
	2009		2008		2007		2006		2005	
CARS										
Small	23.7	%	22.9	%	19.8	%	19.0	%	17.1	%
Medium	16.1		15.5		13.6		13.1		13.1	
Large	5.4		6.1		7.0		7.5		7.4	
Premium	7.3		7.8		7.8		7.6		7.8	
Total U.S. Industry Car Sales	52.5		52.3		48.2		47.2		45.4	
TRUCKS										
Compact Pickup	2.6		2.8		3.2		3.5		3.9	
Bus/Van	5.5		6.1		6.6		7.8		8.1	
Full-Size Pickup	10.8		11.9		13.5		13.3		14.6	
Utilities	27.1		24.9		26.5		25.2		25.5	
Medium/Heavy	1.5		2.0		2.0		3.0		2.5	
Total U.S. Industry Truck Sales	47.5		47.7		51.8		52.8		54.6	
Total U.S. Industry Vehicle Sales	100.0	%	100.0	%	100.0	%	100.0	%	100.0	%

	Ford U.S. Vehicle Mix of Sales by Segment* Years Ended December 31,									
	2009		2008		2007		2006		2005	
CARS										
Small	14.0	%	15.0	%	12.8	%	12.5	%	11.6	%
Medium	12.8		9.3		7.8		12.9		8.2	
Large	6.8		7.7		8.4		8.2		8.9	
Premium	3.1		3.1		2.5		3.1		2.8	
Total Ford U.S. Car Sales	36.7		35.1		31.5		36.7		31.5	
TRUCKS										
Compact Pickup	3.4		3.4		3.0		3.4		4.1	
Bus/Van	5.8		6.5		7.2		8.6		8.9	
Full-Size Pickup	25.6		27.2		29.1		29.6		30.7	
Utilities	28.2		27.4		28.6		21.1		24.3	
Medium/Heavy	0.3		0.4		0.6		0.6		0.5	
Total Ford U.S. Truck Sales	63.3		64.9		68.5		63.3		68.5	
Total Ford U.S. Vehicle Sales	100.0	%	100.0	%	100.0	%	100.0	%	100.0	%

* These data include sales of Ford, Lincoln, and Mercury vehicles.

As the tables above indicate, the shift from cars to trucks that began in the 1980s started to reverse in 2005. Prior to 2005, the proportion of trucks sold in the industry and by Ford had been increasing, reflecting higher sales of SUVs and full-size pickups. In recent years, the percentage of cars sold in the overall market and by Ford has trended higher, primarily due to a shift in consumer preferences to smaller, more fuel-efficient vehicles. In 2009, overall changes in our U.S. vehicle mix generally followed the overall direction of U.S. industry trends. Our year-over-year growth in car mix, however, outpaced the industry, primarily fueled by the strength of our medium-car mix and sales led by our redesigned Ford Fusion, Fusion Hybrid, Mercury Milan and Milan Hybrid.

Market Share Data. The competitive environment in the United States has intensified and is expected to continue to intensify as Japanese and Korean manufacturers increase imports to the United States and increase production capacity in North America. Our principal competitors in the United States include General Motors Company ("General Motors"), Chrysler Group LLC ("Chrysler"), Toyota Motor Corporation ("Toyota"), Honda Motor Company ("Honda"), and Nissan Motor Company ("Nissan"). The following tables show U.S. car and truck market share for Ford (Ford, Lincoln, and Mercury brand vehicles only) and for the other five leading vehicle manufacturers. The percentages in each of the following tables represent percentages of the combined car and truck industry:

ITEM 1. Business (continued)

	U.S. Car Market Shares (a) Years Ended December 31,									
	2009		2008		2007		2006		2005	
Ford	5.5	%	5.0	%	4.6	%	5.8	%	5.4	%
General Motors	9.1		10.0		9.8		10.0		10.2	
Chrysler	2.5		3.6		4.2		4.1		4.0	
Toyota	10.0		10.0		9.2		8.6		7.4	
Honda	6.5		6.6		5.3		4.9		4.8	
Nissan	4.8		4.4		3.8		3.2		3.3	
All Other (b)	14.1		12.7		11.3		10.6		10.3	
Total U.S. Car Deliveries	52.5	%	52.3	%	48.2	%	47.2	%	45.4	%

	U.S. Truck Market Shares (a) Years Ended December 31,									
	2009		2008		2007		2006		2005	
Ford	9.8	%	9.2	%	10.0	%	10.2	%	11.6	%
General Motors	10.6		12.1		13.6		14.1		15.6	
Chrysler	6.3		7.2		8.4		8.4		9.2	
Toyota	6.7		6.4		6.7		6.3		5.6	
Honda	4.3		4.0		4.1		3.9		3.6	
Nissan	2.5		2.7		2.7		2.8		2.9	
All Other (b)	7.3		6.1		6.3		7.1		6.1	
Total U.S. Truck Deliveries	47.5	%	47.7	%	51.8	%	52.8	%	54.6	%

	U.S. Combined Car and Truck Market Shares (a) Years Ended December 31,									
	2009		2008		2007		2006		2005	
Ford	15.3	%	14.2	%	14.6	%	16.0	%	17.0	%
General Motors	19.7		22.1		23.4		24.1		25.8	
Chrysler	8.8		10.8		12.6		12.5		13.2	
Toyota	16.7		16.4		15.9		14.9		13.0	
Honda	10.8		10.6		9.4		8.8		8.4	
Nissan	7.3		7.1		6.5		6.0		6.2	
All Other (b)	21.4		18.8		17.6		17.7		16.4	
Total U.S. Car and Truck Deliveries	100.0	%	100.0	%	100.0	%	100.0	%	100.0	%

(a) All U.S. sales data are based on publicly available information from the media and trade publications.

(b) "All Other" primarily includes companies based in Korea, other Japanese manufacturers and various European manufacturers, and, with respect to the U.S. Truck Market Shares table and U.S. Combined Car and Truck Market Shares table, includes heavy truck manufacturers.

Our improvement in overall market share primarily is the result of several factors, including favorable acceptance of our redesigned products, product focus on industry growth segments, and customers' increasing awareness and acceptance of our commitment to leadership in quality, fuel efficiency, safety, smart technologies and value.

In addition to the Ford, Lincoln, and Mercury vehicles we sell in the U.S. market, we also sell a significant number of Volvo vehicles. Our market share for Volvo vehicles in the United States (which is reflected in "All Other" in the tables above) was approximately 0.6% in 2009, up 0.1 percentage points from 2008. This increase in market share primarily reflected the introduction of the new XC60 and improved sales of the V50.

Fleet Sales. The sales data and market share information provided above include both retail and fleet sales. Fleet sales include sales to daily rental car companies, commercial fleet customers, leasing companies, and governments.

ITEM 1. Business (continued)

The table below shows our fleet sales in the United States, and the amount of those combined sales as a percentage of our total U.S. car and truck sales for the last five years (in thousands):

	Ford Fleet Sales* Years Ended December 31,				
	2009	2008	2007	2006	2005
Daily Rental Units	205	237	304	447	440
Commercial and Other Units	156	217	268	277	256
Government Units	127	153	158	162	141
Total Fleet Units	488	607	730	886	837
Percent of Total U.S. Car and Truck Sales	30 %	32 %	30 %	32 %	28 %

* These data include sales of Ford, Lincoln, and Mercury vehicles.

Lower fleet sales in 2009 primarily reflected an overall industry decline in rental, commercial and government sectors. Although total fleet industry volume decreased for the year, we improved year-over-year fleet segment market share. We continue to maintain profitable government and commercial segment market share leadership over all brands.

Europe

Industry Sales Data

Market Share Information. Outside of the United States, Europe is our largest market for the sale of cars and trucks. The automotive industry in Europe is intensely competitive. Our principal competitors in Europe include General Motors, Volkswagen A.G. Group, PSA Group, Renault Group, and Fiat SpA. For the past 10 years, the top six manufacturers have collectively held between 70% and 77% of the total market. This competitive environment is expected to intensify further as Japanese and Korean manufacturers increase their production capacity in Europe, and as other manufacturers of premium brands (e.g., BMW, Mercedes-Benz, and Audi) continue to broaden their product offerings.

For purposes of this discussion, 2009 market data are based on estimated registrations currently available; percentage change is measured from actual 2008 registrations. We track industry sales in Europe for the following 19 markets: Britain, Germany, France, Italy, Spain, Austria, Belgium, Ireland, Netherlands, Portugal, Switzerland, Finland, Sweden, Denmark, Norway, Czech Republic, Greece, Hungary, and Poland. In 2009, vehicle manufacturers sold approximately 15.8 million cars and trucks in these 19 markets, down 4.8% from 2008. Ford-brand combined car and truck market share in Europe in 2009 was approximately 9.1% (up 0.5 percentage points from the previous year); Volvo market share in Europe was 1.3% (about the same as in 2008).

Britain and Germany are our highest-volume markets within Europe. Any change in the British or German market has a significant effect on the results of our Ford Europe segment. The global economic crisis caused 2009 industry sales in Britain to decline by 10.5% from 2008 levels (which were down considerably from 2007 levels, as the economic crisis hit Britain earlier than many other European countries). As a result of government stimulus in Germany, 2009 industry sales volume there actually increased by 18.2% compared with 2008. Our Ford-brand combined car and truck share in these markets in 2009 was 16.8% in Britain (up 0.4 percentage points from the previous year), and 7.6% in Germany (up 0.6 percentage points from the previous year).

Although not included in the 19 markets above, several additional markets in the region contribute to our Ford Europe segment results. In 2009, Ford's share of the Turkish market increased by 0.4 percentage points to 15.1%, the eighth year in a row that the Ford brand led the market in sales in Turkey. Industry sales volume in Russia decreased dramatically during 2009, shrinking by 1.6 million units or about half of its total volume as a result of the economic crisis. As a result, sales of Ford-brand vehicles decreased by nearly 56% from 2008 to about 82,000 units in 2009.

Motor Vehicle Distribution in Europe. In 2002, the Commission of the European Union ("Commission") adopted a new regulatory scheme that changed the way motor vehicles are sold and repaired ("Block Exemption Regulation"). Pursuant to this regulation, manufacturers must operate either an "exclusive" distribution system – with exclusive dealer sales territories, but with the possibility of sales to any reseller (e.g., supermarket chains, internet agencies and other resellers not authorized by the manufacturer), who in turn could sell to end customers both within and outside of the dealer’s exclusive sales territory – or a "selective" distribution system.

ITEM 1. Business (continued)

We, like most other automotive manufacturers, elected to establish a "selective" distribution system, allowing us to restrict the dealer's ability to sell our vehicles to unauthorized resellers. Under this "selective" system, we are entitled to determine the number of dealers we establish but, since October 2005, not their locations. Under either system permitted by the Block Exemption Regulation, the rules make it easier for a dealer to display and sell multiple brands in one store without the need to maintain separate facilities.

Under the Block Exemption Regulation, the Commission also adopted sweeping changes to the repair industry. Dealers no longer could be required by the manufacturer to perform repair work. Instead, dealers could subcontract repair work to independent repair shops that met reasonable criteria set by the manufacturer. These authorized repair facilities could perform warranty and recall work, in addition to other repair and maintenance work. While a manufacturer may continue to require the use of its parts in warranty and recall work, for all other repair work the repair facilities may use parts made by others that are of comparable quality. We have negotiated and implemented Dealer, Authorized Repairer and Spare Part Supply contracts on a country-by-country level and, therefore, the Block Exemption Regulation applies with respect to all of our dealers.

With these rules, the Commission intended to increase competition and narrow price differences from country to country. The Commission's Block Exemption Regulation continues to contribute to an increasingly competitive market for vehicles and parts, and to ongoing price convergence. This has contributed to an increase in marketing expenses, negatively affecting the profitability of Ford Europe and Volvo.

The current Block Exemption Regulation expires on May 31, 2010. In December 2009, the Commission launched a public review process for a revised Block Exemption Regulation and guidelines on motor vehicles sales and repair agreements. The Commission proposes to adopt a new block exemption for repair and maintenance services, in which area the Commission believes competition to be more limited. The Commission also proposes to adopt guidelines dealing with specific issues for both motor vehicle sales and repair. It is expected that the Commission will adopt final regulation in the spring of 2010.

Other Markets

Canada and Mexico. Canada and Mexico also are important markets for us. In Canada, industry sales volume for new cars and trucks in 2009 was approximately 1.48 million units, down 11% from 2008 levels; industry sales volume in Mexico for new cars and trucks in 2009 was approximately 770,000 units, down 28% from 2008. The decrease in industry sales volume in these markets reflected the impact of the global economic slowdown beginning in the fourth quarter of 2008. Our combined car and truck market share (including all of our brands sold in these markets) in 2009 was 15.2% for Canada (up 2.6 percentage points from a year ago), which represents our highest full-year share since 2001 and made Ford the number-one selling brand in Canada, and 11.8% in Mexico (down 0.3 percentage points from the previous year).

South America. Brazil, Argentina, and Venezuela are our principal markets in South America. Industry sales in 2009 were approximately 3.1 million units in Brazil (up 11.4% from 2008), 509,000 units in Argentina (down 15.3% from 2008), and 136,000 units in Venezuela (down 49.9% from 2008). Our combined car and truck share for Ford-brand vehicles in these markets was 10.3% in Brazil (up 0.3 percentage points from 2008), 13.3% in Argentina (up 0.9 percentage points from 2008), and 20.9% in Venezuela (up 5.2 percentage points from 2008). In Brazil, 2009 industry sales were strong in comparison to other markets in South America due to government stimulus actions taken in response to the global economic slowdown. We have announced plans for our largest-ever investment in Brazil operations in a five-year period, investing R$4 billion in 2011-2015 to accelerate delivery of more fuel-efficient, high-quality vehicles in Brazil.

Asia Pacific Africa. Australia, China, India, South Africa, and Taiwan are our principal markets in this region. Industry sales in 2009 were approximately 940,000 units in Australia (down 7.4% from 2008), 14.1 million units in China (up 42.1% from 2008), 2.3 million units in India (up 12.2% from 2008), 350,000 units in South Africa (down 27.6% from 2008), and 290,000 units in Taiwan (up 28.4% from 2008). Our combined car and truck share in these markets (including sales of Ford-brand vehicles, and market share for certain unconsolidated affiliates particularly in China) was 10.3% in Australia (about the same as 2008), 1.9% in China (about the same as 2008), 1.3% in India (down 0.1 percentage points from 2008), 7.6% in South Africa (up 0.7 percentage points from 2008) and 6.1% in Taiwan (up 0.6 percentage points from 2008). We anticipate that the ongoing relaxation of import restrictions (including duty reductions) will continue to intensify competition in the region.

ITEM 1. Business (continued)

China and India are the key emerging markets that will continue to drive economic growth in the region. Small cars account for 60% of Asia Pacific Africa industry sales volume, and are anticipated to continue to benefit from government fiscal policy. In line with these trends, our manufacturing capacity investments in both Thailand and India are nearing completion. At our joint venture assembly facility in Rayong, Thailand we have invested $500 million in an expansion for the production of small passenger cars. In India, we have invested $500 million to significantly increase our presence through expansion of our current manufacturing facility in Chennai to begin production of our new Ford Figo, and construction of a fully-integrated and flexible engine manufacturing plant. As previously announced in September 2009, we also have broken ground on a new plant in Chongqing, China to meet anticipated demand and grow Ford-brand market share.

FINANCIAL SERVICES SECTOR

Ford Motor Credit Company LLC

Ford Motor Credit Company LLC ("Ford Credit") offers a wide variety of automotive financing products to and through automotive dealers throughout the world. The predominant share of Ford Credit’s business consists of financing our vehicles and supporting our dealers. Ford Credit’s primary financing products fall into the following three categories:

- Retail financing. Purchasing retail installment sale contracts and retail lease contracts from dealers, and offering financing to commercial customers – primarily vehicle leasing companies and fleet purchasers – to purchase or lease vehicle fleets;

- Wholesale financing. Making loans to dealers to finance the purchase of vehicle inventory, also known as floorplan financing; and

- Other financing. Making loans to dealers for working capital, improvements to dealership facilities, and to purchase or finance dealership real estate.

Ford Credit also services the finance receivables and leases that it originates and purchases, makes loans to our affiliates, purchases certain receivables from us and our subsidiaries, and provides insurance services related to its financing programs. Ford Credit’s revenues are earned primarily from payments made under retail installment sale contracts and retail leases (including interest supplements and other support payments it receives from us on special-rate financing programs), and from payments made under wholesale and other dealer loan financing programs.

Ford Credit does business in all states in the United States and in all provinces in Canada through regional business centers. Outside of the United States, FCE Bank plc ("FCE") is Ford Credit’s largest operation. FCE's primary business is to support the sale of our vehicles in Europe through our dealer network. FCE offers a variety of retail, leasing and wholesale finance plans in most countries in which it operates; FCE does business in the United Kingdom, Germany, and most other European countries. Ford Credit, through its subsidiaries, also operates in the Asia Pacific and Latin American regions. In addition, FCE, through its Worldwide Trade Financing division, provides financing to dealers in countries where typically we have no established local presence.

Ford Credit's share of retail financing for new Ford, Lincoln, and Mercury brand vehicles sold by dealers in the United States and new Ford-brand vehicles sold by dealers in Europe, as well as Ford Credit's share of wholesale financing for new Ford, Lincoln and Mercury brand vehicles acquired by dealers in the United States (excluding fleet) and of new Ford-brand vehicles acquired by dealers in Europe, were as follows during the last three years:

	Years Ended December 31,		
United States			
Financing share – Ford, Lincoln, and Mercury	2009	2008	2007
Retail installment and lease	29 %	39 %	38 %
Wholesale	79	77	78
Europe			
Financing share – Ford			
Retail installment and lease	28 %	28 %	26 %
Wholesale	99	98	96

See Item 7 for a detailed discussion of Ford Credit's receivables, credit losses, allowance for credit losses, loss-to-receivables ratios, funding sources, and funding strategies. See Item 7A for a discussion of how Ford Credit manages its financial market risks.

We routinely sponsor special-rate financing programs available only through Ford Credit. Pursuant to these programs, we make interest supplement or other support payments to Ford Credit. These programs increase Ford Credit's financing volume and share of financing sales of our vehicles. See Note 1 of the Notes to the Financial Statements and Item 7 for more information about these support payments.

On November 6, 2008, we and Ford Credit entered into an Amended and Restated Support Agreement (“Support Agreement”) (formerly known as the Amended and Restated Profit Maintenance Agreement). Pursuant to the Support Agreement, if Ford Credit’s managed leverage for a calendar quarter were to be higher than 11.5 to 1 (as reported in Ford Credit’s then-most recent Form 10-Q Report or Form 10-K Report), Ford Credit could require us to make or cause to be made a capital contribution to Ford Credit in an amount sufficient to have caused such managed leverage to have been 11.5 to 1. A copy of the Support Agreement was filed as Exhibit 10 to our Quarterly Report on Form 10-Q for the period ended September 30, 2008. No capital contributions have been made to Ford Credit pursuant to the Support Agreement. In addition, Ford Credit has an agreement to maintain FCE’s net worth in excess of $500 million. No payments have been made by Ford Credit to FCE pursuant to the agreement during the 2007 through 2009 periods.

GOVERNMENTAL STANDARDS

Many governmental standards and regulations relating to safety, fuel economy, emissions control, noise control, vehicle recycling, substances of concern, vehicle damage, and theft prevention are applicable to new motor vehicles, engines, and equipment manufactured for sale in the United States, Europe, and elsewhere. In addition, manufacturing and other automotive assembly facilities in the United States, Europe, and elsewhere are subject to stringent standards regulating air emissions, water discharges, and the handling and disposal of hazardous substances.

Mobile Source Emissions Control

U.S. Requirements – Federal Emissions Standards. The federal Clean Air Act imposes stringent limits on the amount of regulated pollutants that lawfully may be emitted by new motor vehicles and engines produced for sale in the United States. The current ("Tier 2") emissions regulations promulgated by the U.S. Environmental Protection Agency ("EPA") set standards for cars and light trucks. The Tier 2 emissions standards also establish durability requirements for emissions components to 120,000 or 150,000 miles (depending on the specific standards to which the vehicle is certified). These standards present compliance challenges and make it difficult to utilize light-duty diesel technology, which in turn restricts one pathway for improving fuel economy for purposes of satisfying Corporate Average Fuel Economy ("CAFE") standards and upcoming federal greenhouse gas ("GHG") standards.

The EPA also has standards and requirements for EPA-defined "heavy-duty" vehicles and engines (generally, those vehicles with a gross vehicle weight rating of 8,500-14,000 pounds gross vehicle weight). These standards and requirements include stringent evaporative hydrocarbon standards for gasoline vehicles, and stringent exhaust emission standards for all vehicles. In order to meet the diesel standards, manufacturers must employ after-treatment technologies, such as diesel particulate filters or selective catalytic reduction ("SCR") systems, which require periodic customer maintenance. These technologies add significant cost to the emissions control system, and present potential issues associated with consumer acceptance. The EPA has issued guidance regarding maintenance intervals and the warning systems that will be used to alert motorists to the need for maintenance of SCR systems, which are incorporated into some of our heavy-duty vehicles. One heavy-duty engine manufacturer that does not rely on SCR technology is challenging EPA's 2010 model year heavy-duty standards and related SCR guidance in federal court. Should the litigation lead to tightening of the EPA's SCR guidance, or a ruling that otherwise interferes with our ability to use SCR technology, it could have an adverse effect on our ability to produce and sell heavy-duty vehicles.

U.S. Requirements – California and Other State Emissions Standards. Pursuant to the Clean Air Act, California may seek a waiver from the EPA to establish unique emissions control standards for motor vehicles; each new or modified proposal requires a new waiver of preemption from the EPA. California has received a waiver from the EPA to establish its own unique emissions control standards for certain regulated pollutants. New vehicles and engines sold in California must be certified by the California Air Resources Board ("CARB"). CARB's current low emission vehicle or "LEV II" emissions standards treat most light-duty trucks the same as passenger cars, and require both types of vehicles to meet stringent new emissions requirements. Like the EPA's Tier 2 emissions standards, CARB's LEV II vehicle emissions standards also present a difficult engineering challenge, and impose even greater barriers to the use of light-duty diesel technology.

Since 1990, the California program has included requirements for manufacturers to produce and deliver for sale zero-emission vehicles ("ZEVs"), which emit no regulated pollutants. Initially, the goal of the ZEV mandate was to require the production and sale of battery-electric vehicles, which were the only vehicles capable of meeting the zero-emission requirements and of being produced in significant volumes. Such vehicles have had narrow consumer appeal due to their limited range, reduced functionality, and relatively high cost.

Over time, the ZEV regulations have been modified several times to reflect the fact that the development of battery-electric technology progressed at a slower pace than anticipated by CARB. CARB has adopted amendments to the ZEV mandate that allow advanced-technology vehicles (e.g., hybrid electric vehicles or natural gas vehicles) with extremely low tailpipe emissions to qualify for ZEV credits. The rules also give some ZEV credits for so-called "partial zero-emission vehicles" ("PZEVs"), which can be internal combustion engine vehicles certified to very low tailpipe emissions and zero evaporative emissions. In response to a 2007 review of battery technology and other advanced vehicle technologies by a panel of independent experts, CARB finalized its most recent set of revisions to its ZEV regulations in February 2009, revising requirements for the 2012 model year and beyond. The current rules require increasing volumes of battery electric and other advanced technology vehicles with each passing model year. Ford plans to comply with the ZEV regulations through the sale of a variety of battery-electric vehicles, hybrid vehicles, plug-in hybrid vehicles, and PZEVs. Ford's compliance plan entails significant costs, and has a variety of inherent risks such as uncertain consumer demand for the vehicles and potential component shortages that may make it difficult to produce vehicles in sufficient quantities.

In 2004, CARB enacted standards limiting emissions of GHGs (e.g., carbon dioxide) from all new motor vehicles. CARB asserts that its vehicle emissions regulations provide authority for it to adopt such standards. Because GHG emission standards are functionally equivalent to fuel economy standards, issues associated with motor vehicle GHG regulation are discussed more fully in the "Motor Vehicle Fuel Economy" section below.

The Clean Air Act permits other states that do not meet National Ambient Air Quality Standards ("NAAQS") to adopt California's motor vehicle emissions standards no later than two years before the affected model year. In addition to California, thirteen states, primarily located in the Northeast and Northwest, have adopted the California standards (and eleven of these states also have adopted the ZEV requirements). These thirteen states, together with California, account for more than 30% of Ford's current light-duty vehicle sales volume in the United States. Other states are considering adoption of the California standards. The adoption of California standards by other states presents challenges for manufacturers, including the following: 1) managing fleet average emissions standards and ZEV mandate requirements on a state-by-state basis presents difficulties from the standpoint of planning and distribution; 2) market acceptance of some vehicles required by the ZEV program varies from state to state, depending on weather and other factors; and 3) the states adopting the California program have not adopted California's clean fuel regulations, which may impair the ability of vehicles in other states to meet California's in-use standards.

CARB has indicated that it is planning a complete overhaul of its LEV, ZEV, and GHG regulations; these changes would begin to take effect in the 2014-2015 model year time frame. CARB is expected to propose "LEV III" regulations in the spring of 2010 and finalize those rules by the spring of 2011. We anticipate that the LEV III rules will contain a host of new and more stringent requirements for tailpipe emissions, evaporative emissions, and component durability. Also in 2010, CARB is expected to propose modifications to its ZEV regulations that would integrate them with its GHG regulations to some extent. The ZEV program is expected to focus on requirements to produce ever-increasing numbers of vehicles using battery-electric, fuel cell, plug-in hybrid, and hydrogen internal combustion engine technologies. Under the new regulatory approach, manufacturers that produce higher numbers of vehicles specified as ZEVs may be allowed to meet less stringent fleet average GHG levels. The revised ZEV regulations would likely take effect beginning with the 2015 model year, replacing the existing rules for that model year and beyond.

In general, compliance with the revised regulations is likely to require costly actions that could have a substantial adverse effect on our sales volume and profits, depending on such factors as the specific emission levels required in the LEV III program and the volumes of advanced-technology vehicles required by the ZEV mandate. We are not able to assess the impact of these pending regulatory changes until specific proposals have been released.

U.S. Requirements – Warranty, Recall, and On-Board Diagnostics. The Clean Air Act permits the EPA and CARB to require manufacturers to recall and repair non-conforming vehicles (which may be identified by testing or analysis done by the manufacturer, the EPA or CARB), and we may voluntarily stop shipment of or recall non-conforming vehicles. The costs of related repairs or inspections associated with such recalls, or a stop-shipment order, could be substantial.

12

ITEM 1. Business (continued)

Both CARB and the EPA also have adopted on-board diagnostic ("OBD") regulations, which require a vehicle to monitor its emissions control system and notify the vehicle operator (via the "check engine" light) of any malfunction. These regulations have become extremely complicated, and require substantial engineering resources to create compliant systems. CARB's OBD rules for vehicles under 14,000 pounds gross vehicle weight include a variety of requirements that phased in between the 2006 and 2010 model years. CARB also has adopted engine manufacturer diagnostic requirements for heavy-duty gasoline and diesel engines that apply to the 2007 to 2009 model years, and EPA has adopted light-duty and heavy-duty OBD requirements that generally align with CARB's; the EPA also accepts certification to CARB's OBD requirements.

The complexity of the OBD requirements and the difficulties of meeting all of the monitoring conditions and thresholds make OBD approval one of the most challenging aspects of certifying vehicles for emissions compliance. CARB regulations contemplate this difficulty, and, in certain instances, permit manufacturers to comply by paying per-vehicle penalties in lieu of meeting the full array of OBD monitoring requirements. In other cases, CARB regulations provide for automatic recalls of vehicles that fail to comply with specified core OBD requirements. Many states have implemented OBD tests as part of inspection and maintenance programs. Failure of in-service compliance tests could lead to vehicle recalls with substantial costs for related inspections or repairs. CARB is in the process of finalizing amendments to the OBD regulations for 2010-2017 model years; these rules will relax or defer some requirements in the earlier model years, while phasing in some additional requirements in the later model years. CARB also is required to undertake a biennial review of its OBD regulations for light-duty vehicles, and this will occur in 2010. Automobile manufacturers will make suggestions for streamlining and improving the regulations, but it also is possible that CARB may alter the rules in ways that make it more difficult for manufacturers to comply.

European Requirements. European Union ("EU") directives and related legislation limit the amount of regulated pollutants that may be emitted by new motor vehicles and engines sold in the EU. Stringent new emissions standards ("Stage IV Standards") were applied to new passenger car certifications beginning January 1, 2005, and to new passenger car registrations beginning January 1, 2006. The comparable light commercial truck Stage IV Standards went into effect for new certifications beginning January 1, 2006, and for new registrations beginning January 1, 2007. This directive on emissions also introduced OBD requirements, more stringent evaporative emissions requirements, and in-service compliance testing and recall provisions for emissions-related defects that occur in the first five years or 100,000 kilometers of vehicle life. Failure of in-service compliance tests could lead to vehicle recalls with substantial costs for related inspections or repairs.

In 2007, the Commission published a proposed law for Stage V/VI emissions that further restricted the amount of particulate and nitrogen oxide emissions from diesel engines, and tightened some regulations for gasoline engines. Stage V emissions requirements began in September 2009 for vehicle registrations starting in January 2011. Stage VI requirements will apply from September 2014. Stage V particulate standards drove the deployment of particulate filters across diesels. Stage VI further reduces the standard for oxides of nitrogen. This will drive the need for additional diesel exhaust aftertreatment which will add cost and potentially impact the diesel CO_2 advantage. These technology requirements add cost and further erode the fuel economy cost/benefit advantage of diesel vehicles.

Vehicles equipped with SCR systems require a driver inducement and warning system to prevent the vehicle being operated for a significant period of time if the reductant (urea) dosing tank is empty. The Stage V/VI emission legislation also mandated the internet provision of all repair information (not just emissions-related); information also must be provided to diagnostic tool manufacturers. Some aspects of this regulatory scheme are still being finalized in an amendment package due for member state voting in early 2010.

13

ITEM 1. Business (continued)

Other National Requirements. Many countries, in an effort to address air quality concerns, are adopting previous versions of European or United Nations Economic Commission for Europe ("UN-ECE") mobile source emissions regulations. Some countries have adopted more advanced regulations based on the most recent version of European or U.S. regulations; for example, China plans to adopt the most recent European standards to be implemented starting from 2012 in large cities. Korea and Taiwan have adopted very stringent U.S.-based standards for gasoline vehicles, and European-based standards for diesel vehicles. Because fleet average requirements do not apply, some vehicle emissions control systems may have to be redesigned to meet the requirements in these markets. Furthermore, not all of these countries have adopted appropriate fuel quality standards to accompany the stringent emissions standards adopted. This could lead to compliance problems, particularly if OBD or in-use surveillance requirements are implemented. Japan has unique standards and test procedures, and implemented more stringent standards beginning in 2009. This may require unique emissions control systems be designed for the Japanese market. Canadian criteria emissions regulations are aligned with U.S. federal Tier 2 requirements.

In South America, Brazil, Argentina and Chile also are introducing more stringent emissions standards. Brazil approved Euro V emissions standards for heavy trucks starting in 2012, and is developing more stringent light vehicle limits starting in 2013. Argentina approved Euro IV emissions standards starting in 2009, and Euro V in 2012. Chile is proposing a new decontamination plan for its metropolitan region with more stringent emission requirements based on U.S. or EU regulations.

Fuel Quality and Content

U.S. Requirements. Currently, EPA regulations allow conventional gasoline to contain up to 10% ethanol ("E10"). We and other manufacturers design gasoline-powered vehicles to be able to run on E10 fuel for the full useful life of the vehicle. In 2008 and 2009, a coalition of ethanol producers filed a petition with the EPA seeking approval for an increase in the amount of allowable ethanol content in gasoline to 15% ("E15"). Under the Clean Air Act, the EPA may approve changes to gasoline only if it determines that the change will not cause or contribute to the failure of emission control devices or systems. The EPA has indicated that it is considering seriously this petition and may approve E15 fuel for use in automobiles manufactured as far back as the 2001 model year. It is not entirely clear how the EPA would implement and enforce such a decision. The automobile industry has concerns about the approval of E15 fuel for use in gasoline-powered vehicles, especially with respect to past model-year vehicles. Ethanol is more corrosive than pure gasoline, and fuel containing more than 10% ethanol may detrimentally affect vehicle durability if the vehicle's fuel system has not been designed to accommodate it. The addition of more ethanol to fuel has the potential to result in increased customer dissatisfaction and/or warranty claims for fuel system failures, OBD system warnings, and other problems. Older vehicles are likely to be more susceptible to such problems. We and others in the automobile industry have commented on the E15 petition, and we will continue to track this issue and provide relevant information to the EPA.

Biomass-based diesel fuel, known as "biodiesel," also is becoming more common in the United States. Biodiesel typically is a combination of petroleum-based diesel fuel and fuel derived from "biomass" (biological material from plant or animal sources). Biodiesel is approved by the EPA as well as a number of U.S. state agencies for use in motor vehicles. While diesel fuel containing 5% biomass-based fuel is now common, higher-concentration blends are becoming more common as well. The content and quality of biodiesel fuels varies considerably. Diesel fuel that contains higher concentrations of biomass-based fuels, and/or that contains lower-quality ingredients, can have adverse effects on the durability and performance of diesel engines and on the exhaust emissions from such engines.

European Requirements. In general, the use of automotive fuel derived from biomass is increasing in the EU, primarily driven by the desire to reduce carbon emissions. Fuel content requirements have been amended to allow "B5" diesel (including up to 5% biomass-based fuel) and "E5" gasoline (including up to 5% ethanol). France is moving forward with the introduction of "E10" gasoline (including up to 10% ethanol), and considering "B8" diesel (including up to 8% biomass-based fuel). In parallel, a renewable energy directive sets out long-term (i.e., 2020) targets for renewable energy. Currently, the automotive industry and the oil industry are engaged in establishing a set of potential fuel scenarios and assessing most likely routes to success. In many other countries, fuel may contain biomass from locally-produced crops, with varying quality and stability; high-quality fuels are essential to support clean vehicles throughout their lifetime.

ITEM 1. Business (continued)

Stationary Source Emissions Control

U.S. Requirements. The Clean Air Act requires the EPA to periodically review and update its NAAQS, and to designate whether counties or other local areas are in compliance with the new standards. If an area or county does not meet the new standards ("non-attainment areas"), the state must revise its implementation plans to achieve attainment. In 2006, the EPA issued a final rule increasing the stringency of the NAAQS standard for fine particulate matter (particles 2.5 micrometers in diameter or less), while maintaining the existing standard for coarse particulate matter (particles between 2.5 and 10 micrometers in diameter). The EPA now is in the process of developing new NAAQS for fine particulate matter and ozone. The EPA estimates that the new standard will put approximately 124 counties into non-attainment status for fine particulate matter. Various parties have filed petitions for review of the final particulate matter rules in the U.S. Court of Appeals for the District of Columbia Circuit, in most cases seeking more stringent standards for both fine and coarse particulate matter. In February 2009, the Court ordered the EPA to reconsider the fine particulate standards. The EPA plans to issue a new proposed fine particulate NAAQS standard by July 2010, and a final rule by April 2011. We expect the revised standards to be more stringent than the 2006 standard.

In March 2008, the EPA promulgated rules setting a new ozone NAAQS at a level more stringent than the previous standard. The EPA estimates that as a result of the new standard, the number of counties out of attainment for the ozone NAAQS could triple. A number of states and environmental groups filed suit seeking to compel the EPA to issue an even more stringent ozone standard. The EPA agreed to reconsider the rule and issued a new proposed rule in January 2010. In the new proposal, the EPA is considering a primary NAAQS standard of 0.060 – 0.070 parts per million measured over eight hours (by comparison, the 2008 rule was set at 0.075 parts per million). Depending upon the standard that is ultimately chosen, approximately 76% to 96% of all areas would be in non-attainment. A final rule is expected later this year.

After issuance of the final ozone and particulate matter NAAQS and designation of non-attainment areas, areas that do not meet the standards will need to revise their implementation plans to require additional emissions control equipment and impose more stringent permit requirements on facilities in those areas. The existence of additional non-attainment areas can lead to increased pressure for more stringent mobile source emissions standards as well. The cost of complying with the requirements necessary to help bring non-attainment areas into compliance with the revised NAAQS could be substantial.

The EPA proposed a new hourly NAAQS for oxides of nitrogen (as measured by ambient concentrations of nitrogen dioxide ("NO2")) in 2009, and adopted a final NAAQS in January 2010. The new rule will result in a substantial number of new non-attainment areas for oxides of nitrogen. The NAAQS also incorporated a plan for monitoring NO2 concentrations using a newly-developed roadside monitoring network. The roadside monitoring plan may tend to impose additional scrutiny on mobile sources of NO2 relative to other sources that contribute to overall ambient levels. The revised NAAQS for oxides of nitrogen may lead to additional NO2 standards for both stationary and mobile sources that could be costly and technologically challenging.

The EPA also issued a final rule on September 22, 2009 establishing a national GHG reporting system. Facilities with production processes that fall into certain industrial source categories, or that contain boilers and process heaters and emit 25,000 or more metric tons per year of GHGs, will be required to submit annual GHG emission reports to the EPA. Facilities subject to the rule were required to begin collecting data as of January 1, 2010, and submit an annual report for calendar year 2010 by March 31, 2011. Many of our facilities in the United States will be required to submit reports. Under the rule, we also will be required to report emissions of certain GHGs from heavy-duty engines and vehicles; these requirements phase in beginning with the 2011 model year.

On September 30, 2009, the EPA issued a proposed rule (the "PSD Tailoring Rule") that would define the circumstances under which certain GHGs would be regulated under the Clean Air Act's New Source Review - Prevention of Significant Deterioration ("PSD") rules and Title V operating permits program. The proposed PSD Tailoring Rule was issued due to concerns that, once the EPA begins regulating GHGs from motor vehicles, GHGs will become regulated air pollutants under PSD and Title V, triggering permit requirements for many small sources not currently regulated under those programs. The PSD Tailoring Rule proposes to address this by setting a 25,000 ton per year GHG emission level as the threshold for inclusion in the PSD and Title V permit programs. The proposal does not specify what the best-available control technology would be for controlling GHG emissions, but indicates that the agency would evaluate this and other applicability issues during the first five years after issuance of the final rule. After this five-year period, the EPA would consider lowering the applicability threshold.

ITEM 1. Business (continued)

Depending upon the scope of the final PSD Tailoring Rule, a large percentage of our facilities could be required to obtain PSD and Title V permits for GHG emissions. These requirements could lead to the installation of additional pollution control equipment, potential delay in the issuance of permits due to changes at a facility, and increased operating costs.

European Requirements. In Europe, environmental legislation is driven by EU law, in most cases in the form of EU directives that must be converted into national legislation. All of our European plants are located in the EU region, with the exception of one in St. Petersburg, Russia and Ford Otomotiv Sanayi Anonim Sirketi ("Ford Otosan") in Turkey. One of the core EU directives is the Directive on Integrated Pollution Prevention Control ("IPPC"). The IPPC regulates the permit process for facilities, and thus the allowed emissions from these facilities. As in the United States, engine testing, surface coating, casting operations, and boiler houses all fall under this regime. The Solvent Emission Directive which came into effect in October 2007 primarily affects vehicle manufacturing plants, which must upgrade their paint shops to meet the new requirements. The cost of complying with these requirements could be substantial.

The European Emission Trading Scheme requires large emitters of carbon dioxide within the EU to monitor and annually report CO2 emissions, and each is obliged every year to return an amount of emission allowances to the government that is equivalent to its CO2 emissions in that year. The impact of this regulation on Ford Europe primarily involves our on-site combustion plants, and we expect that compliance with this regulation may be costly as the system foresees stringent CO2 emission reductions in progressive stages. Periodic emission reporting also is required of EU Member States, in most cases defined in the permits of the facility. The Release and Transfer Register requires more reporting regarding emissions into air, water and soil than its precursor. The information required by these reporting systems is publicly available on the Internet.

Motor Vehicle Safety

U.S. Requirements. The National Traffic and Motor Vehicle Safety Act of 1966 (the "Safety Act") regulates motor vehicles and motor vehicle equipment in the United States in two primary ways. First, the Safety Act prohibits the sale in the United States of any new vehicle or equipment that does not conform to applicable motor vehicle safety standards established by the National Highway Traffic Safety Administration ("NHTSA"). Meeting or exceeding many safety standards is costly, in part because the standards tend to conflict with the need to reduce vehicle weight in order to meet emissions and fuel economy standards. Second, the Safety Act requires that defects related to motor vehicle safety be remedied through safety recall campaigns. A manufacturer is obligated to recall vehicles if it determines that the vehicles do not comply with a safety standard. Should we or NHTSA determine that either a safety defect or a noncompliance exists with respect to any of our vehicles, the cost of such recall campaigns could be substantial. As of February 12, 2010, there were pending before NHTSA six investigations relating to alleged safety defects or potential compliance issues in our vehicles.

The Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users was signed into law in 2005; the Cameron Gulbransen Kids Transportation Safety Act of 2007 mandates that NHTSA enact regulations related to rearward visibility and brake-to-shift interlock, and mandates that NHTSA consider regulations related to automatic reversal functions on power windows. Both Acts establish substantive, safety-related rulemaking mandates for NHTSA that already have resulted in or will result in new regulations and product content requirements. In 2009, NHTSA published a final rule related to roof strength that increased the load requirements, added new performance requirements, and extended the rule's application to a wider range of vehicles. Also in 2009, NHTSA issued Notices of Proposed Rulemaking concerning ejection mitigation, automatic reversal function on power windows, and rear visibility (advance notice provided, with the final notice expected in the spring of 2010). In addition, the Department of Transportation has identified driver distraction as its top priority in 2010, and new regulatory activity in this area is anticipated. Each of these regulatory actions may add substantial cost to the design and development of new products, depending on the final rules adopted.

Foreign Requirements. Canada, the EU, and countries in South America, the Middle East, and Asia Pacific Africa markets also have safety standards and regulations applicable to motor vehicles, and are likely to adopt additional or more stringent requirements in the future. Recent examples of such legislation for the EU include the adoption and mandatory fitment requirement for the new UN-ECE regulation for tire-pressure monitoring systems ("TPMS"); this regulation differs from the North American regulation in that it addresses both safety and environmental aspects of TPMS. In addition, the European General Safety Regulation was introduced that replaces existing European Directives with UN-ECE regulations. These UN-ECE regulations will be required for the European Type Approval process. Some implementing measures are still under development and expected to be finalized by mid-2010; this includes new definitions for masses and dimensions, and for vehicle categories. EU regulators also are expected to focus on active safety features such as lane departure warning systems, electronic stability control, and automatic brake assist. Globally, governments generally have been adopting EU-based regulations with minor variations to address local concerns. The difference between North American and EU-based regulations adds complexity and costs to the development of global platform vehicles; we continue to support efforts to harmonize regulations to reduce vehicle design complexity while providing a common level of safety performance.

ITEM 1. Business (continued)

Global Technical Regulations ("GTRs") developed under the auspices of the United Nations ("UN") continue to have increasing impact on automotive safety activities. The most recently adopted GTRs on Electronic Stability Control, Head Restraints, and Pedestrian Protection by the UN "World Forum for the Harmonisation of Vehicle Regulations" are now in different stages of national implementation. While global harmonization is fundamentally supported by the auto industry in order to reduce complexity, national implementation yet may introduce subtle differences into the system.

In the Asia Pacific Africa region, China is expected to focus on parts-marking and anti-theft requirements. Countries within this region continue to adopt European requirements, with possible local modifications. Among other measures, Japanese regulators are pursuing accident avoidance measures for vulnerable road users.

South American countries are implementing requirements for features such as airbags, safety belts, and anti-lock braking systems ("ABS") consistent with U.S. and European requirements. Examples of more stringent safety requirements in South America include the approval in Brazil of more severe impact requirements, the mandatory use of front airbags and ABS, and the introduction of mandatory vehicle tracking and blocking systems. In Argentina, regulations will address mandatory front airbags and ABS.

Canadian safety legislation and regulations are similar to those in the United States, and the differences that do exist generally have not prevented the production of common product for both markets. Recent amendments to Canadian standards have incorporated UN-ECE standards as a compliance option, where equivalency exists.

For each of these markets, the possibility of more stringent or different requirements exists, and the cost to comply with new standards may be substantial.

Motor Vehicle Fuel Economy

There are ever-increasing demands from regulators, public interest groups, and consumers for improvements in motor vehicle fuel economy, for a variety of reasons. These include concerns over U.S. energy security, concerns over GHG emissions, and consumer preferences for more fuel-efficient vehicles. In recent years, we have made significant changes to our product cycle plan to improve the overall fuel economy of vehicles we produce in upcoming model years. These cycle plan changes involve both the deployment of various fuel-saving technologies, some of which have been announced publicly, and changes to the overall fleet mix of vehicles we offer, in response to a recent increase in demand for smaller vehicles. There are limits on our ability to achieve fuel economy improvements over a given time frame, however, primarily related to the cost and effectiveness of available technologies, consumer acceptance of new technologies and changes in vehicle mix, willingness of consumers to absorb the additional costs of new technologies, the appropriateness (or lack thereof) of certain technologies for use in particular vehicles, and the human, engineering and financial resources necessary to deploy new technologies across a wide range of products and powertrains in a short time.

Our ability to comply with a given set of fuel economy standards (including GHG emissions standards, which are functionally equivalent to fuel economy standards), depends on a variety of factors, including: 1) prevailing economic conditions, including fluctuations in fuel prices; 2) the alignment of the standards with actual consumer demand for vehicles; and 3) adequate lead time to make the necessary product changes. Consumer demand for vehicles tends to fluctuate based on a variety of external factors. Consumers are more likely to pay for vehicles with fuel-efficient technologies (such as hybrid-electric vehicles) when the economy is robust and fuel prices are relatively high. When the economy is in recession and/or fuel prices are relatively low, many consumers may put off new vehicle purchases altogether, and among those who do purchase new vehicles, demand for higher-cost technologies is not likely to be strong. If consumers demand vehicles that are relatively large, have high performance, and/or are feature-laden, while regulatory standards require the production of vehicles that are smaller and more economical, the mismatch of supply and demand would have an adverse effect on both regulatory compliance and our profitability. Moreover, if regulatory requirements call for rapid, substantial increases in fleet average fuel economy (or decreases in fleet average GHG emissions), we may not have adequate resources and time to make major product changes across most or all of our vehicle fleet (assuming the necessary technology can be developed).

ITEM 1. Business (continued)

U.S. Requirements – Federal Standards. Federal law requires that light-duty vehicles meet minimum corporate average fuel economy standards set by NHTSA. A manufacturer is subject to potentially substantial civil penalties if it fails to meet the CAFE standard in any model year, after taking into account all available credits for the preceding three model years and expected credits for the three succeeding model years.

Federal law established a passenger car CAFE standard of 27.5 miles per gallon for 1985 and later model years; light truck standards are set by NHTSA under a rulemaking process. In 2006, NHTSA issued a final rule changing the structure of the light-truck fuel economy standards for model year 2008 and beyond. The final rule employs a new "reformed" approach to fuel economy standards in which each manufacturer's CAFE obligation is based on the specific mix of vehicles it sells. A manufacturer's light truck CAFE is now calculated on a basis that relates fuel economy targets to vehicle size. These fuel economy targets become increasingly stringent with each new model year. Through 2010, manufacturers have the option of complying with the "reformed" program or an alternative set of "unreformed" standards promulgated by NHTSA. Beginning with the 2011 model year, all manufacturers must comply under the reformed program. Also in model year 2011 and beyond, the truck CAFE standards will apply for the first time to certain classes of heavier passenger vehicles (SUVs and passenger vans with a gross vehicle weight between 8,500 and 10,000 pounds, or with a gross vehicle weight below 8,500 pounds and a curb weight above 6,000 pounds).

In December 2007, Congress enacted new energy legislation restructuring the CAFE program and requiring NHTSA to set new CAFE standards beginning with the 2011 model year. The key features of the bill are as follows: 1) it maintains the current distinction between cars and trucks; 2) it requires NHTSA to set "reformed" CAFE standards for cars along the lines of the reformed truck standards described above; 3) it calls for NHTSA to set car and truck standards such that the combined fleet of cars and trucks in the United States achieves a 35 mile per gallon industry average by model year 2020; 4) it allows manufacturers to trade credits among their CAFE fleets; and 5) it retains CAFE credits for the manufacture of flexible-fuel vehicles, but phases them out by model year 2020. Domestic passenger cars also are subject to a minimum fleet average of the greater of 27.5 miles per gallon or 92% of NHTSA's projected fleet average fuel economy for domestic and imported passenger cars for that model year. In 2008, NHTSA issued a Notice of Proposed Rulemaking to establish CAFE standards for the 2011-2015 model years, but the Bush Administration decided not to promulgate a final rule, and it was left to the incoming Obama Administration to establish CAFE standards for these model years. In March 2009, NHTSA published a final rule setting CAFE standards for the 2011 model year, and indicated that it would address 2012-2016 model year CAFE standards in a separate rulemaking.

Pressure to increase CAFE standards stems in part from concerns about the impact of carbon dioxide and other GHG emissions on the global climate. In 1999, a petition was filed with the EPA requesting that it regulate carbon dioxide emissions from motor vehicles under the Clean Air Act. This is functionally equivalent to imposing fuel economy standards, because the amount of carbon dioxide emitted by a vehicle is directly proportional to the amount of fuel consumed. The EPA denied the petition on the grounds that the Clean Air Act does not authorize the EPA to regulate GHG emissions because they did not constitute "air pollutants," and only NHTSA is authorized to regulate fuel economy under the CAFE law. A number of states, cities, and environmental groups filed for review of the EPA's decision.

The matter was eventually brought before the U.S. Supreme Court, which ruled that GHGs did constitute "air pollutants" subject to regulation by the EPA pursuant to the Clean Air Act. Upon taking office, the Obama Administration indicated its intention to promulgate rules to control mobile source GHG emissions. Under the Clean Air Act, EPA must issue a determination that GHGs endanger the public health and welfare in order for EPA to finalize GHG regulations for both mobile and stationary sources. In December 2009, EPA issued its endangerment finding for GHGs. In early 2010, several industry groups filed a petition for review of the endangerment finding;

nevertheless, EPA is proceeding with rulemaking activity to regulate GHGs.

As described more fully below, the Obama Administration has brokered an agreement in principle for a national program of mobile source CAFE and GHG regulation for light-duty vehicles for the 2012-2016 model years. Before describing this program, it is necessary to discuss the GHG standards for light-duty vehicles promulgated by California and other states.

To date, fuel economy regulations have applied primarily to light-duty vehicles. Energy legislation enacted in 2007 directed the National Academy of Sciences ("NAS") to undertake a study of the fuel efficiency of heavy-duty vehicles (vehicles with a gross vehicle weight rating over 8,500 pounds). Once the NAS study is completed, the law directs NHTSA to develop fuel efficiency regulations for these vehicles. Such regulations are unlikely to take effect before the 2016 model year. Separately, the EPA has begun work on the development of GHG standards for heavy-duty vehicles. The EPA has indicated that it will release a set of proposed rules in 2010, and the GHG standards for heavy-duty vehicles may take effect as early as the 2014 model year.

ITEM 1. Business (continued)

U.S. Requirements – California and Other State Standards. In July 2002, California enacted Assembly Bill 1493 ("AB 1493"), a law mandating that CARB promulgate GHG standards for light-duty vehicles beginning with model year 2009. In September 2004, CARB adopted California GHG emissions regulations applicable to 2009-2016 model-year cars and trucks, effectively imposing more stringent fuel economy standards than those set by NHTSA. These regulations imposed standards equivalent to a CAFE standard of more than 43 miles per gallon for passenger cars and small trucks, and approximately 27 miles per gallon for large light trucks and medium-duty passenger vehicles by model year 2016.

Whenever California adopts new or modified vehicle emissions standards, the state must apply to the EPA for a waiver of preemption of the new or modified standards under Section 209 of the Clean Air Act. After California's request for a waiver of its AB 1493 standards was initially denied in 2008, the Obama Administration granted the waiver in 2009. The grant of the waiver is being challenged in federal court by the National Automobile Dealers Association and the U.S. Chamber of Commerce. Under the Clean Air Act, other states may adopt and enforce emissions regulations for which California receives a waiver. The following states have adopted CARB's GHG standards: New York, Massachusetts, Maine, Vermont, Rhode Island, Connecticut, New Jersey, Pennsylvania, Oregon, Washington, Maryland, New Mexico, and Arizona. Several other states are known to be considering the adoption of such rules.

The prospect of state-by-state regulation of motor vehicle GHG emissions and fuel economy is very troubling to the automobile industry, which has significant concerns about an unwieldy patchwork of regulations and the likely need to implement product restrictions in some states in order to comply. Concerns about product restrictions were driven in part by the fact that the AB 1493 standards became increasingly more stringent as time passed, with especially steep increases in some model years. In 2004, the Alliance and other plaintiffs filed suit in federal district court in California, seeking to overturn the AB 1493 standards on the grounds that they are preempted by the federal CAFE law. Similar suits were filed in Vermont and Rhode Island challenging those states' adoption of California's AB 1493 rules. District Courts in California and Vermont ruled that the state GHG rules were not preempted; those decisions were appealed by the auto industry. The District Court in Rhode Island has not yet issued a ruling.

U.S. Requirements – "One National Standard" for Model Years 2012-2016. By early 2009, it had become apparent that the United States was headed toward a series of overlapping regulations aimed at motor vehicle fuel economy and GHGs. NHTSA was already setting federal CAFE standards, EPA was planning to regulate motor vehicle GHG emissions at the federal level, and California and other states were getting set to regulate motor vehicle emissions at the state level if and when a Clean Air Act waiver was granted. In order to avoid this confusing patchwork of regulations, President Obama announced in May 2009 an agreement in principle among the automobile industry, the federal government, and the state of California concerning motor vehicle GHG emissions and fuel economy regulations. Under the agreement in principle, California would enforce its GHG standards for the 2009-2011 model years, and defer to a set of federal standards for the 2012-2016 model years. With respect to the 2009-2011 model years, California agreed to modify its regulations so that: 1) manufacturers would be able to use federal test procedures to determine compliance with California's standards, and 2) compliance would be determined based on the fleet average emissions across all states that have adopted the California standards. With respect to the 2012-2016 model years, EPA and NHTSA agreed to conduct joint rulemaking to establish GHG standards and fuel economy standards that align with each other. California agreed to modify its regulations to provide that compliance with the 2012-2016 federal requirements will constitute compliance with the California regulations for California and any states that have adopted California requirements. Manufacturers also agreed to seek an immediate stay of pending litigation challenging EPA's waiver decision and the right of states to issue motor vehicle GHG standards. Assuming California and the federal government carry out their obligations under the agreement in principle, manufacturers agreed to dismiss the pending litigation.

Since the May 2009 announcement, various steps have been taken to implement the agreement in principle. The automobile industry sought and obtained a stay of the federal court litigation in California, Vermont, and Rhode Island, pending the issuance of final rules consistent with the agreement in principle. The EPA has issued a revised decision granting a Clean Air Act waiver for California's GHG regulations. The automotive industry has refrained from challenging that decision, although the waiver decision has been challenged by the National Automobile Dealers Association and the U.S. Chamber of Commerce. CARB has adopted some of the modifications to its regulations that will be required to implement the agreement in principle, with additional modifications expected in 2010. The EPA and NHTSA have promulgated a joint Notice of Proposed Rulemaking setting forth their proposal for harmonizing GHG and fuel economy standards for the 2012-2016 model years, and interested members of the public, including Ford and the Alliance, have filed comments on the proposed rules. The rules are expected to be finalized on or before April 1, 2010.

ITEM 1. Business (continued)

The agreement in principle would result in federal GHG and fuel economy standards that are very challenging. The proposed rules would require new light-duty vehicles to achieve an industry average fuel economy of approximately 35.5 miles per gallon by the 2016 model year. Assuming the agreement in principle is implemented as envisioned, we believe that we will be able to comply with the California GHG standards for the 2009-2011 period, and the harmonized federal CAFE/GHG standards for the 2012-2016 period, as a result of aggressive actions to improve fuel economy built into our cycle plan. In contrast, we were projecting that we would be unable to comply with the state GHG standards throughout the 2012-2016 period without undertaking costly product restrictions in some states. Key differences that enable us to project compliance with the national program include: 1) the national program standards, although very stringent, do not increase as steeply as the state standards they are replacing; and 2) the national program allows us to determine compliance based on nationwide sales rather than state-by-state sales. The ability to average across the nation eliminates state-to-state sales variability and is a critical element for Ford and the auto industry.

The agreement in principle does not address what will happen in the 2017 model year and beyond. California has already indicated that it will promulgate a new set of state-level GHG standards that will take effect beginning with the 2017 model year; we expect that a proposed rule will be issued in 2010. Moreover, there is no commitment that NHTSA and the EPA will continue to harmonize the federal CAFE and GHG standards in 2017 and beyond. Thus, it is possible that there will be a return to three different and conflicting regimes for regulating fuel economy and GHG emissions in 2017. Compliance with all three, or even two, of these regimes would at best add enormous complexity to our planning processes, and at worst be virtually impossible. If any of one these regulatory regimes, or a combination of them, impose and enforce extreme fuel economy or GHG standards, we likely would be forced to take various actions that could have substantial adverse effects on our sales volume and profits. Such actions likely would include restricting offerings of selected engines and popular options; increasing market support programs for our most fuel-efficient cars and light trucks; and ultimately curtailing the production and sale of certain vehicles such as family-size, luxury, and high-performance cars, utilities, and full-size light trucks, in order to maintain compliance. These actions might need to occur on a state-by-state basis, in response to the rules adopted by California and other states, or they may need to be taken at the national level if either the CAFE standards or the EPA GHG standards are excessively stringent. Therefore, we believe that for 2017 and beyond, it is essential to maintain a single national program that regulates motor vehicle GHGs and fuel economy in a harmonized and workable fashion. We will work toward legislative and regulatory solutions that would establish such a national program on a permanent basis.

In September 2006, California also enacted the Global Warming Solutions Act of 2006 (also known as Assembly Bill 32 ("AB 32")). This law mandates that statewide GHG emissions be capped at 1990 levels by the year 2020, which would represent a significant reduction from current levels. It also requires the monitoring and annual reporting of GHG emissions by all "significant" sources, and delegates authority to CARB to develop and implement GHG emissions reduction measures. AB 32 also provides that, if the AB 1493 standards do not take effect, CARB must implement alternative regulations to control mobile sources of GHG emissions to achieve equivalent or greater reductions than mandated by AB 1493. Although the full ramifications of AB 32 are not known, CARB has issued proposed rules under AB 32 that would require so-called "cool glazing" for automotive glass. The glazing requirements are intended to promote lower interior temperatures in vehicles, thereby reducing the air conditioning load and leading to fewer GHG emissions. The current proposal would require significant expenditures of resources to meet standards that would take effect beginning in the 2012 model year, and increase in stringency for the 2016 model year. We are evaluating our ability to comply with the proposed standards, and will comment on the proposal along with the rest of the automobile industry. CARB is expected to finalize its regulations in 2010.

European Requirements. In December 2008, the EU approved a regulation of passenger car carbon dioxide beginning in 2012 which limits the industry fleet average to a maximum of 130 g/km, using a sliding scale based on vehicle weight. This regulation provides different targets for each manufacturer based on its respective fleet of vehicles according to vehicle weight and carbon dioxide output. Limited credits are available for CO2 off-cycle actions ("eco-innovations"), certain alternative fuels, and vehicles with CO2 emissions below 50 g/km. For manufacturers failing to meet targets, a penalty system will apply with fees ranging from €3 to €95 per each g/km shortfall in the years 2012-18, and €95 for each g/km shortfall for 2019. Manufacturers would be permitted to use a pooling agreement between wholly-owned brands to share the burden. Further pooling agreements between different manufacturers are also possible, although it is not clear that they will be of much practical benefit under the regulations. For 2020, an industry target of 95 g/km has been set. This target will be further detailed in a review in 2013.

ITEM 1. Business (continued)

In separate legislation, so-called "complementary measures" are expected. These may include, for example, tire-related requirements and requirements related to gearshift indicators, fuel economy indicators, and more-efficient low-CO_2 mobile air conditioning systems. These proposals are likely to be finalized in 2010. The Commission has proposed a target for commercial light duty vehicles to be at an industry average of 175 g/km (with phase-in 2014 – 2016), and potentially more stringent long-term targets (proposed to be at 135 g/km in 2020); several EU Members have raised concerns about these targets. The EU proposal also includes a penalty system, "super-credits" for vehicles below 50 g/km, and limited credits for CO_2 off-cycle actions (“eco-innovations”).

Some European countries have implemented or are still considering other initiatives for reducing carbon dioxide emissions from motor vehicles, including fiscal measures. For example, the United Kingdom, France, Germany, Spain, Portugal, and the Netherlands among others have introduced taxation based on carbon dioxide emissions. The EU CO_2 requirements are likely to trigger further measures.

Other National Requirements. Some Asian countries (such as China, Japan, India, South Korea, and Taiwan) also have adopted fuel efficiency or labeling targets. For example, Japan has fuel efficiency targets for 2015 which are even more stringent than the 2010 targets, with incentives for early adoption. China implemented second-stage fuel economy targets from 2008, and is working on the third stage for 2012 phase-in. All of these fuel efficiency targets will impact the cost of technology of our models in the future.

The Canadian federal government announced that vehicle GHG emissions will be regulated under the Canadian Environmental Protection Act, beginning with the 2011 model year. The standards will track the new U.S. CAFE standards for the 2011 model year and U.S. EPA GHG regulations for 2012 through 2016 model years. Several provinces, including British Columbia and Nova Scotia, have publicly announced an intention to impose GHG standards at the provincial level, likely modeled after California's AB 1493 approach. In December 2009, Quebec enacted province-specific regulations setting fleet average GHG standards for the 2010-2016 model years effective January 14, 2010. Although the announcement indicated that Quebec's standards are based on the California AB 1493 rules, there are a number of key differences. The Quebec program appears to define vehicle fleets differently than either the U.S. federal government or California, does not apply attribute-based standards, does not allow for alternative means of compliance (e.g., industry credit for new and advanced technologies), and does not take into account the fact that California has entered into an agreement in principle supporting "One National Program" in the United States for the 2012-2016 model years. If a manufacturer fails to meet the required fleet average standard, the provincial government has established a formula to determine the level of non-compliance within the fleet and impose a fee. We are analyzing the new regulations, and anticipate that some level of fees may be imposed under the regulations as written. Quebec recently indicated, however, that it will publish interpretation guidelines designed to clarify that the definition of vehicle fleets is intended to match California's, which would reduce significantly the potential for incurring fees under the new regulation. In addition, the provincial government has indicated that it will reevaluate the situation when the Canadian federal regulation is in place and, if the federal requirements are satisfactory, accept federal compliance as compliance with the Quebec requirements.

Chemical Regulation and Substance Restrictions

U.S. Requirements. Several states are considering moving beyond a substance-by-substance approach to managing substances of concern, and are moving towards adopting green chemistry legislation that give state governments broad regulatory authority to determine, prioritize, and manage toxic substances. In 2008, California became the first state to enact a broad Green Chemistry Program, which will commence regulations in 2011. This new law may impose new vehicle end-of-life responsibilities on vehicle manufacturers, and restrict, ban, or require labeling of certain substances. This broad authority to regulate substances could require changes in product chemistry, and greater complication of fleet mix. Other states, such as Maine, are considering so-called "product stewardship" bills that would require sellers of products to establish elaborate plans, approved by the state agency, to address life-cycle impacts of each product. These programs would impose extensive reporting and auditing requirements, along with penalties for non-compliance. If enacted, compliance with such legislation would be costly and resource-intensive.

ITEM 1. Business (continued)

European Requirements. The Commission has implemented its regulatory framework for a single system to register, evaluate, and authorize the use of chemicals with a production volume above one ton per year ("REACH"). The rules took effect on June 1, 2007, with a preparatory period through June 1, 2008 followed by a six-month registration phase. Compliance with the legislation is likely to be administratively burdensome for all entities in the supply chain, and research and development resources may be redirected from "market-driven" to "REACH-driven" activities. We and our suppliers have registered those chemicals that were identified to fall within this requirement. The regulation also will accelerate restriction or banning of certain chemicals and materials, which could increase the costs of certain products and processes used to manufacture vehicles and parts. We are implementing and ensuring compliance within Ford and our suppliers through a common strategy together with the global automotive industry.

The European End-of-Life Vehicle directive and EU Battery directive prohibit the use of the heavy metals lead, cadmium, hexavalent chromium, and mercury with limited exceptions that are regularly scrutinized. These regulations also include broad manufacturer responsibility for disposing of vehicle parts and substances, including taking vehicles back without charge for disposal and recycling requirements. This legislation has triggered similar regulatory actions around the globe, including, for example, in China, Korea, and possibly India in the near future. Other European regulatory developments will ban the use of refrigerants with a "global warming potential" higher than 150 on the European scale (which would include the refrigerant commonly in use) beginning in 2011 in new vehicle models and in 2017 for all new vehicles, which some other governments, such as Japan, have been closely monitoring and are likely to adopt in some form. This European restriction is expected to lead to a general change in refrigerants for future vehicles worldwide.

Regulations requiring a globally-harmonized system of classification and labeling of chemicals also took effect in January 2009. This regulation is the implementation of the UN regulation UN-GHS, and should harmonize the classification and labeling of chemicals worldwide with impact of existing storage facilities and labeling.

Pollution Control Costs

During the period 2010 through 2014, we expect to spend approximately $170 million on our North American and European facilities to comply with stationary source air and water pollution and hazardous waste control standards that are now in effect or are scheduled to come into effect during this period. Of this total, we currently estimate spending approximately $29 million in 2010 and $35 million in 2011. These amounts exclude projections for Volvo, which is held for sale. Specific environmental expenses are difficult to isolate because expenditures may be made for more than one purpose, making precise classification difficult.

EMPLOYMENT DATA

The approximate number of individuals employed by us and entities that we consolidated (including entities that we did not control) as of December 31, 2009 and 2008 was as follows (in thousands):

	2009	2008
Automotive		
Ford North America	74	79
Ford South America	14	15
Ford Europe	66	70
Ford Asia Pacific Africa	15	15
Volvo	21	24
Financial Services		
Ford Credit	8	10

Total	198	213

The year-over-year decrease in employment levels primarily reflects our implementation of global personnel-reduction programs.

Substantially all of the hourly employees in our Automotive operations are represented by unions and covered by collective bargaining agreements. In the United States, approximately 99% of these unionized hourly employees in our Automotive sector are represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW" or "United Auto Workers"). Approximately two percent of our U.S. salaried employees are represented by unions. Most hourly employees and many non-management salaried employees of our subsidiaries outside of the United States also are represented by unions.

We have entered into collective bargaining agreements with the UAW, and the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW"). In 2007, we negotiated with the UAW a transformational agreement, enabling us to improve our competitiveness and establishing a Voluntary Employee Benefit Association ("VEBA") trust ("UAW VEBA Trust") to fund our retiree health care obligations.

In March 2009, Ford-UAW membership ratified modifications to the existing collective bargaining agreement that significantly improved our competitiveness, saving us up to $500 million annually and bringing us near to competitive parity with the U.S. operations of foreign-owned automakers. The operational changes affected wage and benefit provisions, productivity, job security programs, and capacity actions, allowing us to increase manufacturing efficiency and flexibility. In addition, modifications to the UAW VEBA Trust allowed for smoothing of payment obligations and provided us the option to satisfy up to approximately 50% of our future payment obligations to the UAW VEBA Trust in Ford Common Stock; see "Liquidity and Capital Resources" in Item 7 and Note 18 of the Notes to the Financial Statements for additional discussion of the UAW VEBA Trust.

On November 1, 2009, the CAW announced that a majority of its members employed by Ford Canada had voted to ratify modifications to the terms of the existing collective bargaining agreement between Ford Canada and the CAW. The modifications are patterned off of the modifications agreed to by the CAW for its agreements with the Canadian operations of General Motors Company and Chrysler LLC and are expected to result in annual cost savings. The agreement also confirms the end of production at the St. Thomas Assembly Plant in 2011.

On November 2, 2009, the UAW announced that a majority of its members employed by Ford had voted against ratification of a tentative agreement that would have further modified the terms of the existing collective bargaining agreement between Ford and the UAW. These latest modifications were designed to closely match the modified collective bargaining agreements between the UAW and our domestic competitors, General Motors and Chrysler. Among the proposed modifications was a provision that would have precluded any strike action relating to improvements in wages and benefits during the negotiation of a new collective bargaining agreement upon expiration of the current agreement, and would have subjected disputes regarding improvements in wages and benefits to binding arbitration, to determine competitiveness based on wages and benefits paid by other automotive manufacturers operating in the United States.

Even with recent modifications, our agreements with the UAW and CAW provide for guaranteed wage and benefit levels for the term of the respective agreements, and a degree of employment security, subject to certain conditions. As a practical matter, these agreements may restrict our ability to close plants and divest businesses during the terms of the agreements. Our collective bargaining agreement with the UAW expires on September 14, 2011; our collective bargaining agreement with the CAW expires on September 14, 2012.

In 2009, we negotiated new collective bargaining agreements with labor unions in Argentina, Australia, Belgium, Brazil, Britain, France, Germany, Mexico, New Zealand, Russia, Spain and Taiwan. We began negotiations in Thailand in the fourth quarter of 2009 and expect to complete the negotiations in 2010.

Additionally, in 2010 we are or will be negotiating new collective bargaining agreements with labor unions in Australia, Brazil, France, Germany, Mexico, New Zealand, Russia, South Africa, Spain, Taiwan, Thailand and Venezuela.

ENGINEERING, RESEARCH AND DEVELOPMENT

We engage in engineering, research and development primarily to improve the performance (including fuel efficiency), safety, and customer satisfaction of our products, and to develop new products. We also have staffs of scientists who engage in basic research. We maintain extensive engineering, research and design centers for these purposes, including large centers in Dearborn, Michigan; Dunton, England; Gothenburg, Sweden (part of our held-for-sale Volvo operations); and Aachen and Merkenich, Germany. Most of our engineering, research and development relates to our Automotive sector. In general, our engineering activities that do not involve basic research or product development, such as manufacturing engineering, are excluded from our engineering, research and development charges discussed below.

We recorded $4.9 billion, $7.3 billion, and $7.5 billion of engineering, research, and development costs that we sponsored during 2009, 2008, and 2007 respectively. The decreased costs in 2009 compared with 2008 primarily reflect efficiencies in our global product development, manufacturing, and related processes, favorable currency exchange, and the non-recurrence of costs related to our former Jaguar Land Rover operations. Research and development costs sponsored by third parties during 2009 were not material.

ITEM 1A. Risk Factors

We have listed below (not necessarily in order of importance or probability of occurrence) the most significant risk factors applicable to us:

Further declines in industry sales volume, particularly in the United States or Europe, due to financial crisis, deepening recession, geo-political events, or other factors. The global automotive industry is estimated to have shrunk to 64.3 million units in 2009, a year-over-year decline of about 4 million units. Beginning in the fall of 2008, the global economy entered a financial crisis and severe recession, putting significant pressure on Ford and the automotive industry generally. These economic conditions dramatically reduced industry sales volume in the United States and Europe, in particular, and began to slow growth in other markets around the world. In the United States, industry sales volume declined from 16.5 million units in 2007, to 13.5 million units in 2008, to 10.6 million units in 2009. For the 19 markets we track in Europe, industry sales volume declined from 18 million units in 2007, to 16.6 million units in 2008, to 15.8 million units in 2009. In the United States and especially in Europe, 2009 industry sales volume benefited from government incentive programs that have expired or are expiring, and could lower demand temporarily. Our current planning assumptions for 2010 industry sales volume in the United States and for the 19 markets we track in Europe (which take into account our estimate of the impact of the 2009 government incentive programs) are a range of 11.5 million units to 12.5 million units in the United States and 13.5 million units to 14.5 million units in Europe.

Because we, like other manufacturers, have a high proportion of fixed costs, relatively small changes in industry sales volume can have a substantial effect on our cash flow and profitability. If industry vehicle sales were to decline to levels significantly below our planning assumptions, particularly in the United States or Europe, due to financial crisis, deepening recession, geo-political events, or other factors, our financial condition and results of operations would be substantially adversely affected. For discussion of economic trends, see the "Overview" section of Item 7.

Decline in market share. Between 1995 and 2008, our full-year U.S. market share declined each year. Recently, our full-year U.S. market share declined from 18% in 2004 to 14.2% in 2008. Market share declines and resulting volume reductions in any of our major markets would have an adverse impact on our financial condition and results of operations. We are working through our One Ford plan to stabilize market share and reduce capacity over time, and increased full-year U.S. market share during 2009 to 15.3%, but we cannot guarantee that our efforts will be successful in the long term. Decline in our market share could have a substantial adverse effect on our financial condition and results of operations.

Lower-than-anticipated market acceptance of new or existing products. Although we conduct extensive market research before launching new or refreshed vehicles, many factors both within and outside of our control affect the success of new or existing products in the marketplace. Offering highly desirable vehicles that customers want and value can mitigate the risks of increasing price competition and declining demand, but vehicles that are perceived to be less desirable (whether in terms of price, quality, styling, safety, overall value, fuel efficiency, or other attributes) can exacerbate these risks. For example, if a new model were to experience quality issues at the time of launch, the vehicle's perceived quality could be affected even after the issues had been corrected, resulting in lower sales volumes, market share, and profitability.

An increase in or acceleration of market shift beyond our current planning assumptions from sales of trucks, medium- and large-sized utilities, or other more profitable vehicles, particularly in the United States. Trucks and medium- and large-sized utilities historically have represented some of our most profitable vehicle segments, and the segments in which we have had our highest market share. In recent years, the general shift in consumer preferences away from medium- and large-sized utilities and trucks adversely affected our overall market share and profitability. A continuation or acceleration of this general shift in consumer preferences – or a similar shift in consumer preferences away from other more profitable vehicle sales – that is greater than our current planning assumption, whether because of fuel prices, declines in the construction industry, governmental actions or incentives, or other reasons, could have a substantial adverse effect on our financial condition and results of operations.

ITEM 1A. Risk Factors (continued)

A return to elevated gasoline prices, as well as the potential for volatile prices or reduced availability. A return to elevated gas prices, as well as the potential for volatility in gas prices or reduced availability of fuel, particularly in the United States, could result in further weakening of demand for relatively more profitable large and luxury car and truck models, and could increase demand for relatively less profitable small cars and trucks. Continuation or acceleration of such a trend, as well as volatility in demand for these segments, could have a substantial adverse effect on our financial condition and results of operations.

Continued or increased price competition resulting from industry overcapacity, currency fluctuations, or other factors. The global automotive industry is intensely competitive, with manufacturing capacity far exceeding current demand. According to CSM Worldwide's January 2010 report, the global automotive industry is estimated to have had excess capacity of 29 million units in 2009. Industry overcapacity has resulted in many manufacturers offering marketing incentives on vehicles in an attempt to maintain and grow market share; these incentives historically have included a combination of subsidized financing or leasing programs, price rebates, and other incentives. As a result, we are not necessarily able to set our prices to offset higher costs of marketing incentives or other cost increases, or the impact of adverse currency fluctuations in either the U.S. or European markets. While we and our domestic competitors have initiated plans to reduce capacity significantly, successful reductions may require further cooperation of organized labor, take several years to complete, or only partially address the industry's overcapacity problems, particularly in light of recent, dramatic decreases in industry sales volume. A continuation or increase in excess capacity could have a substantial adverse effect on our financial condition and results of operations.

Adverse effects from the bankruptcy, insolvency, or government-funded restructuring of, change in ownership or control of, or alliances entered into by a major competitor. Prior to the government-funded bankruptcy of our domestic competitors General Motors and Chrysler, each of the domestic automakers had substantial "legacy" costs (principally related to employee benefits), as well as a substantial amount of debt. These conditions historically had put each of us at a competitive disadvantage to foreign competitors who began manufacturing in the United States more recently. The government-funded bankruptcy of our domestic competitors has allowed them to eliminate or substantially reduce contractual obligations, including significant amounts of debt, and avoid liabilities. The elimination or reduction of these obligations (including restructuring brands and dealer networks), combined with access to low-cost government funding, could have an adverse effect on our competitive position and results of operations.

A prolonged disruption of the debt and securitization markets. Government-sponsored securitization funding programs (e.g., the U.S. Federal Reserve's Commercial Paper Funding Facility and Term Asset-Backed Securities Loan Facility) intended to improve conditions in the credit markets are scheduled to expire in 2010. If, due to the expiration of such programs or otherwise, there is a prolonged disruption of the debt and securitization markets, Ford Credit would consider further reducing the amount of receivables it purchases or originates. A significant reduction in the amount of receivables Ford Credit purchases or originates would significantly reduce its ongoing profits, and could adversely affect its ability to support the sale of Ford vehicles. To the extent Ford Credit's ability to provide wholesale financing to our dealers or retail financing to those dealers' customers is limited, Ford's ability to sell vehicles would be adversely affected.

Fluctuations in foreign currency exchange rates, commodity prices, and interest rates. As a resource-intensive manufacturing operation, we are exposed to a variety of market and asset risks, including the effects of changes in foreign currency exchange rates, commodity prices, and interest rates. These risks affect our Automotive and Financial Services sectors. We monitor and manage these exposures as an integral part of our overall risk management program, which recognizes the unpredictability of markets and seeks to reduce the potentially adverse effects on our business. Nevertheless, changes in currency exchange rates, commodity prices, and interest rates cannot always be predicted or hedged. In addition, because of intense price competition and our high level of fixed costs, we may not be able to address such changes even if they are foreseeable. Further, our ability to obtain derivatives to manage financial market risk continues to be constrained. As a result, substantial unfavorable changes in foreign currency exchange rates, commodity prices or interest rates could have a substantial adverse effect on our financial condition and results of operations. See Item 7A for additional discussion of currency, commodity price and interest rate risks.

Economic distress of suppliers that may require us to provide substantial financial support or take other measures to ensure supplies of components or materials and could increase our costs, affect our liquidity, or cause production disruptions. Our industry is highly interdependent, with broad overlap of supplier and dealer networks among manufacturers, such that the uncontrolled bankruptcy or insolvency of a major competitor or major suppliers could threaten our supplier or dealer network and thus pose a threat to us as well. Even in the absence of such an event, our supply base has experienced increased economic distress due to the sudden and substantial drop in industry sales volumes that has affected all manufacturers. Dramatically lower industry sales volume made existing debt obligations and fixed cost levels difficult for many suppliers to manage.

ITEM 1A. Risk Factors (continued)

These factors have increased pressure on the supply base, and, as a result, suppliers not only have been less willing to reduce prices, but some have requested direct or indirect price increases, as well as new and shorter payment terms. Suppliers also are exiting certain lines of business or closing facilities, which results in additional costs associated with transitioning to new suppliers and which may cause supply disruptions that could interfere with our production during any such transitional period. In addition, in the past we have taken and may continue to take actions to provide financial assistance to certain suppliers to ensure an uninterrupted supply of materials and components.

Single-source supply of components or materials. Many components used in our vehicles are available only from a single supplier and cannot be quickly or inexpensively re-sourced to another supplier due to long lead times and new contractual commitments that may be required by another supplier in order to provide the components or materials. In addition to the risks described above regarding interruption of supplies, which are exacerbated in the case of single-source suppliers, the exclusive supplier of a key component potentially could exert significant bargaining power over price, quality, warranty claims, or other terms relating to a component.

Labor or other constraints on our ability to restructure our business. Substantially all of the hourly employees in our Automotive operations in the United States and Canada are represented by unions and covered by collective bargaining agreements. We negotiated a new agreement with the UAW in 2007 and with the CAW in 2008, which expire in September 2011 and September 2012, respectively. Although these transformational agreements were amended during 2009 to bring us much of the way to parity with our competitors, the agreements still provide for guaranteed wage and benefit levels throughout their terms and a degree of employment security, subject to certain conditions. As a practical matter, these agreements restrict our ability to close plants and divest businesses during the terms of the agreements. These and other provisions within the UAW and CAW agreements may impede our ability to restructure our business successfully to compete more effectively in today's global marketplace. Additionally, the rejection by Ford-UAW membership of further modifications to the agreement in late 2009 may put us at a disadvantage to our domestic competitors during the next round of labor negotiations; see "Employment Data" in "Item 1. Business" ("Item 1") for additional discussion.

Work stoppages at Ford or supplier facilities or other interruptions of production. A work stoppage or other interruption of production could occur at Ford or supplier facilities as a result of disputes under existing collective bargaining agreements with labor unions or in connection with negotiations of new collective bargaining agreements, as a result of supplier financial distress, or for other reasons. For example, many suppliers are experiencing financial distress due to decreasing production volume and increasing prices for raw materials, jeopardizing their ability to produce parts for us. A work stoppage or interruption of production at Ford or supplier facilities due to labor disputes, shortages of supplies, or any other reason (including but not limited to tight credit markets or other financial distress, natural or man-made disasters, or production difficulties) could substantially adversely affect our financial condition and results of operations.

Substantial pension and postretirement health care and life insurance liabilities impairing our liquidity or financial condition. We have two principal qualified defined benefit retirement plans in the United States. The Ford-UAW Retirement Plan covers hourly employees represented by the UAW, and the General Retirement Plan covers substantially all other Ford employees in the United States hired on or before December 31, 2003. The hourly plan provides noncontributory benefits related to employee service. The salaried plan provides similar noncontributory benefits and contributory benefits related to pay and service. In addition, we and certain of our subsidiaries sponsor plans to provide other postretirement benefits for retired employees, primarily health care and life insurance benefits. See Note 18 of the Notes to the Financial Statements for more information about these plans, including funded status. These benefit plans impose significant liabilities on us which are not fully funded and will require additional cash contributions by us, which could impair our liquidity.

26

ITEM 1A. Risk Factors (continued)

Our U.S. defined benefit pension plans are subject to Title IV of the Employee Retirement Income Security Act of 1974 ("ERISA"). Under Title IV of ERISA, the Pension Benefit Guaranty Corporation ("PBGC") has the authority under certain circumstances or upon the occurrence of certain events to terminate an underfunded pension plan. One such circumstance is the occurrence of an event that unreasonably increases the risk of unreasonably large losses to the PBGC. Although we believe that it is not likely that the PBGC would terminate any of our plans, in the event that our U.S. pension plans were terminated at a time when the liabilities of the plans exceeded the assets of the plans, we would incur a liability to the PBGC that could be equal to the entire amount of the underfunding.

If our cash flows and capital resources were insufficient to fund our pension or postretirement health care and life insurance obligations, we could be forced to reduce or delay investments and capital expenditures, seek additional capital, or restructure or refinance our indebtedness. In addition, if our operating results and available cash were insufficient to meet our pension or postretirement health care and life insurance obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our pension or postretirement health care and life insurance obligations. We might not be able to consummate those dispositions or to obtain the proceeds that we could realize from them, and these proceeds might not be adequate to meet any pension and postretirement health care or life insurance obligations then due.

Worse-than-assumed economic and demographic experience for our postretirement benefit plans (e.g., discount rates or investment returns). The measurement of our obligations, costs, and liabilities associated with benefits pursuant to our postretirement benefit plans requires that we estimate the present values of projected future payments to all participants. We use many assumptions in calculating these estimates, including assumptions related to discount rates, investment returns on designated plan assets, and demographic experience (e.g., mortality and retirement rates). To the extent actual results are less favorable than our assumptions, there could be a substantial adverse impact on our financial condition and results of operations. For additional discussion of our assumptions, see the "Critical Accounting Estimates" discussion in Item 7, and Note 18 of the Notes to Financial Statements.

Restriction on use of tax attributes from tax law "ownership change." Section 382 of the U.S. Internal Revenue Code restricts the ability of a corporation that undergoes an ownership change to use its tax attributes, including net operating losses and tax credits ("Tax Attributes"). At December 31, 2009, we had Tax Attributes that would offset $17 billion of taxable income (representing about $6 billion of our $17.5 billion in deferred tax assets subject to valuation allowance). An ownership change occurs if 5 percent shareholders of an issuer's outstanding common stock, collectively, increase their ownership percentage by more than 50 percentage points over a rolling three-year period. Restructuring actions we took in 2009, including our exchange of Ford stock for convertible debt and our public issuance of additional Ford stock, contributed significantly to the collective increase in ownership by 5 percent shareholders. At present, 5 percent shareholders may have collectively increased their ownership in Ford by more than 30 percentage points. In September 2009, we implemented a tax benefit preservation plan (the "Plan") to reduce the risk of an ownership change under Section 382. Under the Plan, shares held by any person who acquires, without the approval of our Board of Directors, beneficial ownership of 4.99% or more of Ford's outstanding Common Stock could be subject to significant dilution.

The discovery of defects in vehicles resulting in delays in new model launches, recall campaigns, or increased warranty costs. Meeting or exceeding many government-mandated safety standards is costly and often technologically challenging, especially where standards may conflict with the need to reduce vehicle weight in order to meet government-mandated emissions and fuel-economy standards. Government safety standards also require manufacturers to remedy defects related to motor vehicle safety through safety recall campaigns, and a manufacturer is obligated to recall vehicles if it determines that they do not comply with a safety standard. Should we or government safety regulators determine that a safety or other defect or a noncompliance exists with respect to certain of our vehicles prior to the start of production, the launch of such vehicle could be delayed until such defect is remedied. The costs associated with any protracted delay in new model launches necessary to remedy such defect, or the cost of recall campaigns to remedy such defects in vehicles that have been sold, could be substantial.

Increased safety, emissions, fuel economy, or other regulation resulting in higher costs, cash expenditures, and/or sales restrictions. The worldwide automotive industry is governed by a substantial amount of governmental regulation, which often differs by state, region, and country. Governmental regulation has arisen, and proposals for additional regulation are advanced, primarily out of concern for the environment (including concerns about the possibility of global climate change and its impact), vehicle safety, and energy independence. In addition, many governments regulate local product content and/or impose import requirements as a means of creating jobs, protecting domestic producers, and influencing their balance of payments. In recent years, we have made significant changes to our product cycle plan to improve the overall fuel economy of vehicles we produce, thereby reducing their GHG emissions. There are limits on our ability to achieve fuel economy improvements over a given time frame, however, primarily relating to the cost and effectiveness of available technologies, consumer acceptance of new technologies and changes in vehicle mix, willingness of consumers to absorb the additional costs of new technologies, the appropriateness (or lack thereof) of certain technologies for use in particular vehicles, and the human, engineering and financial resources necessary to deploy new technologies across a wide range of products and powertrains in a short time. The cost to comply with existing governmental regulations is substantial, and future, additional regulations (already enacted, adopted or proposed) could have a substantial adverse impact on our financial condition and results of operations. For more discussion of the impact of such standards on our global business, see the "Governmental Standards" discussion in Item 1 above.

ITEM 1A. Risk Factors (continued)

Unusual or significant litigation or governmental investigations arising out of alleged defects in our products, perceived environmental impacts, or otherwise. We spend substantial resources ensuring compliance with governmental safety regulations, mobile and stationary source emissions regulations, and other standards. Compliance with governmental standards, however, does not necessarily prevent individual or class action lawsuits, which can entail significant cost and risk. For example, the preemptive effect of the Federal Motor Vehicle Safety Standards is often a contested issue in litigation, and some courts have permitted liability findings even where our vehicles comply with federal law and/or other applicable law. Furthermore, simply responding to actual or threatened litigation or government investigations of our compliance with regulatory standards may require significant expenditures of time and other resources, and may cause significant reputational harm.

A change in our requirements for parts or materials where we have 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). We have entered into a number of long-term supply contracts that require us to purchase a fixed quantity of parts to be used in the production of our vehicles. If our need for any of these parts were to lessen, we could still be required to purchase a specified quantity of the part or pay a minimum amount to the seller pursuant to the take-or-pay contract. We also have entered into a small number of long-term supply contracts for raw materials (for example, precious metals used in catalytic converters) that require us to purchase a fixed percentage of mine output. If our need for any of these raw materials were to lessen, or if a supplier's output of materials were to increase, we could be required to purchase more materials than we need.

Adverse effects on our results from a decrease in or cessation of government incentives related to capital investments. We receive economic benefits from national, state, and local governments related to investments we make around the world. These benefits generally take the form of tax incentives, property tax abatements, infrastructure development, subsidized training programs, and/or other operational grants and incentives, and the amounts may be significant. A decrease in, expiration without renewal of, or other cessation of such benefits could have a substantial adverse impact on our financial condition and results of operations, as well as our ability to fund new investments.

Adverse effects on our operations resulting from certain geo-political or other events. We conduct a significant portion of our business in countries outside of the United States, and are pursuing growth opportunities in a number of emerging markets. These activities expose us to, among other things, risks associated with geo-political events, such as: governmental takeover (i.e., nationalization) of our manufacturing facilities; disruption of operations in a particular country as a result of political or economic instability, outbreak of war or expansion of hostilities; or acts of terrorism. Such events could have a substantial adverse effect on our financial condition and results of operations.

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). As a result of our 2006 and 2009 financing actions and our other debt, we are a highly leveraged company. Our significant Automotive debt service obligations could have important consequences, including the following: our high level of indebtedness could make it difficult for us to satisfy our obligations with respect to our outstanding indebtedness; our ability to obtain additional financing for working capital, capital expenditures, acquisitions, if any, or general corporate purposes may be impaired; we must use a substantial portion of our cash flow from operations to pay interest on our indebtedness, which may reduce the funds available to us for operations and other purposes below the levels of our competitors that have lower interest costs; and our high level of indebtedness makes us more vulnerable to economic downturns and adverse developments in our business. In addition, if we are unable to meet certain covenants of our secured credit facility established in December 2006 ("Credit Agreement") (e.g., if the borrowing base value of assets pledged does not exceed outstanding borrowings), we may be required to repay borrowings under the facility prior to their maturity.

28

If our cash flow is worse than expected due to worsening of the economic recession, work stoppages, supply base disruptions, increased pension contributions, or other reasons, or if we are unable to find additional liquidity sources for these purposes, we may need to refinance or restructure all or a portion of our indebtedness on or before maturity, reduce or delay capital investments, or seek to raise additional capital. We may not be able to implement one or more of these alternatives on terms acceptable to us, or at all. The terms of our existing or future debt agreements may restrict us from pursuing some of these alternatives. Should our cash flow be worse than anticipated or we fail to achieve any of these alternatives, this could materially adversely affect our ability to repay our indebtedness and otherwise have a substantial adverse effect on our financial condition and results of operations. For further information on our liquidity and capital resources, including our Credit Agreement, see the discussion in Item 7 under the captions "Liquidity and Capital Resources" and "Overview," and in Note 19 of the Notes to the Financial Statements.

Failure of financial institutions to fulfill commitments under committed credit facilities. As discussed in "Liquidity and Capital Resources" within Item 7, when we drew the full amount of the revolving credit facility under our Credit Agreement in February 2009, the $890 million commitment of Lehman Commercial Paper Inc. ("LCPI") was not fully funded as a result of LCPI having filed for protection under Chapter 11 of the U.S. Bankruptcy Code in October 2008. As permitted under our Credit Agreement, to the extent we repay amounts under our revolving credit facility, we can re-borrow those amounts until the facility terminates. If the financial institutions that provide these or other committed credit facilities were to default on their obligation to fund the commitments, these facilities would not be available to us, which could substantially adversely affect our liquidity and financial condition. For discussion of our Credit Agreement, see "Liquidity and Capital Resources" in Item 7 and Note 19 of the Notes to the Financial Statements.

Inability of Ford Credit to obtain competitive funding. Other institutions that provide automotive financing to certain of our competitors have access to relatively low-cost government-insured or other funding. For example, financial institutions with bank holding company status may have access to other lower cost sources of funding. Access by our competitors' dealers and customers to financing provided by financial institutions with relatively low-cost funding that is not available to Ford Credit could adversely affect Ford Credit's ability to support the sale of Ford vehicles at competitive cost and rates. This in turn would adversely affect the marketability of Ford vehicles in comparison to certain competitive brands.

Inability of Ford Credit to access debt, securitization, or derivative markets around the world at competitive rates or in sufficient amounts due to credit rating downgrades, market volatility, market disruption, or other factors. The lower credit ratings assigned to Ford Credit over the past several years have increased its unsecured borrowing costs and have caused its access to the unsecured debt markets to be more restricted. In response, Ford Credit has increased its use of securitization and other sources of liquidity. Ford Credit's ability to obtain funding under its committed asset-backed liquidity programs and certain other asset-backed securitization transactions is subject to having a sufficient amount of assets eligible for these programs as well as Ford Credit's ability to obtain appropriate credit ratings and, for certain committed programs, derivatives to manage the interest rate risk. Over time, and particularly in the event of any credit rating downgrades, market volatility, market disruption, or other factors, Ford Credit may need to reduce the amount of receivables it purchases or originates. In addition, Ford Credit would need to reduce the amount of receivables it purchases or originates if there were a significant decline in the demand for the types of securities it offers or Ford Credit was unable to obtain derivatives to manage the interest rate risk associated with its securitization transactions. A significant reduction in the amount of receivables Ford Credit purchases or originates would significantly reduce its ongoing profits and could adversely affect its ability to support the sale of Ford vehicles.

Higher-than-expected credit losses. Credit risk is the possibility of loss from a customer's or dealer's failure to make payments according to contract terms. Credit risk (which is heavily dependent upon economic factors including unemployment, consumer debt service burden, personal income growth, dealer profitability, and used car prices) has a significant impact on Ford Credit's business. The level of credit losses Ford Credit may experience could exceed its expectations and adversely affect its financial condition and results of operations. For additional discussion regarding credit losses, see the "Critical Accounting Estimates" disclosures in Item 7.

ITEM 1A. Risk Factors (continued)

Increased competition from banks or other financial institutions seeking to increase their share of financing Ford vehicles. No single company is a dominant force in the automotive finance industry. Most of Ford Credit's bank competitors in the United States use credit aggregation systems that permit dealers to send, through standardized systems, retail credit applications to multiple finance sources to evaluate financing options offered by these finance sources. This process has resulted in greater competition based on financing rates. In addition, Ford Credit may face increased competition on wholesale financing for Ford dealers. Competition from such competitors with lower borrowing costs may increase, which could adversely affect Ford Credit's profitability and the volume of its business.

Collection and servicing problems related to finance receivables and net investment in operating leases. After Ford Credit purchases retail installment sale contracts and leases from dealers and other customers, it manages or services the receivables. Any disruption of its servicing activity, due to inability to access or accurately maintain customer account records or otherwise, could have a significant negative impact on its ability to collect on those receivables and/or satisfy its customers.

Lower-than-anticipated residual values or higher-than-expected return volumes for leased vehicles. Ford Credit projects expected residual values (including residual value support payments from Ford) and return volumes of the vehicles it leases. Actual proceeds realized by Ford Credit upon the sale of returned leased vehicles at lease termination may be lower than the amount projected, which reduces the profitability of the lease transaction. Among the factors that can affect the value of returned lease vehicles are the volume of vehicles returned, economic conditions, and the quality or perceived quality, safety, fuel efficiency, or reliability of the vehicles. Actual return volumes may be higher than expected and can be influenced by contractual lease end values relative to auction values, marketing programs for new vehicles, and general economic conditions. All of these factors, alone or in combination, have the potential to adversely affect Ford Credit's profitability. For additional discussion of residual values, see the "Critical Accounting Estimates" disclosures in Item 7.

New or increased credit, consumer, or data protection or other regulations resulting in higher costs and/or additional financing restrictions. As a finance company, Ford Credit is highly regulated by governmental authorities in the locations where it operates. In the United States, its operations are subject to regulation, supervision and licensing under various federal, state and local laws and regulations, including the federal Truth-in-Lending Act, Equal Credit Opportunity Act, and Fair Credit Reporting Act. In some countries outside the United States, Ford Credit's subsidiaries are regulated banking institutions and are required, among other things, to maintain minimum capital reserves. In many other locations, governmental authorities require companies to have licenses in order to conduct financing businesses. Efforts to comply with these laws and regulations impose significant costs on Ford Credit, and affect the conduct of its business. Additional regulation could add significant cost or operational constraints that might impair its profitability.

Inability to implement our One Ford plan. As discussed in the "Overview" section in Item 7, we are taking actions to execute the four priorities of our One Ford plan and address the impact of current economic conditions, including the deteriorated credit market and automotive sales. To the extent that we are unable to implement necessary actions to execute our plan, our financial condition and results of operations would be substantially adversely affected.

ITEM 1B. Unresolved Staff Comments

None to report.

ITEM 2. Properties

Our principal properties include manufacturing and assembly facilities, distribution centers, warehouses, sales or administrative offices, and engineering centers.

We own substantially all of our U.S. manufacturing and assembly facilities, although many of these properties have been pledged to secure indebtedness or other obligations. Our facilities are situated in various sections of the country and include assembly plants, engine plants, casting plants, metal stamping plants, transmission plants, and other component plants. About half of our distribution centers are leased (we own approximately 53% of the total square footage and lease the balance). A substantial amount of our warehousing is provided by third-party providers under service contracts. Because the facilities provided pursuant to third-party service contracts need not be dedicated exclusively or even primarily to our use, these spaces are not included in the number of distribution centers/warehouses listed in the table below. All of the warehouses that we operate are leased, although many of our manufacturing and assembly facilities contain some warehousing space. Substantially all of our sales offices are leased space. Approximately 98% of the total square footage of our engineering centers and our supplementary research and development space is owned by us. Many of the facilities, as well as most of the machinery and equipment, that we own and operate in the United States have been pledged to secure our obligations under the Credit Agreement. For discussion of the Credit Agreement, see "Liquidity and Capital Resources" in Item 7 and Note 19 of the Notes to the Financial Statements.

In addition, we maintain and operate manufacturing plants, assembly facilities, parts distribution centers, and engineering centers outside of the United States. We own substantially all of our non-U.S. manufacturing plants, assembly facilities, and engineering centers. The majority of our parts distribution centers outside of the United States are either leased or provided by vendors under service contracts. As in the United States, space provided by vendors under service contracts need not be dedicated exclusively or even primarily to our use, and is not included in the number of distribution centers/warehouses listed in the table below.

The total number of plants, distribution centers/warehouses, engineering and research and development sites, and sales offices used by our Automotive segments as of December 31, 2009 are shown in the table below:

Segment	Plants		Distribution Centers/Warehouses	Engineering, Research/Development		Sales Offices	
Ford North America	40	(a)	31	53	(b)	58	
Ford South America (b)	7		7	3		9	
Ford Europe	20		8	5		19	
Volvo	8		11	2		37	(b)
Ford Asia Pacific Africa	12		2	2		13	
Total	87		59	65		136	

(a) We have announced plans to close a number of North American facilities as part of our restructuring actions; facilities that have been closed to date are not included in the table. The table includes five facilities operated by Automotive Components Holdings, LLC ("ACH"), which is controlled by us. We have been working to sell or close the majority of the 15 ACH component manufacturing plants; to date, we have sold five ACH plants and closed another five. We plan to close a sixth plant in 2011. We are exploring our options for the remaining ACH plants (Milan, Sheldon Road, Saline and Sandusky), and intend to transition these businesses to the supply base as soon as practicable.

(b) Increase compared with prior year reflects redefinition of site locations and improved data tracking, not increase in physical property.

ITEM 2. Properties (continued)

Included in the number of plants shown above are several plants that are not operated directly by us, but rather by consolidated joint ventures that operate plants that support our Automotive sector. The new accounting standard related to the consolidation of variable interest entities is effective for us as of January 1, 2010, and will result in the deconsolidation of many of our consolidated joint ventures. As of December 31, 2009, the significant consolidated joint ventures and the number of plants they own are as follows:

- AutoAlliance International, Inc. ("AAI") — a 50/50 joint venture with Mazda (of which we own approximately 11%), which operates as its principal business an automobile vehicle assembly plant in Flat Rock, Michigan. AAI currently produces the Mazda6 and Ford Mustang models. Ford supplies all of the hourly and substantially all of the salaried labor requirements to AAI, and AAI reimburses Ford for the full cost of that labor.

- First Aquitaine Industries SAS ("First Aquitaine") — operates a transmission plant in Bordeaux, France which manufactures automatic transmissions for Ford Explorer, Ranger, and Mustang vehicles. During the second quarter of 2009, we transferred legal ownership of First Aquitaine to HZ Holding France. We also entered into a volume-dependent pricing agreement with the new owner to purchase transmissions through the end of the product cycle.

- Ford Otosan — a joint venture in Turkey between Ford (41% partner), the Koc Group of Turkey (41% partner), and public investors (18%) that is a major supplier of the Ford Transit Connect vehicle and our sole distributor of Ford vehicles in Turkey. In addition, Ford Otosan makes the Ford Transit series and the Cargo truck for the Turkish and export markets, and certain engines and transmissions, most of which are under license. This joint venture owns and operates two plants, a parts distribution depot, and a Product Development Center in Turkey.

- Getrag Ford Transmissions GmbH ("Getrag Ford") — a 50/50 joint venture with Getrag Deutsche Venture GmbH and Co. KG, a German company, to which we transferred our European manual transmission operations, including plants, from Halewood, England; Cologne, Germany; and Bordeaux, France. In 2004, Volvo Car Corporation ("Volvo Cars") transferred its manual transmission business from its Köping, Sweden plant to Getrag Ford. In 2008, we added the Kechnec plant in Slovakia. Getrag Ford produces manual transmissions for Ford Europe and Volvo. We currently supply most of the hourly and salaried labor requirements of the operations transferred to this joint venture. Our employees who worked at the manual transmission operations transferred at the time of formation of the joint venture are assigned to the joint venture. In the event of surplus labor at the joint venture, our employees assigned to Getrag Ford may return to Ford. Employees hired in the future to work in these operations will be employed directly by Getrag Ford. Getrag Ford reimburses us for the full cost of the hourly and salaried labor we supply. This joint venture operates four plants.

- Getrag All Wheel Drive AB — a joint venture in Sweden between Getrag Dana Holding GmbH (60% partner) and Volvo Cars (40% partner). In January 2004, Volvo Cars transferred to this joint venture its All Wheel Drive business and its plant in Köping, Sweden. The joint venture produces all-wheel drive components. As noted above, the manual transmission operations at the Köping plant were transferred to Getrag Ford. The hourly and salaried employees at the plant have become employees of the joint venture.

- Tekfor Cologne GmbH ("Tekfor") — a 50/50 joint venture of Ford-Werke GmbH ("Ford-Werke") and Neumayer Tekfor Holding GmbH, a German company, to which joint venture Ford-Werke transferred the operations of the Ford forge in Cologne. The joint venture produces forged components, primarily for transmissions and chassis, for use in Ford vehicles and for sale to third parties. Those Ford employees who worked at the Cologne Forge Plant at the time of the formation of the joint venture are assigned to Tekfor by us and remain our employees. In the event of surplus labor at the joint venture, Ford employees assigned to Tekfor may return to Ford. New workers at the joint venture will be hired as employees of the joint venture. Tekfor reimburses us for the full cost of our employees assigned to the joint venture. This joint venture operates one plant.

- Pininfarina Sverige, AB — a joint venture between Volvo Cars (40% partner) and Pininfarina, S.p.A. ("Pininfarina") (60% partner). In September 2003, Volvo Cars and Pininfarina established this joint venture for the engineering and manufacture of niche vehicles, starting with a new, small convertible (Volvo C70), which is distributed by Volvo. The joint venture began production of the new car at the Uddevalla Plant in Sweden, which was transferred from Volvo Cars to the joint venture in December 2005, and is the joint venture's only plant.

ITEM 2. Properties (continued)

- Ford Vietnam Limited — a joint venture between Ford (75% partner) and Song Cong Diesel Limited Company (25% partner). Ford Vietnam Limited assembles and distributes several Ford vehicles in Vietnam, including Escape, Everest, Focus, Mondeo, Ranger and Transit models. This joint venture operates one plant.

- Ford Lio Ho Motor Company Ltd. ("FLH") — a joint venture in Taiwan among Ford (70% partner), the Lio Ho Group (25% partner) and individual shareholders (5% ownership in aggregate) that assembles a variety of Ford and Mazda vehicles sourced from Ford as well as Mazda. In addition to domestic assembly, FLH also has local product development capability to modify vehicle designs for local needs, and imports Ford-brand built-up vehicles from Europe and the United States. This joint venture operates one plant.

In addition to the plants that we operate directly or that are operated by consolidated joint ventures, additional plants that support our Automotive sector are operated by unconsolidated joint ventures of which we are a partner. These plants are not included in the number of plants shown in the table above. The most significant of these joint ventures are:

- AutoAlliance (Thailand) Co. Ltd. ("AAT") — a joint venture among Ford (50%), Mazda (45%) and a Thai affiliate of Mazda's (5%), which owns and operates a manufacturing plant in Rayong, Thailand. AAT produces the Ford Everest, Ford Ranger and Mazda B-Series pickup trucks for the Thai market and for export to over 100 countries worldwide (other than North America), in both built-up and kit form. AAT has announced plans to build a new, highly flexible passenger car plant that will utilize state-of-the-art manufacturing technologies and will produce both Ford and Mazda badged small cars beginning in 2010.

- Blue Diamond Truck, S. de R.L. de C.V. ("Blue Diamond Truck") — a joint venture between Ford (25% partner) and Navistar International Corporation (formerly known as International Truck and Engine Corporation) (75% partner) ("Navistar"). Blue Diamond Truck develops and manufactures selected medium and light commercial trucks in Mexico and sells the vehicles to Ford and Navistar for their own independent distribution. Blue Diamond Truck manufactures Ford F-650/750 medium-duty commercial trucks that are sold in the United States and Canada and Navistar trucks that are sold in Mexico.

- Tenedora Nemak, S.A. de C.V. — a joint venture between Ford (6.75% partner) and a subsidiary of Mexican conglomerate Alfa S.A. de C.V. (93.25% partner), which owns and operates, among other facilities, a portion of our former Canadian castings operations, and supplies engine blocks and heads to several of our engine plants. Ford supplies a portion of the hourly labor requirements for the Canadian plant, for which it is fully reimbursed by the joint venture.

- Changan Ford Mazda Automobile Corporation, Ltd. ("CFMA") — a joint venture among Ford (35% partner), Mazda (15% partner), and the Chongqing Changan Automobile Co., Ltd. ("Changan") (50% partner). Through its facility in the Chinese cities of Chongqing and Nanjing, CFMA produces and distributes in China the Ford Mondeo, Focus, S-MAX and Fiesta, the Mazda2, the Mazda3, the Volvo S40 and the Volvo S80.

- Changan Ford Mazda Engine Company, Ltd. ("CFME") — a joint venture among Ford (25% partner), Mazda (25% partner), and the Chongqing Changan Automobile Co., Ltd (50% partner). CFME is located in Nanjing, and produces the Ford New I4 and Mazda BZ engines in support of the assembly of Ford- and Mazda-branded vehicles manufactured in China.

- Jiangling Motors Corporation, Ltd. ("JMC") — a publicly-traded company in China with Ford (30% shareholder) and Jiangxi Jiangling Holdings, Ltd. (41% shareholder) as its controlling shareholders. Jiangxi Jiangling Holdings, Ltd. is a 50/50 joint venture between Chongqing Changan Automobile Co., Ltd. and Jiangling Motors Company

Group. The public investors of JMC own 29% of its outstanding shares. JMC assembles the Ford Transit van and other non-Ford-technology-based vehicles for distribution in China.

The facilities owned or leased by us or our subsidiaries and joint ventures described above are, in the opinion of management, suitable and more than adequate for the manufacture and assembly of our products.

The furniture, equipment and other physical property owned by our Financial Services operations are not material in relation to their total assets.

ITEM 3. Legal Proceedings

Various legal actions, governmental investigations, proceedings, and claims are pending or may be instituted or asserted in the future against us and our subsidiaries, including but not limited to those arising out of alleged defects in our products; governmental regulations covering safety, emissions, and fuel economy or other matters; government incentives related to capital investments; tax matters; financial services; employment-related matters; dealer, supplier, and other contractual relationships; intellectual property rights; product warranties; environmental matters; shareholder or investor matters; and financial reporting matters. Certain of the pending legal actions are, or purport to be, class actions. Some of the foregoing matters involve or may involve claims for compensatory, punitive, or antitrust or other multiplied damage claims in very large amounts, or demands for recall campaigns, environmental remediation programs, sanctions, loss of government incentives, assessments, or other relief that, if granted, would require very large expenditures. We regularly evaluate the expected outcome of product liability litigation and other legal proceedings. We have accrued expenses for probable losses on product liability matters, in the aggregate, based on an analysis of historical litigation payouts and trends. We also have accrued expenses for other legal proceedings where losses are deemed probable and reasonably estimable. These accruals are reflected in our financial statements.

Following is a discussion of our significant pending legal proceedings:

ASBESTOS MATTERS

Asbestos was used in brakes, clutches, and other automotive components from the early 1900s. Along with other vehicle manufacturers, we have been the target of asbestos litigation and, as a result, are a defendant in various actions for injuries claimed to have resulted from alleged exposure to Ford parts and other products containing asbestos. Plaintiffs in these personal injury cases allege various health problems as a result of asbestos exposure, either from component parts found in older vehicles, insulation or other asbestos products in our facilities, or asbestos aboard our former maritime fleet. We believe that we are being more aggressively targeted in asbestos suits because many previously targeted companies have filed for bankruptcy.

Most of the asbestos litigation we face involves individuals who claim to have worked on the brakes of our vehicles over the years. We are prepared to defend these cases, and believe that the scientific evidence confirms our long-standing position that there is no increased risk of asbestos-related disease as a result of exposure to the type of asbestos formerly used in the brakes on our vehicles.

The extent of our financial exposure to asbestos litigation remains very difficult to estimate. The majority of our asbestos cases do not specify a dollar amount for damages, and in many of the other cases the dollar amount specified is the jurisdictional minimum. The vast majority of these cases involve multiple defendants, with the number in some cases exceeding one hundred. Many of these cases also involve multiple plaintiffs, and we often are unable to tell from the pleadings which plaintiffs are making claims against us (as opposed to other defendants). Annual payout and defense costs may become substantial in the future.

ENVIRONMENTAL MATTERS

General. We have received notices under various federal and state environmental laws that we (along with others) are or may be a potentially responsible party for the costs associated with remediating numerous hazardous substance storage, recycling, or disposal sites in many states and, in some instances, for natural resource damages. We also may have been a generator of hazardous substances at a number of other sites. The amount of any such costs or damages for which we may be held responsible could be significant. The contingent losses that we expect to incur in connection with many of these sites have been accrued and those accruals are reflected in our financial statements. For many sites, however, the remediation costs and other damages for which we ultimately may be responsible are not reasonably estimable because of uncertainties with respect to factors such as our connection to the site or to materials there, the involvement of other potentially responsible parties, the application of laws and other standards or regulations, site conditions, and the nature and scope of investigations, studies, and remediation to be undertaken (including the technologies to be required and the extent, duration, and success of remediation). As a result, we are unable to determine or reasonably estimate the amount of costs or other damages for which we are potentially responsible in connection with these sites, although that total could be significant.

ITEM 3. Legal Proceedings (continued)

Edison Assembly Plant Concrete Disposal. During demolition of our Edison Assembly Plant, we discovered very low levels of contaminants in the concrete slab. The concrete was crushed and reused by several developers as fill material at ten different off-site locations. The New Jersey Department of Environmental Protection ("DEP") asserts that some of these locations may not have been authorized to receive the waste. In March 2006, the DEP ordered Ford, its supplier MIG-Alberici, Inc., and the developer Edgewood Properties, Inc., to investigate, and, if appropriate, remove contaminated materials. We have substantially completed the work at a number of locations, and Edgewood is completing the investigation and remediation at several locations that it owns. We resolved the matter with DEP through an administrative consent order ("Order"), pursuant to which we paid approximately $460,000 for oversight costs, penalties, and environmental education projects and donated emissions reduction credits to the State of New Jersey. After reviewing comments submitted by Edgewood, the DEP finalized the Order in February 2009. Edgewood has appealed the issuance of the Order to the Appellate Division of the New Jersey Superior Court. The New Jersey Attorney General's office has closed its investigation of us.

Sterling Axle Plant. The Michigan Department of Environmental Quality ("MDEQ") issued four Letters of Violation to the Sterling Axle Plant between April 17, 2008 and October 7, 2008 related to our self-report of several potential violations of air permits at this location. We promptly took steps to correct and prevent recurrence of the potential violations. We agreed with the MDEQ in 2009 to resolve the enforcement proceeding through a civil administrative settlement, which included a $129,920 penalty. In 2009, we learned that the U.S. Environmental Protection Agency and the U.S. Department of Justice had opened a criminal investigation into the potential violations. We are cooperating fully in the investigation, including disclosing additional potential violations that were discovered since the initial enforcement action.

Dearborn Research and Engineering Center. In August 2009, our Dearborn Research and Engineering Center ("R&E Center") received a notice of violation from the MDEQ alleging that the R&E Center exceeded fuel usage limitations at its engine test facility, and did not properly certify compliance with its air permit. MDEQ has commenced an administrative enforcement proceeding. We are working with MDEQ to resolve this matter, and have taken appropriate actions to address any violations.

CLASS ACTIONS

In light of the fact that very few of the purported class actions filed against us in the past have ever been certified by the courts as class actions, the actions listed below are those (i) that have been certified as a class action by a court of competent jurisdiction (and any additional purported class actions that raise allegations substantially similar to a certified case), and (ii) that, if resolved unfavorably to the Company, would likely involve a significant cost.

Canadian Export Antitrust Class Actions. Eighty-three purported class actions on behalf of all purchasers of new motor vehicles in the United States since January 1, 2001 have been filed in various state and federal courts against numerous defendants, including us. The federal and state complaints allege, among other things, that vehicle manufacturers, aided by dealer associations, conspired to prevent the sale to U.S. citizens of vehicles produced for the Canadian market and sold by dealers in Canada at lower prices than vehicles sold in the United States. The complaints seek injunctive relief under federal antitrust law and treble damages under federal and state antitrust laws. The federal court actions were consolidated for coordinated pretrial proceedings in the U.S. District Court for the District of Maine and have been dismissed. Cases remain pending in state courts in Arizona, California, Florida, Minnesota, New Mexico, Tennessee and Wisconsin. A statewide class has been certified in the California case; proceedings in the other state cases had been stayed pending resolution of the consolidated federal court action.

ITEM 3. Legal Proceedings (continued)

OTHER MATTERS

ERISA Fiduciary Litigation. A purported class action lawsuit is pending in the U.S. District Court for the Eastern District of Michigan naming as defendants Ford Motor Company and several of our current or former employees and officers (Nowak, et al. v. Ford Motor Company, et al., along with three consolidated cases). The lawsuit alleges that the defendants violated the Employee Retirement Income Security Act ("ERISA") by failing to prudently and loyally manage funds held in employee savings plans sponsored by Ford. Specifically, the plaintiffs allege (among other claims) that the defendants violated fiduciary duties owed to plan participants by continuing to offer Ford Common Stock as an investment option in the savings plans.

SEC Pension and Post-Employment Benefit Accounting Inquiry. On October 14, 2004, the Division of Enforcement of the Securities and Exchange Commission ("SEC") notified us that it was conducting an inquiry into the methodology used to account for pensions and other post-employment benefits. We were one of several companies to receive requests for information as part of this inquiry. We completed submission of all information requested to date as of April 2007.

Apartheid Litigation. Along with several other prominent multinational companies, we are a defendant in purported class action lawsuits seeking unspecified 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. Amended complaints were filed during 2008; motions to dismiss have been granted in part and denied in part, and the defendants' appeal to the U.S. Court of Appeals is pending.

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

Not required.

ITEM 4A. Executive Officers of Ford

Our executive officers and their positions and ages at February 1, 2010 are as follows:

Name	Position	Present Position Held Since	Age
William Clay Ford, Jr. (a)	Executive Chairman and Chairman of the Board	September 2006	52
Alan Mulally (b)	President and Chief Executive Officer	September 2006	64
Michael E. Bannister	Executive Vice President – Chairman and Chief Executive Officer, Ford Motor Credit Company	October 2007	60
Lewis W. K. Booth	Executive Vice President and Chief Financial Officer	November 2008	61
Mark Fields	Executive Vice President – President, The Americas	October 2005	49
John Fleming	Executive Vice President – Global Manufacturing and Labor Affairs and Chairman, Ford Europe	November 2008	59
Tony Brown	Group Vice President – Purchasing	April 2008	53
Susan M. Cischke	Group Vice President – Sustainability, Environment and Safety Engineering	April 2008	55
James D. Farley	Group Vice President – Sales, Global Marketing and Canada, Mexico & South America Operations	November 2007	47
Felicia Fields	Group Vice President – Human Resources and Corporate Services	April 2008	44
Bennie Fowler	Group Vice President – Quality	April 2008	53
Joseph R. Hinrichs	Group Vice President – President, Asia Pacific and Africa	December 2009	43
Derrick M. Kuzak	Group Vice President – Global Product Development	December 2006	58
David G. Leitch	Group Vice President and General Counsel	April 2005	49
J C. Mays	Group Vice President and Chief Creative Officer – Design	August 2003	55
Ziad S. Ojakli	Group Vice President – Government and Community Relations	January 2004	42
Nick Smither	Group Vice President – Information Technology	April 2008	51

Bob Shanks	Vice President and Controller	September 2009	57

(a) Also a Director, Chair of the Office of the Chairman and Chief Executive, Chair of the Finance Committee and a member of the Sustainability Committee of the Board of Directors.

(b) Also a Director and member of the Office of the Chairman and Chief Executive and the Finance Committee of the Board of Directors.

ITEM 4A. Executive Officers of Ford (continued)

All of the above officers, except those noted below, have been employed by Ford or its subsidiaries in one or more capacities during the past five years. Described below are the recent positions (other than those with Ford or its subsidiaries) held by those officers who have not yet been with Ford or its subsidiaries for five years:

§ Prior to joining Ford in November 2007, Mr. Farley was Group Vice President and General Manager of Lexus, responsible for all sales, marketing and customer satisfaction activities for Toyota's luxury brand. Before leading Lexus, he served as group vice president of Toyota Division marketing and was responsible for all Toyota Division market planning, advertising, merchandising, sales promotion, incentives and Internet activities.

§ Prior to joining Ford in September 2006, Mr. Mulally served as Executive Vice President of The Boeing Company, and President and Chief Executive Officer of Boeing Commercial Airplanes. Mr. Mulally also was a member of Boeing's Executive Council, and served as Boeing's senior executive in the Pacific Northwest. He was named Boeing's president of Commercial Airplanes in September 1998; the responsibility of chief executive officer for the business unit was added in March 2001.

§ Mr. Leitch served as the Deputy Assistant and Deputy Counsel to President George W. Bush from December 2002 to March 2005. From June 2001 until December 2002, he served as Chief Counsel for the Federal Aviation Administration, overseeing a staff of 290 in Washington and the agency's 11 regional offices. Prior to June 2001, Mr. Leitch was a partner at Hogan & Hartson LLP in Washington D.C., where his practice focused on appellate litigation in state and federal court.

Under our By-Laws, the executive officers are elected by the Board of Directors at the Annual Meeting of the Board of Directors held for this purpose. Each officer is elected to hold office until his or her successor is chosen or as otherwise provided in the By-Laws.

PART II

ITEM 5. Market for Ford's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Common Stock is listed on the New York Stock Exchange in the United States and on certain stock exchanges in Belgium, France, Switzerland, and the United Kingdom.

The table below shows the high and low sales prices for our Common Stock and the dividends we paid per share of Common and Class B Stock for each quarterly period in 2008 and 2009:

	2008				2009			
Ford Common Stock price per share (a)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$6.94	$8.79	$6.33	$5.47	$2.99	$6.54	$8.86	$10.37
Low	4.95	4.46	4.17	1.01	1.50	2.40	5.24	6.61
Dividends per share of Ford Common and Class B Stock (b)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

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(a) New York Stock Exchange composite interday prices as listed in the price history database available at www.NYSEnet.com.

(b) On December 15, 2006, we entered into a secured credit facility which contains a covenant prohibiting us from paying dividends (other than dividends payable solely in stock) on our Common and Class B Stock, subject to certain limited exceptions. As a result, it is unlikely that we will pay any dividends in the foreseeable future. See Note 19 of the Notes to the Financial Statements for more information regarding the secured credit facility and related covenants.

As of February 12, 2010, stockholders of record of Ford included 165,026 holders of Common Stock (which number does not include 270 former holders of old Ford Common Stock who have not yet tendered their shares pursuant to our recapitalization, known as the Value Enhancement Plan, which became effective on August 9, 2000) and 86 holders of Class B Stock.

During the fourth quarter of 2009, we purchased shares of our Common Stock as follows:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (b)
Oct. 1, 2009 through Oct. 31, 2009	—	$ —	—	—
Nov. 1, 2009 through Nov. 30, 2009	—	—	—	—
Dec. 1, 2009 through Dec. 31, 2009	22,271	10.00	—	—
Total/Average	22,271	10.00	—	—

(a) 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: (i) income tax related to the lapse of restrictions on restricted stock or the issuance of unrestricted stock; and (ii) the exercise price and related income taxes with respect to certain exercises of stock options.
(b) No publicly announced repurchase program in place.

ITEM 6. Selected Financial Data

The following table sets forth selected financial data for each of the last five years (dollar amounts in millions, except for per share amounts).

	2009	2008	2007	2006	2005
SUMMARY OF OPERATIONS					
Total Company					
Sales and revenues	$118,308	$145,114	$170,572	$158,233	$174,365
Income/(Loss) before income taxes	$3,026	$(14,498)	$(3,857)	$(15,079)	$1,054
Provision for/(Benefit from) income taxes	69	63	(1,333)	(2,656)	(855)
Income/(Loss) from continuing operations	2,957	(14,561)	(2,524)	(12,423)	1,909
Income/(Loss) from discontinued operations	5	9	41	16	62
Income/(Loss) before cumulative effects of changes in accounting principles	2,962	(14,552)	(2,483)	(12,407)	1,971
Cumulative effects of changes in accounting principles	—	—	—	—	(251)
Net income/(loss)	2,962	(14,552)	(2,483)	(12,407)	1,720
Less: Income/(Loss) attributable to noncontrolling interests	245	214	312	210	280
Net income/(loss) attributable to Ford Motor Company	$2,717	$(14,766)	$(2,795)	$(12,617)	$1,440
Automotive Sector					
Sales	$105,893	$129,165	$154,379	$143,249	$153,413
Operating income/(loss)	(2,706)	(9,293)	(4,268)	(17,946)	(4,211)
Income/(Loss) before income taxes	1,212	(11,917)	(5,081)	(17,045)	(3,899)
Financial Services Sector					
Revenues	$12,415	$15,949	$16,193	$14,984	$20,952
Income/(Loss) before income taxes	1,814	(2,581)	1,224	1,966	4,953
Amounts Per Share Attributable to Ford Motor Company Common and Class B Stock					
Basic:					
Income/(Loss) from continuing operations	$0.91	$(6.50)	$(1.43)	$(6.73)	$0.88
Income/(Loss) from discontinued operations	—	—	0.02	0.01	0.04
Cumulative effects of change in accounting principles	—	—	—	—	(0.14)
Net income/(loss)	$0.91	$(6.50)	$(1.41)	$(6.72)	$0.78
Diluted:					
Income/(Loss) from continuing operations	$0.86	$(6.50)	$(1.43)	$(6.73)	$0.86
Income/(Loss) from discontinued operations	—	—	0.02	0.01	0.03
Cumulative effects of change in accounting principles	—	—	—	—	(0.12)
Net income/(loss)	$0.86	$(6.50)	$(1.41)	$(6.72)	$0.77
Cash dividends	$—	$—	$—	$0.25	$0.40
Common Stock price range (NYSE Composite Interday)					
High	$10.37	$8.79	$9.70	$9.48	$14.75

Low	1.50	1.01	6.65	6.06	7.57
Average number of shares of Ford Common and Class B Stock outstanding (in millions)	2,992	2,273	1,979	1,879	1,846
SECTOR BALANCE SHEET DATA AT YEAR-END					
Assets					
Automotive sector	$82,002	$73,815	$118,455	$122,597	$113,825
Financial Services sector	119,112	151,667	169,261	169,691	162,194
Intersector elimination	(3,224)	(2,535)	(2,023)	(1,467)	(83)
Total assets	$197,890	$222,947	$285,693	$290,821	$275,936
Debt					
Automotive sector	$34,416	$24,227	$25,185	$27,913	$17,848
Financial Services sector	98,671	128,842	141,833	142,036	135,400
Intersector elimination *	(646)	(492)	—	—	—
Total debt	$132,441	$152,577	$167,018	$169,949	$153,248
Total Equity/(Deficit)	$(6,515)	$(14,527)	$8,783	$(461)	$14,565

* Debt related to Ford's acquisition of Ford Credit debt securities; see Note 1 of the Notes to the Financial Statements for additional detail.

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

OVERVIEW

Generation of Revenue, Income and Cash

Our Automotive sector's revenue, income, and cash are generated primarily from sales of vehicles to our dealers and distributors (i.e., our customers). Vehicles we produce generally are subject to firm orders from our customers and are deemed sold (with the proceeds from such sale recognized in revenue) after they are produced and shipped or delivered to our customers. This is not the case, however, with respect to vehicles produced for sale to daily rental car companies that are subject to a guaranteed repurchase option or vehicles produced for use in our own fleet (including management evaluation vehicles). Vehicles sold to daily rental car companies that are subject to a guaranteed repurchase option are accounted for as operating leases, with lease revenue and profits recognized over the term of the lease. When we sell the returned vehicle at auction, we recognize a gain or loss on the difference, if any, between actual auction value and the projected auction value. In addition, revenue for finished vehicles we sell to customers or vehicle modifiers on consignment is not recognized until the vehicle is sold to the ultimate customer. Therefore, except for the impact of the daily rental units sold subject to a guaranteed repurchase option, those units placed into our own fleet, and those units for which recognition of revenue is otherwise deferred, wholesale volumes to our customers and revenue from such sales are closely linked with our production.

Most of the vehicles sold by us to our dealers and distributors are financed at wholesale by Ford Credit. Upon Ford Credit originating the wholesale receivable related to a dealer's purchase of a vehicle, Ford Credit pays cash to the relevant legal entity in our Automotive sector in payment of the dealer's obligation for the purchase price of the vehicle. The dealer then pays the wholesale finance receivable to Ford Credit when it sells the vehicle to a retail customer.

Our Financial Services sector's revenue is generated primarily from interest on finance receivables, net of certain deferred origination costs that are included as a reduction of financing revenue, and such revenue is recognized over the term of the receivable using the interest method. Also, revenue from operating leases, net of certain deferred origination costs, is recognized on a straight-line basis over the term of the lease. Income is generated to the extent revenues exceed expenses, most of which are interest, depreciation, and operating expenses.

Transactions between our Automotive and Financial Services sectors occur in the ordinary course of business. For example, Ford Credit receives interest supplements and other support cost payments from the Automotive sector in connection with special-rate vehicle financing and leasing programs that we sponsor. Ford Credit records these payments as revenue, and, for contracts purchased prior to 2008, our Automotive sector made the related cash payments, over the expected life of the related finance receivable or operating lease. Effective January 1, 2008, to reduce ongoing Automotive obligations to Ford Credit and to be consistent with general industry practice, we began paying interest supplements and residual value support to Ford Credit on an upfront, lump-sum basis at the time Ford Credit purchases eligible contracts from dealers. See Note 1 of the Notes to the Financial Statements for a more detailed discussion of transactions and payments between our Automotive and Financial Services sectors. The Automotive sector records the estimated costs of marketing incentives, including dealer and retail customer cash payments (e.g., rebates) and costs of special-rate financing and leasing programs, as a reduction to revenue. These reductions to revenue are accrued at the later of the date the related vehicle sales to the dealer are recorded or at the date the incentive program is both approved and communicated.

Key Economic Factors and Trends Affecting the Automotive Industry

Global Economic and Financial Market Crisis. Beginning in 2008, the global economy entered a period of very weak economic growth, led by the recession in the United States and followed by declines in other major markets around the world. The financial market crisis set off a series of events that generated conditions more severe than those experienced in several decades. The characteristics of the financial crisis were unique, in part due to the complex structure of housing-related securities that were at the epicenter of the financial market turmoil. A steep housing correction, especially in the U.S. and U.K. markets, along with downward valuations of mortgage-backed and related securities, combined to foster a crisis in confidence. Although several other factors contributed to current economic and financial conditions, the influence of these financial developments was very prominent. The interrelationships among financial markets worldwide ultimately resulted in a synchronous global economic downturn, the effects of which became evident in the fourth quarter of 2008 as major markets around the world all suffered setbacks.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

While the economic outlook is improving, it is rebounding from a very low base and with a range of possible outcomes due to the uncertain financial market environment and dependence upon ongoing policy responses. The consumer and commercial sectors of the global economy appear to be improving, although recovery remains fragile due to continuing tightness in the credit markets, weak labor markets in many countries, and uncertainty regarding the timing and magnitude by which governments and central banks will remove stimulus programs. Although the housing market is stabilizing in the worst hit markets, such as the United States, the United Kingdom, and Spain, challenges remain associated with rising foreclosure rates and excess housing stocks.

In 2009, global industry vehicle sales volume is estimated to have declined to about 64.3 million units, down about 4 million units or 6% from 2008 levels. Global industry sales volume is projected to increase from the depressed 2009 levels, to a range of 65 million units to 75 million units for 2010.

Excess Capacity. According to CSM Worldwide, an automotive research firm, in 2009 the estimated automotive industry global production capacity for light vehicles (about 86 million units) exceeded global production by about 29 million units. In North America and Europe, the two regions where the majority of revenue and profits are earned in the industry, excess capacity was an estimated 96% and 37%, respectively, with North America in particular driven up from recent rates of around 43% due to the industry conditions in that market last year. According to production capacity data projected by CSM Worldwide, global excess capacity conditions could continue for several years at an average of 21 million units per year during the 2010-2014 period.

Pricing Pressure. Excess capacity, coupled with a proliferation of new products being introduced in key segments by the industry, will keep pressure on manufacturers' ability to increase prices on their products. In addition, the incremental new U.S. manufacturing capacity of Japanese and Korean manufacturers in recent years has contributed, and is likely to continue to contribute, to pricing pressure in the U.S. market. The reduction of real prices for similarly contented vehicles in the United States has become more pronounced since the late 1990s, and we expect that a challenging pricing environment will continue for some time to come.

Consumer Spending and Credit. Limited ability to increase vehicle prices has been offset in recent years, at least in part, by the long-term trend toward purchase of higher-end, more expensive vehicles and/or vehicles with more features. The current retrenchment in consumer spending is likely to dampen that trend in the near-term. Over the long term, spending on new vehicles is expected to resume its correlation with growth in per capita incomes. Emerging markets also will contribute an increasing share of global industry sales volume and revenue, as growth in wholesales (i.e., volume) will be greatest in emerging markets in the next decade. We believe, however, the mature automotive markets (e.g., North America, Western Europe, and Japan) will retain the largest share of global revenue over the coming decade.

Commodity and Energy Price Increases. Commodity prices have resumed upward movement since early 2009. Despite weak demand conditions, oil prices increased from around $40 per barrel in January to $80 per barrel in December of 2009. With the global economic outlook improving and financial investment returning to commodity and oil markets, we expect commodity and oil prices to continue trending upward with potentially higher volatility. Higher fuel prices, combined with efforts to achieve environmental policy objectives, are likely to continue to generate demand for more fuel-efficient vehicles.

Currency Exchange Rate Volatility. The ongoing deleveraging in financial markets has generated significant volatility in currencies as well. Recently, the U.S. dollar has gained some ground against the British pound and euro.

Other Economic Factors. The eventual implications of significant fiscal stimulus, including higher government deficits generating potentially higher long-term interest rates, could drive a higher cost of capital over our planning period. Higher interest rates and/or taxes to address the higher deficits may also impede real GDP growth and, therefore, vehicle sales over our planning period.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Trends and Strategies

We continue to monitor incipient signs of economic recovery following the recent global economic crisis that caused such a sudden and substantial decline in global automotive industry sales volume, and we remain firm in our belief that our continued focus on executing the four pillars of our plan is the right strategy to achieve our objectives.

- Aggressively restructure to operate profitably at the current demand and changing model mix;
- Accelerate development of new products our customers want and value;
- Finance our plan and improve our balance sheet; and
- Work together effectively as one team, leveraging our global assets.

Despite the external economic environment, we have made significant progress in transforming our business:

Aggressively Restructure to Operate Profitably

Manufacturing. Our U.S. manufacturing presence includes 10 vehicle assembly plants and 23 powertrain, stamping, and components plants. We have converted one North American assembly plant, and are converting two additional assembly plants, from production of large utilities and trucks to small car production to support what we believe is a permanent shift in consumer preferences to smaller, more fuel-efficient vehicles. In addition, nearly all of our U.S. assembly plants will have flexible body shops by 2012 to enable quick response to changing consumer demands, and nearly half of our transmission and engine plants will be flexible, capable of manufacturing various combinations of transmission and engine families. We have announced plans in North America to close three Ford plants and one ACH plant in the 2010 – 2011 period, as well as consolidating Wayne Assembly Plant into the Michigan Assembly Plant as part of our plan to expand North American production capacity for smaller, more fuel-efficient vehicles. We are exploring our options for our remaining ACH plants, and intend to transition these businesses to the supply base as soon as practicable.

Suppliers. We continue to work to strengthen our supply base in the United States, which represents 80% of our North American purchases. As part of this process, we have been reducing the total number of production suppliers eligible for new product sourcing from 3,300 in 2004 to about 1,600 suppliers in 2009 and 1,500 suppliers in 2010. To date, we have identified specific plans that will take us to about 850 suppliers in the near- to mid-term, with a further reduction to about 750 suppliers targeted. We believe that our efforts at consolidation will result in more business for our major suppliers, which is increasingly important with the decline in industry sales volume. In addition, our move to global vehicle platforms should increase our ability to source to common suppliers for the total global volume of vehicle components, so that a smaller number of suppliers will receive a greater volume of the purchases we make to support our global vehicle platforms.

Dealers. Our dealers are a source of strength in North America and around the world, especially in rural areas and small towns where they represent the face of Ford. At our current and expected future U.S. market share, however, we have too many dealers, particularly in metropolitan areas, which makes it difficult to sustain a healthy and profitable dealer base. To address this overcapacity, we are working with our dealers in efforts to downsize, consolidate and restructure our Ford, Lincoln, and Mercury network in our largest 130 metropolitan market areas in the United States to provide targeted average-year sales for Ford dealers of around 1,500 units and for Lincoln Mercury dealers of around 600 units. This should result in sustainable dealer profits. As part of these efforts, the number of dealers in our Ford, Lincoln and Mercury network in the United States has been reduced from about 4,400 at the end of 2005 to 3,800 at the end of 2008, and to 3,550 at the end of 2009. These efforts, which include funding dealer consolidations to enhance our representation in the marketplace, will continue in the future to reduce further our dealer network to match our sales and dealer sales objectives.

Product Development. In combination with the business improvements being achieved, our One Ford global product development system ("GPDS") allows us to realize efficiencies in capital and engineering costs, to increase revenue, and, in general, to bring to market a broad range of frequently-freshened, highly-acclaimed global vehicles that customers want and value. In addition, GPDS allows us to accelerate to market the number of new products designed to meet shifting consumer preferences, including, for example, preferences for smaller, more fuel-efficient vehicles. In 2010, globally we will deliver substantially more new or freshened product by volume than 2009, bringing to market an unprecedented volume of new products – with class-leading fuel economy, quality, safety and technology.

Ford Credit. During 2009, Ford Credit eliminated about 1,200 U.S. staff and agency positions within its servicing, sales, and central operations. During 2010, Ford Credit plans to reduce its staffing by about 1,000 positions to improve its cost structure, in response to lower financing volumes resulting from lower automotive industry sales volumes and the transition of Jaguar, Land Rover, Mazda, and Volvo financing to other finance providers.

Accelerate Development of New Products Our Customers Want and Value

We are committed to introducing new products that consumers want and value, and we are receiving very positive reactions from consumers, media, and independent evaluators in response to the products we introduced in 2009. We plan to build on this strength in 2010. Our global product strategy is to serve all meaningful geographic markets with a complete family of products that have best-in-class design, quality, green, safety and smart features. The result of this strategy is to produce vehicles that:

- have bold, emotive exterior designs,
- are great to drive,
- are great to sit in (with the comfort and convenience of a second home on wheels and exceptional quietness),
- provide best-in-class fuel economy as a reason to buy,
- are unmistakably a Ford or Lincoln in look, sound and feel, and
- provide an exceptional value.

With GPDS and our global product strategy, we have a global product cycle plan, global product programs, global product "DNA" and a global product development organization. This allows us to simplify, commonize and, hence, reduce the number of vehicle platforms or architectures and parts, as well as to simplify vehicle ordering from the customer's perspective. For example, we have reduced the number of global nameplates from 97 in 2006 to 59 in 2008, with further reductions planned. In 2007, we had 27 different vehicle platforms, with 29% of our total production volume produced from core platforms. In 2012, we plan to have 15 different platforms, with 72% of our total production volume produced from core platforms. With our One Ford GPDS, we are working to make all small- and medium-sized Ford vehicles competing in global segments common in North America, South America, Europe and Asia Pacific Africa by 2013. This will include Fiesta- and Focus-sized small cars, Fusion- and Mondeo-sized mid-size cars and utilities, compact pick-ups, and commercial vans. For example, in 2012, we expect to produce more than 2 million vehicles from our global C-car (Focus-sized) platform and more than 1 million vehicles from our global B-car (Fiesta-sized) platform. The efficiencies resulting from our One Ford GPDS and global product strategies are demonstrated by a 60% reduction in engineering costs and a 40% reduction in capital costs from 2005 to 2008, per typical new vehicle, with ongoing improvements planned.

In addition to these efficiencies, our global product strategies allow us to increase revenue by making our vehicles and their features more attractive to customers. With bold, emotive design, high levels of quality, fuel economy leadership, top safety ratings, innovative technology, greater feature content than competitive models and higher attractive series, we are able to reduce brand discount and increase revenue. In 2009, average per-unit revenue from our vehicles sold in North America increased by $3,300, from $22,800 in 2008 to $26,100 in 2009.

With the cost efficiencies and revenue increases that have been and will in the future be realized from our One Ford GPDS and global product strategy, we believe we can achieve small-car profitability in the North American market as well as other markets, and improve the profitability of all our vehicle lines in all markets.

Following is a discussion of new or future products offered or to be offered by Ford business units and a discussion of each of the four pillars of our global product strategy:

Ford North America. Ford, Lincoln and Mercury brands collectively increased U.S. overall and retail market share 14 of the last 15 months as of December 2009, and posted the first full-year market share gain since 1995. Our new 2010 Fusion Hybrid was named Motor Trend magazine's Car of the Year and awarded the title of North American Car of the Year at the North American International Auto Show in January 2010. The Ford Fusion, the most fuel-efficient mid-size sedan sold in America, posted a full-year sales record in 2009 with 180,671 units sold. The new Ford Transit Connect was introduced in the second quarter of 2009 and was awarded the 2010 North American Truck of the Year at the North American International Auto Show. The 2011 Ford Fiesta was revealed in North America in the fourth quarter of 2009 as a new offering and will go on sale in the second quarter of 2010. The 2011 Ford Mustang debuted with a new family of V-6 and V-8 engines that deliver best-in-class performance and fuel economy and will arrive in dealerships in spring 2010. Further product introductions are planned, as we plan to substantially increase the amount of new vehicle introductions by volume versus 2009, an aggressive product introduction period. For 2010, these introductions include the all-new Ford Fiesta, Focus, Explorer, Super Duty, Edge, Transit Connect Electric, Lincoln MKX and an all-new small car for Mercury.

Ford Europe. Based on the strength of its product portfolio, Ford Europe improved its 2009 full-year market share to 9.1% in the 19 European markets we track, a 0.5 percentage point increase versus 2008 and its best market share since 1998. Fiesta was the second best-selling model in Europe in 2009, reaching its best full-year sales since 1996. One year after its debut, more than 600,000 customers have purchased the new Fiesta globally. In 2010, we will continue to build on our product momentum, entering one of the most prolific periods of new product and technology introductions in Ford Europe's history. With 6 vehicle product actions planned for 2010 – including the new Ford C-MAX and Grand C-MAX, and the freshened Ford Galaxy, S-MAX and Focus – Ford Europe is poised to build on the successful introductions of the Ford Ka and Ford Fiesta. An expanded range of fuel-efficient powertrains, including the new EcoBoost 2.0-liter and 1.6-liter engines and further improved TDCi diesel powertrains will be available across the range, together with new technologies and innovations.

Ford South America. We continue to launch new products to meet the needs of our customers in South America. In 2010, we are bringing a flex-fuel version of the European-based Ford Focus to Brazil; nine additional product introductions are planned for the region in 2010. As noted, we also are making our largest-ever investment in Brazil operations over a five-year period, investing R$4 billion in 2011–2015 to accelerate delivery of more fuel-efficient, high-quality vehicles.

Ford Asia Pacific Africa. In 2010, we will see the introduction in Asia Pacific Africa of the all-new Ford Fiesta five-door and four-door sedan built in Rayong, Thailand. The four-door Fiesta will join its five-door sibling in Australia, New Zealand, South Africa and Taiwan. The new Ford Figo will commence sales in the second quarter in India and later in the year in South Africa. Other product introductions in 2010 include updated core products in key Asia Pacific Africa markets, including China.

Drive Quality. We have made significant strides to improve quality through a renewed commitment that touches every aspect of the vehicle process – from design to manufacturing to product launch – so that quality is designed and built into every vehicle. These efforts have paid off with best-in-class initial quality in the United States according to internal and external quality surveys. We have established a global set of disciplined, standardized processes aimed at making us the world's leader in automotive quality. Through GPDS and a single, global management team, we are leveraging our assets by eliminating duplication, implementing best practices and a systematic approach to quality, and utilizing common components for the advantage of scale. The new integrated approach can be seen in the new Fiesta, our first of this generation of global cars under our One Ford plan. Selling one high-volume version of this vehicle helps us lower capital and engineering costs, reduce defects and improve overall craftsmanship. In North America, we expect to launch our all-new B- and C-cars with best-in-class quality in 2010. In the 2009 J.D. Power Asia Pacific India Vehicle Dependability Study, our models ranked highest in the entry mid-size (Ford Ikon) and SUV (Ford Endeavor) segments. The Ikon also topped J.D. Power Asia Pacific 2009 Initial Quality Study for India. In South America, we are preparing to launch the 2011 EcoSport developed using our extensive quality program based on owner surveys. The cumulative effect of these disciplined, global quality standards has been improved owner satisfaction. We expect that our improved quality discipline will lead to continued improvement in long-term reliability.

Drive Green. We remain committed to our goal to deliver best-in-class or among the best-in-class fuel efficiency in every new vehicle we produce. For example, the 2010 Ford Fusion and Ford Fusion Hybrid, launched last year, are the most fuel-efficient mid-size sedans in the market. The 2011 Ford Fiesta, which will be in showrooms this year, offers a model rated at an EPA-estimated 30 miles per gallon city, 40 miles per gallon highway. The implementation of our new EcoBoost family of gasoline engines is well on its way, with the 3.5-liter engine now available in the Lincoln MKS and MKT and the Ford Taurus SHO and Flex and the I-4 EcoBoost to be introduced in vehicles this year. We will continue to aggressively migrate this technology across our product lineup. By 2013, 90% of Ford's North America nameplates will offer this engine option. By combining direct fuel-injection and turbo boosting, the engines can deliver up to 20% better fuel economy and up to 15% fewer CO2 emissions versus larger-displacement engines, without sacrificing driving performance.

We also are rolling out EcoBoost in Europe, with five models slated to implement this technology in the near-term, including the Galaxy and S-MAX in 2010. The Ford Europe ECOnetic range of ultra-low CO2 models across all car segments (from B to CD), including commercial vehicle applications, started in 2008 with the Ford Focus ECOnetic, followed by the Fiesta and Transit ECOnetic. Recently, we unveiled the second-generation Focus ECOnetic with further advanced technology and reduced CO2 emissions (below 100 g/km of CO2). In Asia Pacific Africa, we have committed to improving fuel efficiency by up to 20% across our product lineup by 2012 – helped by the introduction of new models, as well as innovative Ford technologies such as Powershift transmissions and EcoBoost. As part of this commitment, we will launch EcoBoost-equipped vehicles in China, Australia, New Zealand and Taiwan in 2010. Also in Australia, by 2011 we will introduce an advanced liquid-injection LPG system for the Ford Falcon, providing customers with the most advanced LPG technology on the market.

We have developed a sustainability strategy that outlines future technology pathways for our vehicle production in the near-, mid- and long-term. Near-term, we have introduced EcoBoost, doubled the number and volume production of our hybrids and continue to implement fuel-saving technologies such as six-speed transmissions and electric power assist steering in the product lineup. We also have announced an aggressive electric vehicle strategy that will bring at least four new electric vehicles to market in the United States within the next three years. Late this year, the Ford Transit Connect Electric, a small, all-electric commercial van will be introduced to the market, aimed at commercial vehicle owners. Next year, we will begin production of a zero-emission Ford Focus Electric vehicle at our Michigan Assembly Plant. In 2012, we will produce, at that same facility, the next-generation hybrid vehicle and plug-in hybrid. Electric vehicle projects also are underway in Germany and the United Kingdom. We continue to engage in a number of collaborative agreements to address the many challenges that remain for electrified transportation, including battery development, standardization, cost, electric infrastructure and connectivity to the national power grid.

Drive Safe. We are expanding our heritage of leading vehicle safety with both advanced crash protection and crash avoidance technology. We have the most U.S. government five-star rated vehicles and the most "Top Safety Picks" from the Insurance Institute of Highway Safety of any automaker. We are building on our safety leadership by focusing on three key areas – addressing driver behavior, enhancing crash protection even more and pioneering the next frontier of safety with "active" crash-avoidance technologies. For example, we have introduced a new feature called MyKey to help parents encourage their teenagers to drive more safely and more fuel efficiently, and to increase safety belt usage. MyKey – which debuted on the 2010 Ford Focus and is quickly becoming standard on many other Ford, Lincoln and Mercury models – allows owners to program a key that can limit the vehicle's top speed and audio volume. We also began offering a new advanced crash-avoidance technology, Collision Warning with Brake Support, on certain Ford and Lincoln vehicles in 2009, including the 2010 model-year Ford Taurus. This feature uses radar to detect slowing or stationary vehicles directly ahead and warns the driver with an authoritative beep and a red warning light projected on the windshield. The next-generation Ford Explorer, which goes into production in 2010, will debut the auto industry's first-ever production use of inflatable seat belts, designed to provide additional protection for rear-seat occupants – often children and older passengers who can be more vulnerable to head, chest and neck injuries. We eventually plan to offer inflatable seat belt technology on other vehicles globally.

In Europe, we plan to offer a suite of new safety and driver assistance technology on vehicles sold in the region in 2010 and beyond, including our Blind Spot Information System, Speed Limiter, Active Park Assist, Torque Vectoring Control, Adaptive Cruise Control, Lane Departure Warning, Lane Keeping Aid, Low Speed Collision Mitigation System, Traffic Sign Recognition System, Driver Alert, All-Seat Beltminder and Power Child Locks. Many of these safety features will become available with the introduction of the next-generation C-MAX, Grand C-MAX, Focus and freshened S-Max and Galaxy.

Drive Smart. We earned our second consecutive invitation to keynote the International Consumer Electronics Show, placing the Company among the world's leading electronics and technology innovators. At the show, our President and Chief Executive Officer Alan Mulally introduced MyFord Touch and the next-generation of SYNC that will redefine the in-car experience with a simpler, safer and smarter way to connect drivers with available technology and their digital lives. MyFord Touch presents a holistic approach to accessing and personalizing vehicle settings and functions using a mix of graphic, touch, and voice user interfaces. MyFord Touch was recognized with CNET's "Best of CES" and Popular Mechanics' "Editor's Choice" awards at the show. MyFord and SYNC are both headed to the European market for upcoming products, including the Focus and C-MAX. Ford also is leading the way in leveraging the growing consumer trend of smartphone applications ("apps") with an innovative approach to control the applications through SYNC. Our application programming interface ("API") brings popular apps such as Pandora internet radio, Stitcher "smart" radio and the Twitter client OpenBeak into the car. These technologies not only provide greater connectivity to vehicle occupants, but importantly also help mitigate driver distraction risks by using the safer means of voice commands to control functions and programs.

Finance Our Plan and Improve Our Balance Sheet

During 2009, we completed numerous financing transactions designed to provide additional Automotive liquidity and improve our balance sheet. These accomplishments include:

- Negotiated with the UAW to amend the VEBA agreement to provide the option of paying up to approximately 50% of our VEBA obligations in Ford Common Stock, and to smooth payments over the 13-year payment term.
- Reduced Automotive debt by $10.1 billion principal amount, utilizing $2.6 billion in Automotive and Ford Credit cash and 468 million shares of Ford Common Stock, through a number of separate but related transactions, including a cash tender offer to repurchase outstanding debt securities, a cash tender offer to repurchase certain secured term loan debt, and an induced conversion offer with respect to our convertible debt securities maturing 2036.
- Raised $1.6 billion of equity in an underwritten public offering of Ford Common Stock.
- Raised $565 million with the completion of an equity distribution program begun in 2008, pursuant to which shares of Ford Common Stock were issued over time in market transactions.
- Entered into a U.S. Department of Energy ("DOE") loan agreement to provide us up to $5.9 billion in loans, at interest rates generally equivalent to a 10-year U.S. Treasury rate, under the DOE's Advanced Technology Vehicles Manufacturing Incentive Program (the "ATVM Program").
- Issued $2.875 billion of 4.25% Senior Convertible Notes due 2016.
- Amended and extended the revolving credit facility under our secured Credit Agreement – reducing the amount of the revolving credit facility from $10.7 billion to $8.1 billion, extending the maturity date of $7.2 billion of that amount from December 2011 to November 2013 and establishing a new term loan in the amount of $724 million maturing in December 2013.
- Registered an additional $1 billion equity distribution program in November 2009 and commenced sales thereunder in December 2009.
- Completed the UAW VEBA transaction on December 31, 2009 by transferring assets, consisting of cash and marketable securities, notes and warrants valued at $14.8 billion, to the UAW VEBA Trust, thereby discharging our $13.6 billion of UAW retiree health care obligations.

See "Liquidity and Capital Resources" and Note 19 of the Notes to the Financial Statements for additional discussion of financing activities, available liquidity and outstanding debt.

After completion of the important steps described above (discussed further in "Liquidity and Capital Resources" and the Notes to the Financial Statements), we ended 2009 with $34.4 billion in Automotive debt, which is significantly higher than that of our key competitors. As a result, we continue to pursue opportunities to improve our balance sheet – with a key priority being continuous improvement of the underlying business in order to generate operating profits and positive Automotive cash flow with which our debt can be paid down.

We believe that our stable management team, our strong supplier and dealer relationships, the positive acceptance of our products by customers, and our full pipeline of new products allow us to compete effectively in the global vehicle markets while we reduce our debt to a more competitive level.

Work Together Effectively as One Team

As part of the One Team approach, we have implemented a disciplined business plan process to regularly review our business environment, risks and opportunities, strategy, and plan, and to identify areas of our plan that need special attention while pursuing opportunities to improve our plan. Everyone is included and contributes, openness is encouraged, our leaders are responsible and accountable, we use facts and data to make our decisions, high performance teamwork is a performance criteria – and we follow this process every week, every month, and every quarter, driving continuous improvement. We believe this process gives us a clear picture of our business in real time and the ability to respond quickly and decisively to new issues and changing conditions – as we have done in the face of rapid changes in the market and business environment in 2009.

In addition, we are partnering with and enlisting all of our stakeholders to help us execute our plan to deal with our business realities and create an exciting and viable Ford business going forward. We are reaching out and listening to customers, dealers, employees, the UAW, suppliers, investors, communities, retirees, and federal, state and local governments. Each of these constituencies is a critical part of the success of our business going forward. Realizing our goal of profitable growth for all is as important to these stakeholders as it is to our shareholders.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS

FULL-YEAR 2009 RESULTS OF OPERATIONS

Our worldwide net income attributable to Ford Motor Company was $2.7 billion or $0.86 per share of Common and Class B Stock in 2009, an improvement of $17.5 billion from a net loss attributable to Ford Motor Company of $14.8 billion or $6.50 per share of Common and Class B Stock in 2008.

Results by business sector are shown below (in millions):

	2009	2008 (a)	2007 (a)
Income/(Loss) before income taxes			
Automotive sector	$1,212	$(11,917)	$(5,081)
Financial Services sector	1,814	(2,581)	1,224
Total Company	3,026	(14,498)	(3,857)
Provision for/(Benefit from) income taxes (b)	69	63	(1,333)
Income/(Loss) from continuing operations	2,957	(14,561)	(2,524)
Income/(Loss) from discontinued operations	5	9	41
Net income/(loss)	2,962	(14,552)	(2,483)
Less: Income/(Loss) attributable to noncontrolling interests (c)	245	214	312
Net income/(loss) attributable to Ford Motor Company (d)	$2,717	$(14,766)	$(2,795)

(a) Adjusted for the effect of the change in the accounting standards for convertible debt instruments that, upon conversion, may be settled in cash; see Note 1 of the Notes to the Financial Statements for additional detail.
(b) See Note 23 of the Notes to the Financial Statements for disclosure regarding 2009 effective tax rate.
(c) Formerly labeled "Minority interests in net income/(loss)," reflects new presentation under standard on accounting for noncontrolling interests, which was effective January 1, 2009. Primarily related to Ford Europe's consolidated 41% owned affiliate, Ford Otosan. The pre-tax results for Ford Otosan were $307 million, $531 million, and $551 million in 2009, 2008, and 2007, respectively. See "Item 2. Properties" for additional discussion of Ford Otosan.
(d) Formerly labeled "Net income/(loss)," reflects new presentation under the standard on accounting for noncontrolling interests, effective January 1, 2009.

Income/(Loss) before income taxes includes certain items ("special items") that we have grouped into "Personnel and Dealer-Related Items" and "Other Items" to provide useful information to investors about the nature of the special items. The first category includes items related to our efforts to match production capacity and cost structure to market demand and changing model mix and therefore helps investors track amounts related to those activities. The second category includes items that we do not generally consider to be indicative of our ongoing operating activities, and therefore allows investors analyzing our pre-tax results to identify certain infrequent significant items that they may wish to exclude when considering the trend of ongoing operating results.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

The following table details special items in each category by segment or business unit (in millions):

Personnel and Dealer-Related Items – Automotive Sector:	2009	2008	2007
Ford North America			
Retiree health care and related charges	$(768)	$2,583	$1,332
Personnel-reduction actions/Other	(358)	(875)	(829)
U.S. dealer actions (primarily dealership impairments)	(139)	(219)	—
Pension curtailment charges	—	—	(180)
Job Security Benefits/Transition Assistance Plan	40	346	80
Total Ford North America	(1,225)	1,835	403
Ford South America			
Personnel-reduction actions	(20)	—	—
Ford Europe			
Personnel-reduction actions/Other	(216)	(82)	(90)
Ford Asia Pacific Africa			
Personnel-reduction actions/Other	(22)	(137)	(23)
Volvo			
Personnel-reduction actions/Other	(54)	(194)	(63)
U.S. dealer actions	(1)	(31)	—
Total Volvo	(55)	(225)	(63)
Other Automotive			
Return on assets held in Temporary Asset Account ("TAA")	110	(509)	—
Total Personnel and Dealer-Related Items – Automotive sector	(1,428)	882	227
Other Items:			
Automotive sector			
Ford North America			
Fixed asset impairment charges	—	(5,300)	—
Gain/(Loss) on sale of ACH plants	—	(324)	3
Accelerated depreciation related to AAI acquisition of leased facility	—	(306)	—
Supplier settlement/Other	—	(202)	—
Ballard restructuring/Other	—	(70)	—
Variable marketing – change in business practice *	—	—	(1,099)
Total Ford North America	—	(6,202)	(1,096)
Ford Europe			
Investment impairment and related charges/Other	(96)	—	—
Variable marketing – change in business practice *	—	—	(120)
Plant idling/closure	—	—	(43)
Total Ford Europe	(96)	—	(163)
Ford Asia Pacific Africa			
Variable marketing – change in business practice *	—	—	(15)
Volvo			
Held-for-sale impairment	(650)	—	—
Goodwill impairment charges	—	—	(2,400)
Variable marketing – change in business practice *	—	—	(87)
Held-for-sale cessation of depreciation and related charges/Other	424	—	(4)
Total Volvo	(226)	—	(2,491)
Other Automotive			
Liquidation of foreign subsidiary – foreign currency translation impact	(281)	—	—

Initial mark-to-market adjustment on Mazda marketable securities	—	(80)	—
Loss from conversion of convertible securities	—	—	(632)
Gain from debt securities exchanged for equity	—	141	120
Net gains from debt reduction actions	4,663	—	—
Total Other Automotive	4,382	61	(512)
Mazda			
Loss on sale of Mazda shares	—	(121)	—
Impairment of dealer network goodwill	—	(214)	—
Total Mazda	—	(335)	—
Jaguar Land Rover and Aston Martin			
Sale-related/Other	3	32	178
Total Other Items – Automotive sector	4,063	(6,444)	(4,099)
Financial Services sector			
DFO Partnership impairment/gain on sale	(132)	—	—
Ford Credit net operating lease impairment charge	—	(2,086)	—
Gain from purchase of Ford Holdings debt securities	51	—	—
Total Other Items – Financial Services sector	(81)	(2,086)	—
Total	$2,554	$(7,648)	$(3,872)

* Represents a one-time, non-cash charge related to a change in our business practice for offering and announcing retail variable marketing incentives to our dealers. See our Annual Report on Form 10-K for the year ended December 31, 2007 for discussion of this change in business practice.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Included in Provision for/(Benefit from) income taxes are tax benefits of $132 million, $144 million, and $1.5 billion for 2009, 2008, and 2007, respectively, that we consider to be special items. These consist of the tax effects of the pre-tax special items listed above, the impact of changes in tax rate on deferred tax balances, and, in 2007, a $1.5 billion 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.

Discussion of Automotive and Financial Services sector results of operations below is on a pre-tax basis. Discussion of overall Automotive cost changes, including structural cost changes (e.g., manufacturing and engineering, pension and OPEB, overhead, etc.), is at constant exchange and excludes special items and discontinued operations. In addition, costs that vary directly with volume, such as material, freight, and warranty costs, are measured at constant volume and mix.

AUTOMOTIVE SECTOR RESULTS OF OPERATIONS

2009 Compared with 2008

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

	2009	2008	2009 Over/(Under) 2008
Ford North America *	$(1,649)	$(10,248)	$ 8,599
Ford South America	745	1,230	(485)
Ford Europe	(226)	970	(1,196)
Ford Asia Pacific Africa	(97)	(290)	193
Volvo	(934)	(1,690)	756
Total ongoing Automotive operations	(2,161)	(10,028)	7,867
Other Automotive	3,370	(1,816)	5,186
Total ongoing Automotive	1,209	(11,844)	13,053
Mazda	—	(105)	105
Jaguar Land Rover and Aston Martin	3	32	(29)
Total Automotive sector	$1,212	$(11,917)	$ 13,129

* Includes the sales of Mazda6 by our consolidated subsidiary, AAI.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Details by segment of Automotive revenues ("sales") and wholesale unit volumes are shown below:

	Sales (a) (in billions)				Wholesales (b) (in thousands)			
	2009	2008	2009 Over/(Under) 2008		2009	2008	2009 Over/(Under) 2008	
Ford North America (c)	$ 50.5	$ 53.4	$ (2.9)	(5)%	1,959	2,329	(370)	(16)%
Ford South America	8.0	8.6	(0.6)	(8)	443	435	8	2
Ford Europe	29.5	39.0	(9.5)	(24)	1,568	1,820	(252)	(14)
Ford Asia Pacific Africa (d)	5.5	6.5	(1.0)	(14)	523	464	59	13
Volvo	12.4	14.7	(2.3)	(15)	324	359	(35)	(10)
Total ongoing Automotive	105.9	122.2	(16.3)	(13)	4,817	5,407	(590)	(11)
Jaguar Land Rover and Aston Martin	—	7.0	(7.0)	(100)	—	125	(125)	(100)
Total Automotive sector	105.9	$ 129.2	$ (23.3)	(18)	4,817	5,532	(715)	(13)

(a) 2009 over/(under) 2008 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 by unconsolidated affiliates totaling about 264,000 and 184,000 units in 2009 and 2008, respectively. Also included in the 184,000 units in 2008 are Ford-badged vehicles sold by unconsolidated affiliates in Malaysia during the first quarter. "Sales" above does not include revenue from these units.

Details of Automotive sector market share for selected markets for 2009 and 2008, along with the level of dealer stocks as of December 31, 2009 and 2008, are shown below:

	Market Share			Dealer-Owned Stocks (a) (in thousands)		
	2009	2008	2009 Over/ (Under) 2008	2009	2008	2009 Over/ (Under) 2008

United States (b)	15.3 %	14.2 %	1.1 pts.	382	442	(60)
South America (b) (c)	10.2	9.7	0.5	53	45	8
Europe (b) (d)	9.1	8.6	0.5	202	282	(80)
Asia Pacific Africa (b) (e) (f)	2.0	2.0	—	33	46	(13)
Volvo – United States/Europe (d)	0.6/1.3	0.5/1.3	0.1/—	12/31	13/40	(1)/(9)

(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.

(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 market share is based, in part, on estimated vehicle registrations for the 19 European markets we track (described in Item 1).

(e) Asia Pacific Africa market share is based, in part, on estimated vehicle 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.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Overall Automotive Sector

The improvement in results primarily reflects favorable cost changes ($5.8 billion), favorable net pricing ($5.5 billion), the non-recurrence of fixed asset impairment charges in Ford North America ($5.3 billion), net gains on debt reduction actions ($4.7 billion), and higher returns on the assets held in the TAA (about $900 million). These factors were offset partially by unfavorable volume and mix ($3.7 billion), higher retiree health care and related charges and the non-recurrence of a retiree health care curtailment gain ($3.4 billion), and unfavorable changes in currency exchange ($2.1 billion). The favorable cost changes primarily reflect lower structural costs.

The decrease in revenue primarily reflects lower volumes, the non-recurrence of revenue at Jaguar Land Rover, and unfavorable changes in currency exchange, offset partially by favorable net pricing.

The table below details our Automotive sector 2009 structural cost changes at constant exchange, excluding special items and discontinued operations (in billions):

	Explanation of Structural Cost Changes	2009 Better/(Worse) Than 2008
Manufacturing and engineering	Primarily hourly and salaried personnel reductions and efficiencies in our plants and processes	$ 2.7
Pension and OPEB	Primarily the effect of the UAW Retiree Health Care Settlement Agreement	0.8
Advertising & sales promotions	Reduced costs	0.6
Spending-related	Primarily lower depreciation and amortization related to the North America asset impairment at the end of second quarter 2008	0.6
Overhead	Primarily salaried personnel reductions	0.4
	Total	$ 5.1

Ford North America Segment. The improvement in earnings primarily reflects the non-recurrence of fixed asset impairment charges ($5.3 billion), favorable net pricing ($4 billion), favorable cost changes ($3.7 billion), lower costs associated with personnel-reduction actions (about $500 million), and the non-recurrence of losses on the sale of ACH plants (about $300 million). These factors are offset partially by higher retiree health care and related charges and the non-recurrence of a retiree health care curtailment gain ($3.4 billion), unfavorable changes in currency exchange ($1.2 billion), and unfavorable volume and mix (including lower industry volume, offset partially by favorable mix and higher market share) (about $900 million). The favorable net pricing primarily reflects the success of new products, selective top-line pricing, and a disciplined approach on incentives. The unfavorable changes in currency exchange primarily reflect the non-recurrence of favorable 2008 balance sheet valuations. The favorable cost changes primarily reflect lower structural costs (including lower manufacturing and engineering, pension and OPEB, and spending-related costs) and lower net product costs.

Ford South America Segment. The decrease in earnings primarily reflects unfavorable changes in currency exchange rates and unfavorable cost changes, offset partially by favorable net pricing. The unfavorable cost changes primarily reflect higher net product costs.

Ford Europe Segment. The decline in results primarily reflects unfavorable volume and mix (including lower industry volume and dealer stock, as well as unfavorable product mix due in part to government scrappage programs), unfavorable changes in currency exchange rates, lower earnings due to lower volumes at our consolidated joint ventures, higher costs associated with personnel-reduction actions, and an investment impairment. These factors are offset partially by favorable cost changes and favorable net pricing. The favorable cost changes primarily reflect lower structural costs (including lower manufacturing and engineering, advertising and sales promotions, and spending-related costs).

Ford Asia Pacific Africa Segment. The improvement in earnings is more than explained by favorable net pricing, favorable cost changes, lower costs associated with personnel-reduction actions, and favorable China joint venture profits, offset partially by unfavorable volume and mix and unfavorable changes in currency exchange rates. The favorable cost changes are more than explained by lower structural costs (including lower manufacturing and engineering, advertising and sales promotions, and overhead costs).

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Volvo Segment. The improvement in earnings is more than explained by favorable cost changes, held-for-sale cessation of depreciation, favorable changes in currency exchange rates, and lower costs associated with personnel-reduction actions, offset partially by a held-for-sale impairment and unfavorable volume and mix. The favorable cost changes primarily reflect lower structural costs (including lower manufacturing and engineering, advertising and sales promotions, and overhead costs) and lower net product costs.

Other Automotive. The improvement in results is more than explained by net gains resulting from debt reduction actions and higher returns on the assets held in the TAA.

Mazda Segment. In the fourth quarter of 2008, we sold a significant portion of our investment in Mazda. Our remaining ownership interest is treated as a marketable security, with mark-to-market adjustments reported in Other Automotive.

Jaguar Land Rover and Aston Martin Segment. During the second quarter of 2008, we sold our Jaguar Land Rover operations. During the second quarter of 2007, we sold our Aston Martin operations.

2008 Compared with 2007

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

	2008	2007	2008 Over/(Under) 2007
Ford North America *	$(10,248)	$(4,139)	$ (6,109)
Ford South America	1,230	1,172	58
Ford Europe	970	744	226
Ford Asia Pacific Africa	(290)	2	(292)
Volvo	(1,690)	(2,718)	1,028
Total ongoing Automotive operations	(10,028)	(4,939)	(5,089)
Other Automotive	(1,816)	(1,170)	(646)
Total ongoing Automotive	(11,844)	(6,109)	(5,735)
Mazda	(105)	182	(287)
Jaguar Land Rover and Aston Martin	32	846	(814)
Total Automotive sector	$(11,917)	$(5,081)	$ (6,836)

* Includes the sales of Mazda6 by our consolidated subsidiary, AAI.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Details by segment of Automotive revenues ("sales") and wholesale unit volumes are shown below:

	Sales (a) (in billions)				Wholesales (b) (in thousands)			
	2008	2007	2008 Over/(Under) 2007		2008	2007	2008 Over/(Under) 2007	
Ford North America (c)	$ 53.4	$ 70.4	$ (17.0)	(24)%	2,329	2,890	(561)	(19)%
Ford South America	8.6	7.6	1.0	14	435	438	(3)	(1)
Ford Europe	39.0	36.3	2.7	7	1,820	1,918	(98)	(5)
Ford Asia Pacific Africa (d)	6.5	7.0	(0.5)	(8)	464	535	(71)	(13)
Volvo	14.7	17.8	(3.1)	(17)	359	482	(123)	(26)
Total ongoing Automotive	122.2	139.1	(16.9)	(12)	5,407	6,263	(856)	(14)
Jaguar Land Rover and Aston Martin	7.0	15.3	(8.3)	(54)	125	292	(167)	(57)
Total Automotive sector	$ 129.2	$ 154.4	$ (25.2)	(16)	5,532	6,555	(1,023)	(16)

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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 through the first quarter of 2008 in Malaysia, by unconsolidated affiliates totaling about 184,000 and 205,000 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 2008 and 2007, along with the level of dealer stocks as of December 31, 2008 and 2007, are shown below:

	Market Share			Dealer-Owned Stocks (a) (in thousands)		
	2008	2007	2008 Over/(Under) 2007	2008	2007	2008 Over/(Under) 2007
United States (b)	14.2 %	14.6 %	(0.4) pts.	442	533	(91)

South America (b) (c)	9.7	10.7	(1.0)	45	34	11
Europe (b) (d)	8.6	8.6	—	282	271	11
Asia Pacific Africa (b) (e) (f)	2.0	2.3	(0.3)	46	58	(12)
Volvo – United States/Europe (d)	0.5/1.3	0.6/1.5	(0.1)/(0.2)	13/40	24/43	(11)/(3)

(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.

(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 market share is based, in part, on estimated vehicle registrations for the 19 European markets we track (described in Item 1).

(e) Asia Pacific Africa market share is based, in part, on estimated vehicle 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.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Overall Automotive Sector

The decline in earnings primarily reflects unfavorable volume and mix ($6.9 billion), fixed asset impairment charges in Ford North America ($5.3 billion), lower returns on our cash portfolio ($1 billion), lower returns on the assets held in the TAA (about $700 million), and unfavorable net pricing (about $700 million). These factors were offset partially by favorable cost changes ($4.3 billion), the non-recurrence of a goodwill impairment charge related to Volvo ($2.4 billion), and favorable retiree health care changes (primarily curtailment gains) ($1.3 billion). The favorable costs changes primarily reflect lower structural costs, offset partially by higher net product costs.

The decrease in revenue is more than explained by lower volumes and lower revenue for Jaguar Land Rover, offset partially by favorable changes in currency exchange.

The table below details our Automotive sector 2008 structural cost changes at constant exchange, excluding special items and discontinued operations (in billions):

	Explanation of Structural Cost Changes	2008 Better/(Worse) Than 2007
Manufacturing and engineering	Primarily hourly and salaried personnel reductions and efficiencies in our plants and processes	$ 1.6
Pension and OPEB	Primarily the effect of the UAW Retiree Health Care Settlement Agreement	1.2
Spending-related	Primarily lower depreciation and amortization related to the North America asset impairment at the end of second quarter 2008	1.3
Overhead	Primarily salaried personnel reductions	1.0
Advertising & sales promotions	Reduced costs	0.4
	Total	$ 5.5

Ford North America Segment. The decline in earnings is more than explained by unfavorable volume and mix ($5.4 billion), fixed asset impairment charges ($5.3 billion), and unfavorable net pricing ($1.3 billion), offset partially by favorable cost changes ($3.5 billion), favorable retiree health care changes (primarily curtailment gains) ($1.3 billion), and the non-recurrence of a variable marketing charge related to a business practice change ($1.1 billion). The favorable cost changes are more than explained by lower structural costs (including lower manufacturing and engineering, spending-related, and pension and OPEB costs), offset partially by higher net product costs.

Ford South America Segment. The increase in earnings is more than explained by favorable net pricing, offset partially by unfavorable cost changes, unfavorable volume and mix, and unfavorable changes in currency exchange. The unfavorable cost changes are more than explained by higher net product costs.

Ford Europe Segment. The increase in earnings primarily reflects favorable cost changes, favorable net pricing, and the non-recurrence of a variable marketing charge related to a business practice change, offset partially by unfavorable changes in currency exchange rates and unfavorable volume and mix. The favorable cost changes are more than explained by lower structural costs (including lower pension costs) and lower warranty-related costs.

Ford Asia Pacific Africa Segment. The decline in results primarily reflects unfavorable volume and mix, unfavorable changes in currency exchange rates, and higher costs associated with personnel-reduction actions, offset partially by favorable cost changes and higher net pricing. The favorable cost changes are more than explained by lower structural costs (including lower overhead, spending-related, and advertising and sales promotions costs) and lower net product costs.

Volvo Segment. The improvement in earnings is more than explained by the non-recurrence of a goodwill impairment charge and favorable cost changes. These factors were offset partially by unfavorable volume and mix, mainly in the United States and Europe (largely due to lower industry sales volumes, lower market share, and unfavorable product mix), unfavorable net pricing, and unfavorable changes in currency exchange rates. The favorable cost changes primarily reflects lower structural costs (including lower manufacturing and engineering, overhead, and advertising and sales promotions costs), lower net product costs, and lower warranty-related costs.

Other Automotive. The decline in earnings primarily reflected lower returns on our cash portfolio and lower returns on the assets held in the TAA. These factors were offset partially by the non-recurrence of the conversion of convertible securities, lower interest expense, and favorable mark-to-market adjustments for changes in currency exchange rates on intercompany loans.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Mazda Segment. In the fourth quarter of 2008, we sold a significant portion of our investment in Mazda. Our remaining ownership interest is treated as marketable securities, with mark-to-market adjustments reported in Other Automotive.

Jaguar Land Rover and Aston Martin Segment. During the second quarter of 2008, we sold our Jaguar Land Rover operations. During the second quarter of 2007, we sold our Aston Martin operations.

FINANCIAL SERVICES SECTOR RESULTS OF OPERATIONS

2009 Compared with 2008

Details of the full-year Financial Services sector Revenues and Income/(Loss) before income taxes for 2009 and 2008 are shown below:

	Revenues (in billions)			Income/(Loss) Before Income Taxes (in millions)		
	2009	2008	2009 Over/(Under) 2008	2009	2008	2009 Over/(Under) 2008
Ford Credit	$12.1	$15.7	$ (3.6)	$2,001	$(2,559)	$ 4,560
Other Financial Services	0.3	0.3	—	(187)	(22)	(165)
Total	$12.4	$16.0	$ (3.6)	$1,814	$(2,581)	$ 4,395

Ford Credit

The improvement in pre-tax results primarily reflected the non-recurrence of the 2008 impairment charge to Ford Credit's North America operations operating lease portfolio for contracts terminating beginning third quarter of 2008 ($2.1 billion), lower depreciation expense for leased vehicles and lower residual losses on returned vehicles due to higher auction values ($1.9 billion), and a lower provision for credit losses primarily related to non-recurrence of higher severity offset partially by higher repossessions (about $800 million). Other factors that explain the improvement in pre-tax results included the non-recurrence of net losses related to market valuation adjustments to derivatives, shown as unallocated risk management in the table below ($367 million), net gains related to unhedged currency exposure primarily from cross-border intercompany lending (about $300 million), lower net operating costs (about $200 million), and higher financing margin primarily attributable to lower borrowing costs (about $100 million). These factors were offset partially by lower volume primarily reflecting lower industry volumes, lower dealer stocks, the impact of divestitures and alternative business arrangements, and changes in currency exchange rates (about $1 billion); the non-recurrence of the gain related to the sale of approximately half of Ford Credit's ownership interest in its Nordic operation (about $100 million), and a valuation allowance for Australian finance receivables sold in 2009 (about $50 million).

Results of Ford Credit's operations and unallocated risk management for 2009 and 2008 are shown below:

	Full Year		
	2009	2008	2009 Over/(Under) 2008
Income/(Loss) before income taxes			
North America operations	$1,905	$(2,749)	$ 4,654

International operations	46	507	(461)
Unallocated risk management*	50	(317)	367
Income/(Loss) before income taxes	2,001	(2,559)	4,560
Provision for/(Benefit from) income taxes and Gain on disposal of discontinued operations	722	(1,023)	1,745
Net income/(loss)	$1,279	$(1,536)	$ 2,815

* Consists of gains and losses related to market valuation adjustments to derivatives primarily related to movements in interest rates.

The improvement in Ford Credit's North America operations pre-tax results primarily reflected non-recurrence of the impairment charge for operating leases, lower depreciation expense for leased vehicles and lower residual losses on returned vehicles due to higher auction values, a lower provision for credit losses, net gains related to unhedged currency exposure from cross-border intercompany lending, higher financing margin, and lower operating costs. These factors were offset partially by lower volume. The decrease in Ford Credit's International operations pre-tax earnings primarily reflected lower volume, a higher provision for credit losses primarily reflecting losses in Spain and Germany, lower financing margin primarily in Mexico, non-recurrence of a gain related to the sale of approximately half of Ford Credit's ownership interest in its Nordic operations, and a valuation allowance for Australian finance receivables sold in 2009. These factors were offset partially by lower operating costs. The change in unallocated risk management income reflected the non-recurrence of net losses related to market valuation adjustments to derivatives primarily related to movements in interest rates.

Ford Credit reviews its business performance from several perspectives, including:

- On-balance sheet basis. Includes the receivables and leases Ford Credit owns and securitized receivables and leases that remain on Ford Credit's balance sheet (includes other structured financings and factoring transactions that have features similar to securitization transactions);
- Securitized off-balance sheet basis. Includes receivables sold in securitization transactions that, when sold, do not remain on Ford Credit's balance sheet;
- Managed basis. Includes on-balance sheet receivables, excluding unearned interest supplements related to finance receivables, and securitized off-balance sheet receivables that Ford Credit continues to service; and
- Serviced basis. Includes managed receivables and leases, and receivables sold in whole-loan sale transactions where Ford Credit retains no interest in the sold receivables, but which it continues to service.

Ford Credit analyzes its financial performance primarily on a managed and on-balance sheet basis. It retains interests in receivables sold in off-balance sheet securitization transactions and, with respect to subordinated retained interests, Ford Credit has credit risk. As a result, it evaluates credit losses, receivables, and leverage on a managed basis as well as on an on-balance sheet basis. In contrast, Ford Credit does not have the same financial interest in the performance of receivables sold in whole-loan sale transactions, and as a result, Ford Credit generally reviews the performance of its serviced portfolio only to evaluate the effectiveness of its origination and collection activities. To evaluate the performance of these activities, Ford Credit monitors a number of measures, such as delinquencies, repossession statistics, losses on repossessions, and the number of bankruptcy filings.

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

	December 31, 2009	December 31, 2008
Receivables – On-Balance Sheet		
Finance receivables		
Retail installment	$56.3	$65.5
Wholesale	22.4	27.7
Other	2.4	2.8
Unearned interest supplements	(1.9)	(1.3)
Allowance for credit losses	(1.3)	(1.4)
Finance receivables, net	77.9	93.3
Net investment in operating leases	14.6	22.5
Total receivables – on-balance sheet (a)(b)	$92.5	$115.8
Memo:		
Total receivables – managed (c)	$94.5	$117.7
Total receivables – serviced (d)	94.6	118.0

(a) At December 31, 2009 and 2008, includes finance receivables of $64.4 billion and $73.7 billion, respectively, that have been sold for legal purposes in securitization transactions that do not satisfy the requirements for accounting sale treatment. In addition, at December 31, 2009 and 2008, includes net investment in operating leases of $10.4 billion and $15.6 billion, respectively, that have been included in securitization transactions that do not satisfy the requirements for accounting sale treatment. These underlying securitized assets are available only for payment of the debt and 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. Ford Credit holds the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of these securitization transactions.

(b) Includes allowance for credit losses of $1.5 billion and $1.7 billion at December 31, 2009 and, 2008, respectively.

(c) Includes on-balance sheet receivables, excluding unearned interest supplements related to finance receivables of $1.9 billion and $1.3 billion at December 31, 2009 and 2008, respectively; and includes off-balance sheet retail receivables of about $100 million and about $600 million at December 31, 2009 and 2008, respectively.

(d) Includes managed receivables and receivables sold in whole-loan sale transactions where Ford Credit retains no interest, but which Ford Credit continues to service of about $100 million and about $300 million at December 31, 2009 and 2008, respectively.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Receivables decreased from year-end 2008, primarily reflecting lower industry volumes, lower dealer stocks, and the transition of Jaguar, Land Rover, and Mazda financing to other finance providers. In 2009, as part of Ford Credit's commitment to support the sale of Ford, Lincoln, and Mercury brand vehicles, Volvo began to transition its financing to other sources. At December 31, 2009, the Jaguar, Land Rover, and Mazda financing portfolio represented 7% of Ford Credit's managed receivables and the Volvo financing portfolio represented 5% of Ford Credit's managed receivables. These percentages will decline over time.

The following table shows worldwide charge-offs (credit losses net of recoveries), 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.

	2009	2008	2009 Over/(Under) 2008
Charge-offs – On-Balance Sheet (in millions)			
Retail installment and lease	$989	$1,089	$ (100)
Wholesale	94	29	65
Other	12	17	(5)
Total charge-offs – on-balance sheet	$1,095	$1,135	$ (40)
Loss-to-Receivables Ratios – On-Balance Sheet			
Retail installment and lease	1.25 %	1.10 %	0.15pts.
Wholesale	0.45	0.09	0.36
Total loss-to-receivables ratio (including other) – on-balance sheet	1.07 %	0.84 %	0.23pts.
Memo:			
Total charge-offs – managed (in millions)	$1,100	$1,166	$ (66)
Total loss-to-receivables (including other) – managed	1.07 %	0.84 %	0.23pts.

Most of Ford Credit's charge-offs are related to retail installment sale and lease contracts. Charge-offs depend on the number of vehicle repossessions, the unpaid balance outstanding at the time of repossession, the auction price of repossessed vehicles, and other charge-offs. Ford Credit also incurs credit losses on its wholesale loans, but default rates for these receivables historically have been substantially lower than those for retail installment sale and lease contracts.

The decrease in charge-offs from a year ago reflected lower losses in the United States, offset partially by higher losses in Europe. The decrease in charge-offs in the United States reflected lower severity and lower other charge-offs, offset partially by higher repossessions. The increase in charge-offs in Europe primarily reflected higher losses in Spain and Germany. The increase in loss-to-receivables ratios from a year ago primarily reflected a combination of lower average receivables, higher repossessions in the United States, and higher losses in Spain and Germany.

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 (finance receivables (excluding unearned interest supplements), and net investment in operating leases, excluding the allowance for credit losses) for its on-balance sheet portfolio for the years ended December 31 (dollar amounts in billions):

Allowance for Credit Losses	2009	2008
Balance, beginning of year	$1.7	$1.1
Provision for credit losses	0.9	1.8
Deductions		
Charge-offs before recoveries	1.5	1.5
Recoveries	(0.4)	(0.4)
Net charge-offs	1.1	1.1
Other changes, principally amounts related to translation adjustments and finance receivables sold	—	0.1
Net deductions	1.1	1.2
Balance, end of year	$1.5	$1.7
Allowance for credit losses as a percentage of end-of-period net receivables	1.61%	1.40%

The allowance for credit losses is estimated using a combination of models and management judgment, and is based on such factors as portfolio quality, historical loss performance, and receivable levels. The decrease in Ford Credit's allowance for credit losses primarily reflected the decline in receivables and decrease in charge-offs. At December 31, 2009, Ford Credit's allowance for credit losses included about $215 million, which was based on management's judgment regarding higher retail installment and lease repossession assumptions and higher wholesale and dealer loan default assumptions compared with historical trends used in Ford Credit's models. At December 31, 2008, Ford Credit's allowance for credit losses included about $210 million, which was based on management's judgment regarding higher severity assumptions. The credit quality of Ford Credit's retail and lease originations remains high. For additional discussion, see "Critical Accounting Estimates – Allowance for Credit Losses."

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, credit bureau scores (e.g., FICO score), customer characteristics, and contract characteristics. In addition to Ford Credit's proprietary scoring system, it considers other factors, such as employment history, financial stability, and capacity to pay. As of December 31, 2009, about 5% of the outstanding U.S. retail finance and lease contracts in Ford Credit's serviced portfolio were classified as high risk at contract inception, slightly higher than year-end 2008 of about 4%. This increase primarily reflects a lower percentage of lease contracts in Ford Credit's retail portfolio. Lease contracts generally include shorter average terms and higher average FICO scores compared with retail installment sale contracts.

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. For additional discussion, see "Critical Accounting Estimates – Accumulated Depreciation on Vehicles Subject to Operating Leases."

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 operations, which accounted for about 98% of its total investment in operating leases at December 31, 2009 (in thousands, except for percentages):

	Full Year	
	2009	2008
Placements	67	317
Terminations	386	381
Returns	314	327
Memo:		
Return rates	81 %	86 %

In 2009, placement volumes were down 250,000 units compared with 2008, primarily reflecting changes in our marketing programs that emphasized retail installment sale contracts, lower industry volumes, and the transition of Jaguar Land Rover and Mazda financing to other providers. Termination volumes increased by 5,000 units compared with last year, reflecting higher placement volumes in 2006 and 2007. Return volumes decreased 13,000 units compared with last year, primarily reflecting lower return rates, consistent with improved auction values relative to Ford Credit's expectations of lease-end values at the time of contract purchase.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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 fourth quarter 2009 vehicle mix for lease terms comprising 59% of Ford Credit's active Ford, Lincoln, and Mercury brand U.S. operating lease portfolio (in thousands, except for percentages):

	Full Year 2009	Full Year 2008
Returns		
24-Month term	60	88
36-Month term	65	61
39-Month term	34	19
Total returns	159	168
Memo:		
Return rates	78 %	88 %
Auction Values at Constant Fourth Quarter 2009 Vehicle Mix		
24-Month term	$18,670	$16,310
36-Month term	13,365	12,015

In 2009, Ford, Lincoln, and Mercury brand U.S. return volumes were down 9,000 units compared with 2008, primarily reflecting a lower return rate, down 10 percentage points to 78%, consistent with improved auction values relative to Ford Credit's expectations of lease-end values at the time of contract purchase. Auction values at constant fourth quarter 2009 mix were up $2,360 per unit from 2008 levels for vehicles under 24-month leases, and up $1,350 for vehicles under 36-month leases, primarily reflecting the overall auction value improvement in the used vehicle market. Ford Credit expects future auction values to remain volatile.

2008 Compared with 2007

Details of the full-year Financial Services sector Revenues and Income/(Loss) before income taxes for 2008 and 2007 are shown below:

	Revenues (in billions)			Income/(Loss) Before Income Taxes (in millions)		
	2008	2007	2008 Over/(Under) 2007	2008	2007	2008 Over/(Under) 2007
Ford Credit	$15.7	$16.0	$ (0.3)	$(2,559)	$1,215	$ (3,774)
Other Financial Services	0.3	0.2	0.1	(22)	9	(31)
Total	$16.0	$16.2	$ (0.2)	$(2,581)	$1,224	$ (3,805)

Ford Credit

The decline in pre-tax results primarily reflected the significant decline in used vehicle auction values during 2008. This decline in auction values contributed to an impairment charge to Ford Credit's North America segment operating lease portfolio ($2.1 billion), a higher provision for credit losses ($1.2 billion), and higher depreciation expense for leased vehicles (about $700 million). Other factors that explain the decrease in pre-tax earnings include lower volume primarily related to lower average receivables (about $300 million), higher net losses related to market valuation adjustments to derivatives (about $200 million), and the non-recurrence of the gain related to the sale of a majority of Ford Credit's interest in AB Volvofinans (about $100 million). These factors were partially offset by higher financing margin primarily attributable to lower borrowing costs (about $200 million), the non-recurrence of costs associated with Ford Credit's North American business transformation initiative (about $200 million), lower expenses primarily reflecting improved operating costs (about $300 million), and a gain related to the sale of approximately half of Ford Credit's ownership interest in its Nordic operation (about $100 million).

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY AND CAPITAL RESOURCES

Automotive Sector

Our industry has been heavily impacted by the global economic crisis that began in 2008, which included a sudden and substantial decline in global industry sales volume. The dramatic decline in industry sales volume, combined with tight credit markets, other economic factors, and the costs associated with transforming our business, put significant pressure on our Automotive liquidity in the first half of 2009. While the economic environment remains uncertain, we believe that our continued focus on delivering on our plan is the right strategy to achieve our objectives. Our Automotive liquidity strategy includes ensuring that we have sufficient funding available with a high degree of certainty throughout the business cycle, with the goal of improving our core Automotive operations so that they generate positive operating-related cash flow.

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 which may be used to pre-fund certain types of company-paid benefits for U.S. employees and retirees, that 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 dated March 28, 2008, in 2008 we reclassified out of our Automotive gross cash calculation the short-term VEBA assets and TAA securities. Gross cash is detailed below as of the dates shown (in billions):

	December 31,			
	2009	2008	2007	2006
Cash and cash equivalents	$10.3	$6.4	$20.7	$16.0
Marketable securities (a)	15.2	9.3	2.0	11.3
Loaned securities	—	—	10.3	5.3
Total cash, marketable securities and loaned securities	25.5	15.7	33.0	32.6
Securities-in-transit (b)	—	—	(0.3)	(0.5)
UAW-Ford TAA/Other (c)	—	(2.3)	—	—
Short-term VEBA assets	—	—	1.9	1.8
Gross cash (d)	$25.5	$13.4	$34.6	$33.9

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(a) Included in 2009 and 2008 are Ford Credit debt securities that we purchased, which are reflected in the table at a carrying value of $646 million and $492 million, respectively; the estimated fair value of these securities is $656 million and $437 million, respectively. Also included are Mazda marketable securities with a fair value of $447 million and $322 million at December 31, 2009 and 2008, respectively.

(b) 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.

(c) Amount transferred to UAW-Ford TAA that, due to consolidation, was shown in Cash, marketable securities and loaned securities.

(d) Pursuant to the Retiree Health Care Settlement Agreement (see Note 18 of the Notes to the Financial Statements), in January 2008 we contributed $4.6 billion of assets and reduced our Automotive gross cash accordingly.

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 the TAA and VEBA on gross cash, certain tax-related transactions, acquisitions and divestitures, capital transactions with the Financial Services sector, dividends paid to shareholders, and other – primarily financing-related). Our key liquidity 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 Automotive 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. 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.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Changes in Automotive gross cash are summarized below (in billions):

	2009	2008 (a)	2007
Gross cash at end of period	$25.5	$13.4	$34.6
Gross cash at beginning of period	13.4	34.6	33.9
Total change in gross cash	$12.1	$(21.2)	$0.7
Operating-related cash flows			
Automotive income/(loss) before income taxes (excluding special items)	$(1.4)	$(6.4)	$(1.2)
Capital expenditures	(4.5)	(6.5)	(6.0)
Depreciation and special tools amortization	4.6	5.5	6.8
Changes in receivables, inventory and trade payables	4.3	(2.9)	(0.7)
Other (b)	(1.3)	(6.3)	1.5
Subtotal	1.7	(16.6)	0.4
Up-front subvention payments to Ford Credit	(2.0)	(2.9)	—
Total operating-related cash flows	(0.3)	(19.5)	0.4
Other changes in gross cash			
Cash impact of personnel-reduction programs and Job Security Benefits/ Transition Assistance Plan accrual	(0.7)	(0.7)	(2.5)
Contributions to funded pension plans	(0.9)	(1.0)	(1.6)
Net effect of TAA/VEBA on gross cash	(0.8)	(4.6)	1.2
Capital transactions with Financial Services sector (c)	0.4	—	—
Tax Payments, tax refunds, and tax receipts from affiliates	0.6	2.2	2.6
Acquisitions and divestitures	(0.1)	2.5	1.1
Dividends to shareholders	—	—	—
Net proceeds from/(Payments on) Automotive sector debt	11.7	(0.5)	(0.6)
Equity issuances, net	2.4	—	—
Other	(0.2)	0.4	0.1
Total change in gross cash	$12.1	$(21.2)	$0.7

(a) Excluding sale proceeds, total change in Automotive gross cash attributable to Jaguar Land Rover operations was $300 million net cash outflow for 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 gross cash."

(b) Primarily expense and payment timing differences for items such as pension and OPEB, marketing, and warranty, as well as additional factors such as the impact of tax payments.

(c) Primarily distributions received from Ford Credit, excluding proceeds from Financial Services sector divestitures paid to the Automotive sector.

Shown 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 last three years (in billions):

	2009	2008 (a)	2007
Cash flows from operating activities of continuing operations (b)	$4.1	$(12.4)	$8.7
Items included in operating-related cash flows			
Capital expenditures	(4.5)	(6.5)	(6.0)

Net transactions between Automotive and Financial Services sectors (c)	(0.8)	(0.8)	(0.3)
Net cash flows from non-designated derivatives	(0.1)	1.2	1.1
Items not included in operating-related cash flows			
Cash impact of personnel-reduction programs and Job Security Benefits/ Transition Assistance Plan accrual	0.7	0.7	2.5
Net (sales)/purchases of trading securities	—	—	(4.5)
Contributions to funded pension plans	0.9	1.0	1.6
VEBA cash flows (reimbursement for benefits paid)	—	—	(1.1)
Tax refunds, tax payments, and tax receipts from affiliates	(0.6)	(2.2)	(2.6)
Other (b)	—	(0.5)	1.0
Operating-related cash flows	$(0.3)	$(19.5)	$0.4

(a) Except as noted (see footnote (b) below), 2008 data exclude Jaguar Land Rover; 2007 includes Jaguar Land Rover.

(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.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Equity and Equity-Linked Issuances. On May 18, 2009, we issued 345 million shares of Ford Common Stock pursuant to a public offering at a price of $4.75 per share, resulting in net proceeds totaling $1.59 billion.

In August 2009, pursuant to an equity distribution agreement with a certain broker-dealer, we issued from time to time in market transactions 71.6 million shares of Ford Common Stock for an aggregate price of $565 million, and used the proceeds to purchase $556 million principal amount of outstanding Ford Credit debt securities maturing prior to 2011, and pay related accrued interest of $9 million. Pending their maturity, the Ford Credit debt securities are reflected in Automotive gross cash and, when the debt securities mature, their par value will be paid in cash by Ford Credit. For additional detail, see Note 1 of the Notes to the Financial Statements.

In November 2009, we issued $2.875 billion principal amount of 4.25% Senior Convertible Notes due November 15, 2016 ("2016 Convertible Notes") in a public offering, resulting in net proceeds totaling $2.81 billion. These notes are convertible, under certain circumstances, into Ford Common Stock at a conversion price of approximately $9.30 per share. Upon conversion, we will have the right to deliver, in lieu of shares of Ford Common Stock, cash or a combination of cash and Common Stock. At December 31, 2009 the carrying value of the debt was $2.2 billion (which excludes the equity component of the convertible feature of this note valued at $704 million), reflecting the fair value of the debt obligation at date of issuance.

On December 4, 2009, we entered into another equity distribution agreement with certain broker-dealers pursuant to which we would offer and sell shares of Ford Common Stock from time to time for an aggregate offering price of up to $1 billion. Sales of Ford Common Stock under this equity distribution agreement are expected to be made over a several-month period by means of ordinary brokers' transactions on the New York Stock Exchange at market prices or as otherwise agreed. Through December 31, 2009 and February 15, 2010, we issued 9.8 million and 41.9 million shares of Ford Common Stock for an aggregate price of $97 million and $470 million, respectively, resulting in net proceeds of $96 million and $466 million, respectively, which will be used for general corporate purposes.

Secured Credit Agreement. Due to concerns about instability in the capital markets and the uncertain state of the global economy, on February 3, 2009, we borrowed $10.1 billion under the revolving credit facility of the Credit Agreement to ensure access to these funds. As expected, the $890 million commitment of Lehman Commercial Paper Inc. ("LCPI"), one of the lenders under the facility, was not funded because LCPI filed for protection under Chapter 11 of the U.S. Bankruptcy Code on October 5, 2008. LCPI subsequently assigned $110 million of its revolving commitment to other lenders, and $89 million of these assignee lenders' revolving commitments were funded in the third quarter of 2009. On July 10, 2009, we terminated the remaining LCPI commitment of $780 million. We also received an additional $10 million under the revolving credit facility in the third quarter of 2009 for amounts previously committed but not yet received.

As disclosed in our Current Report on Form 8-K dated November 24, 2009, on that date we entered into the Fourth Amendment to the Credit Agreement. Prior to the Fourth Amendment, revolving lenders held commitments totaling $10.7 billion that matured on December 15, 2011. As a result of the Fourth Amendment, lenders now have commitments totaling $7.2 billion in a new revolving facility that matures on November 30, 2013 and such lenders converted $724 million of their previously existing revolving loans to a new term loan that matures on December 15, 2013. The new term loan has the same pricing, maturity, and other terms as the existing term loan, but is not subject to mandatory prepayments as is the existing term loan. Those lenders who agreed to extend the maturity of their revolving commitments had the option to reduce their commitments by up to 25%, and received a 1 percentage point increase in interest rate margins, an increase in quarterly fees, and payment of an upfront fee.

Pursuant to these arrangements, on December 3, 2009, $2.3 billion of the revolving loan was repaid to effect the commitment reductions elected by extending lenders and certain other extending lenders increased their revolving loan commitments by, and funded, an aggregate of $400 million, thereby resulting in a net cash repayment by us of $1.9 billion. Lenders with revolving commitments totaling $886 million elected not to extend those commitments, which will mature on the original maturity date of December 15, 2011.

At December 31, 2009, the revolving credit facility of the Credit Agreement totaled $8.1 billion, of which (i) $7.9 billion was utilized (including $418 million to support letters of credit), (ii) $7.2 billion matures on November 30, 2013 and (iii) $886 million matures on December 15, 2011. Also on December 31, 2009, the term loans outstanding under the Credit Agreement totaled $5.3 billion.

The borrowings of the Company, the subsidiary borrowers, and the guarantors under the Credit Agreement are secured by a substantial portion of our domestic Automotive assets (excluding cash). The collateral includes a majority of our principal domestic manufacturing facilities, excluding facilities to be closed, subject to limitations set forth in existing public indentures and other unsecured credit agreements; domestic accounts receivable; domestic inventory; up to $4 billion of marketable securities or cash proceeds therefrom; 100% of the stock of our principal domestic subsidiaries, including Ford Credit (but excluding the assets of Ford Credit); certain intercompany notes of Volvo Holding Company Inc. (a holding company for Volvo), and Ford Motor Company of Canada, Limited; 66% to 100% of the stock of all major first tier foreign subsidiaries (including Volvo); and certain domestic intellectual property, including trademarks.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

The Credit Agreement requires ongoing compliance with a borrowing base covenant and contains other restrictive covenants, including a restriction on our ability to pay dividends. The Credit Agreement prohibits the payment of dividends (other than dividends payable solely in stock) on Ford Common and Class B Stock, subject to certain limited exceptions. In addition, the Credit Agreement contains a liquidity covenant requiring us to maintain a minimum of $4 billion in the aggregate of domestic cash, cash equivalents, loaned and marketable securities and short-term VEBA assets and/or availability under the revolving credit facility.

With respect to the borrowing base covenant, we are required to limit the outstanding amount of debt under the Credit Agreement as well as certain permitted additional indebtedness secured by the collateral described above such that the total debt outstanding does not exceed the value of the collateral as calculated in accordance with the Credit Agreement (the "Borrowing Base value").

The following table provides detail of Borrowing Base values for various categories of collateral (in millions, except percentages):

	Eligible Value (a)	Advance Rate	Borrowing Base
U.S. receivables	$ 491	75 %	$ 368
U.S. inventory	1,935	60 %	1,161
Pledge of intercompany notes	4,713	N/A	3,073
Pledge of equity in Ford Credit and certain foreign subsidiaries (net of intercompany transactions)	18,872	75 %	14,155
U.S. property, plant, and equipment subject to indenture limitation	4,539	N/A	2,181
Other U.S. machinery and equipment	2,813	40 %	1,125
Intellectual property and U.S. trademarks (b)	7,900	N/A	2,500
Eligible value/borrowing base	$ 41,263		$ 24,563

(a) Based on formulas set forth in the Credit Agreement, and not necessarily indicative of fair market value (which could be materially higher or lower); receivables, inventory, intercompany notes, and property, plant and equipment reflect net book value at December 31, 2009; equity of Ford Credit is based on its book value at December 31, 2009, net of certain intercompany transactions, and equity in other subsidiaries is based on a multiple of their two-year average EBITDA less debt.

(b) Value reflects independent third party valuation of trademarks.

As of December 31, 2009, the Borrowing Base value and the total outstanding amount of debt secured by collateral were $24,563 million and $13,206 million, respectively, compared with $23,183 million and $7,354 million, respectively, at December 31, 2008. This resulted in a collateral coverage ratio of 1.86 to 1 at December 31, 2009, compared with a collateral coverage ratio of 3.15 to 1 at December 31, 2008. The Borrowing Base value increased by $1.3 billion over the corresponding value at December 31, 2008, more than explained by improved equity in Ford Credit and the inclusion of Ford Brasil Ltda. The debt secured by collateral increased by about $6 billion from the amount of debt secured at December 31, 2008, reflecting the (i) $10.1 billion revolving loan advanced to us on February 3, 2009, (ii) repurchase in March 2009 of $2.2 billion principal amount of term loans and (iii) repayment in December 2009 of $1.9 billion principal amount of revolving loans made in connection with the amendment and extension described above. On a basis that assumes the revolving loan facility is fully drawn, the collateral coverage ratio at December 31, 2009 (1.84 to 1) increased from that at December 31, 2008 (1.33 to 1).

In addition to customary payment, representation, bankruptcy, and judgment defaults, the Credit Agreement contains cross-payment and cross-acceleration defaults with respect to other debt for borrowed money, and a change in control default.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Other Automotive Credit Facilities.* At December 31, 2009, we had $628 million of other contractually-committed Automotive credit facilities with financial institutions, including $25 million of worldwide Automotive unsecured credit facilities and $603 million of local credit facilities to foreign Automotive affiliates. Of the $628 million of contractually-committed, $130 million has been utilized. Of the $498 million available for use, $60 million expire in 2010, $65 million expire in 2013, and $373 million expire in 2014.

DOE ATVM Program. As disclosed in our Current Report on Form 8-K dated September 16, 2009 (the "September 2009 Form 8-K Report"), we entered into a Loan Arrangement and Reimbursement Agreement ("Arrangement Agreement") with the DOE, pursuant to which the DOE agreed to (i) arrange a 13-year multi-draw term loan facility (the "Facility") under the ATVM Program in the aggregate principal amount of up to $5.9 billion, (ii) designate us as a borrower under the ATVM Program and (iii) cause Federal Financing Bank to enter into a Note Purchase Agreement (the "Note Purchase Agreement") for the purchase of notes to be issued by us evidencing such loans. The proceeds of advances under the Facility will be used to finance certain costs eligible for financing under the ATVM Program that are incurred through mid-2012. Advances under the Facility may be requested through June 30, 2012. Each advance under the Facility will bear interest at a blended rate based on the Treasury yield curve at the time such advance is borrowed, based on the principal amortization schedule for that advance, with interest payable quarterly in arrears. The principal amount of the loans under the Facility are payable in equal quarterly installments commencing on September 15, 2012 through June 15, 2022. Through December 31, 2009 we have received $1.2 billion in loans under the Facility. For additional details regarding the Arrangement Agreement and the Note Purchase Agreement, refer to Exhibits 10.1 and 10.2 filed with the September 2009 Form 8-K Report.

Net Cash/(Debt). Our Automotive sector net debt calculation is detailed below (in billions):

	December 31, 2009	December 31, 2008
Gross cash	$25.5	$13.4
Less:		
Long-term debt	32.3	23.0
Debt payable within one year	2.1	1.2
Total debt	34.4	24.2
Net cash/(debt)	$(8.9)	$(10.8)

The change in total debt primarily is explained by the net $7.5 billion draw on our revolving credit facility discussed above, the two New Notes, totaling $7 billion, issued in connection with the UAW VEBA transaction discussed below, the issuance of $2.875 billion aggregate principal amount of the 2016 Convertible Notes discussed above, and the $10.1 billion of debt reduction actions discussed below.

See Note 19 of the Notes to the Financial Statements for our debt maturity table as of December 31, 2009 and additional debt disclosures.

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

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Debt Reduction Actions. We undertook the following transactions during the first half of 2009, which reduced our Automotive debt by a total of $10.1 billion principal amount (with a carrying value of $8.5 billion):

- A private market transaction, completed in January 2009, pursuant to which we purchased $165 million principal amount of our outstanding unsecured notes for $37 million in cash.
- A cash tender offer by Ford Credit for our secured term loan under the Credit Agreement, pursuant to which Ford Credit purchased from lenders thereof $2.2 billion principal amount of the secured term loan for an aggregate cost of $1.1 billion (including transaction costs). This transaction settled on March 27, 2009, following which, consistent with previously-announced plans to return capital from Ford Credit to us, Ford Credit distributed the repurchased secured term loan to its immediate parent, Ford Holdings, whereupon the repurchased secured term loan was forgiven.
- A cash tender offer by Ford Credit for our unsecured notes, pursuant to which Ford Credit purchased $3.4 billion principal amount of debt securities for an aggregate cost of $1.1 billion (including transaction costs). This transaction settled on April 8, 2009, following which Ford Credit transferred the repurchased debt securities to us in satisfaction of $1.1 billion of Ford Credit's tax liabilities to us. Approximately $5.6 billion aggregate principal amount of our unsecured notes (including about $100 million of industrial revenue bonds) remains outstanding.
- An exchange offer by us for our 4.25% Senior Convertible Notes due December 15, 2036 ("2036 Convertible Notes"), pursuant to which $4.3 billion principal amount of 2036 Convertible Notes was exchanged for an aggregate of 468 million shares of Ford Common Stock and $344 million in cash ($80 in cash per $1,000 principal amount of 2036 Convertible Notes exchanged). This transaction settled on April 8, 2009. An aggregate principal amount of $579 million of 2036 Convertible Notes remains outstanding with a carrying value of approximately $400 million.

Amendment to UAW Retiree Health Care Settlement Agreement. As disclosed in our Current Report on Form 8-K dated July 22, 2009 ("July 2009 Form 8-K Report"), on July 23, 2009, we entered into an amendment to the UAW Retiree Health Care Settlement Agreement dated March 28, 2008 (the "Original Settlement Agreement") among and between us, the UAW, and certain class representatives, on behalf of the class of plaintiffs as set forth therein. The Original Settlement Agreement established the UAW Retiree Medical Benefits Trust as a new VEBA trust (the "UAW VEBA Trust") that on December 31, 2009 would assume the obligation to provide retiree health care benefits to eligible active and retired UAW Ford hourly employees and their eligible spouses, surviving spouses and dependents.

Pursuant to the Original Settlement Agreement, in April 2008, we issued to VEBA-F Holdings LLC, a then-wholly owned subsidiary of ours (the "LLC"): (a) $3.3 billion aggregate principal amount of 5.75% Convertible Notes Due January 1, 2013 (the "Convertible Notes"); (b) a $3 billion aggregate principal amount 9.50% Second Lien Term Note Due January 1, 2018 (the "Term Note") and a corresponding guaranty issued by certain subsidiary guarantors (the "Term Note Guaranty"); and (c) a promissory note dated January 5, 2009 in an aggregate principal amount of $2.3 billion, which is equal to the market value of the assets in the TAA held by the LLC on December 31, 2008 (the "TAA Note" and, together with the Convertible Notes, the Term Note and the Term Note Guaranty, the "Old Securities").

The amendment to the Original Settlement Agreement (the "Amended Settlement Agreement"), and the forms of the New Securities, the Exchange Agreement and the Registration Rights Agreement (each as defined below), were filed as exhibits to the July 2009 Form 8-K Report. The Amended Settlement Agreement changed the Original Settlement Agreement to provide for smoothing of payment obligations and to give us the option to use Ford Common Stock to satisfy up to approximately 50% of our future payment obligations to the UAW VEBA Trust.

The Amended Settlement Agreement was approved by the U.S. District Court for the Eastern District of Michigan on November 9, 2009. On December 8, 2009, the U.S. Department of Labor published in the Federal Register a Notice of Proposed Individual Exemption (the "Exemption") that would be retroactive to December 31, 2009 and would, among other things, permit the transfer to the UAW VEBA Trust and allow the UAW VEBA Trust to hold the New Securities (as defined below). This, along with prior discussions with the U.S. Department of Labor, met the condition under the Amended Settlement Agreement of obtaining the Exemption or reasonable assurance of retroactive effect thereof satisfactory to Ford and the UAW VEBA Trust.

On December 11, 2009, in accordance with the Amended Settlement Agreement and pursuant to a Securities Exchange Agreement dated as of December 11, 2009 among us, the LLC and certain subsidiary guarantors (the "Exchange Agreement"), we issued to the LLC in exchange for the Old Securities: (i) an Amortizing Guaranteed Secured Note Maturing June 30, 2022 with an original principal amount of $6.7 billion and with a fair value at December 31, 2009 of about $4.8 billion ("New Note A") excluding a "true-up amount" (described below); (ii) an Amortizing Guaranteed Secured Note Maturing June 30, 2022 with an original principal amount of $6.5 billion and with a fair value at December 31, 2009 of about $4.5 billion ("New Note B" and, together with New Note A, the "New Notes"); (iii) guaranties by certain subsidiary guarantors of the New Notes, limited to an aggregate of $3 billion of obligations thereunder (the "Guaranties") and (iv) warrants to purchase 362,391,305 shares of Ford Common Stock, issued pursuant to a Warrant Agreement (the "Warrant Agreement") dated December 11, 2009 between us and the LLC (the "Warrants" and, together with the New Notes and Guaranties, the "New Securities"). The New Notes are secured on second lien basis, to the extent of $3 billion of obligations thereunder, with collateral securing our obligations under the Credit Agreement.

Under New Note B, we have the option, subject to certain conditions, of making each payment in cash, Ford Common Stock, or a combination of cash and Ford Common Stock. Any Ford Common Stock to be delivered in satisfaction of such payment obligation is to be valued based on its volume-weighted average price per share for the 30 trading-day period ending on the second business day prior to the relevant payment date ("30-day VWAP price").

The Warrants, which expire on January 1, 2013, entitle the holder thereof to purchase 362,391,305 shares of Ford Common Stock at an exercise price of $9.20 per share. Generally, the warrants can be exercised at any time, but the underlying shares cannot be transferred prior to October 1, 2012, unless the closing sale price of Ford Common Stock was above $11.04 for at least 20 trading days in the 30 consecutive trading days ending on the last trading day in the preceding calendar quarter. Upon exercise of the Warrants, the warrant holder has the option to elect to have us settle on a cashless, net share basis (i.e., delivering to the holder shares of Ford Common Stock having a value equal to the "in-the-money" value of the Warrants being exercised).

In addition, on December 11, 2009, we entered into a Securityholder and Registration Rights Agreement with the LLC (the "Registration Rights Agreement"), which provides for certain hedging restrictions, certain sales restrictions relating to the Warrants and shares of Ford Common Stock underlying the Warrants and delivered in payment of New Note B, and customary registration rights relating to the sale of shares of Ford Common Stock received by the UAW VEBA Trust pursuant to our stock payment option under New Note B, as well as the Warrants and shares of Ford Common Stock issued upon the exercise thereof.

As disclosed previously, notwithstanding our option to pay a portion of our obligations to the UAW VEBA Trust in stock in lieu of cash, we will use our discretion in determining which form of payment makes sense at the time of each required payment, balancing liquidity needs and preservation of shareholder value. In making such a determination, we will consider facts and circumstances existing at the time of each required payment, including market and economic conditions, our available liquidity, and the price of Ford Common Stock.

On December 31, 2009, with respect to New Note A, we paid to the LLC the payment due on that date of $1.3 billion, the payment of a true-up amount of $150 million, and a partial prepayment of New Note A in the amount of $500 million. The true-up amount was negotiated as part of the arrangement for us to use during 2009 the cash in the TAA in exchange for a fixed return of 9% per annum plus an amount that represents a hypothetical return on a portfolio of assets invested 70% in the equity markets and 30% in fixed income markets, subject to a cap of $150 million. Because the equity markets performed well in 2009, the true-up amount met the $150 million cap.

Also on December 31, 2009, with respect to New Note B, we paid to the LLC the payment due on that date of $610 million in cash. We decided to make the New Note B payment in cash because the 30-day VWAP price was $9.13 and the December 31, 2009 closing sale price of Ford Common Stock was $10.00 per share.

After giving effect to the payments made on the New Notes on December 31, 2009, the New Notes had a fair value of $7 billion.

Thereafter, at the close of business on December 31, 2009, we transferred to the UAW VEBA Trust: (i) our ownership interest in the LLC, which was the legal owner of the New Securities and which held cash and marketable securities in its TAA with a value on that date of $619 million, and (ii) the assets in our then-existing internal VEBA trust consisting of cash and marketable securities with a value on December 31, 2009 of $3.5 billion. The transfer by us to the UAW VEBA Trust of the ownership of these assets, including the beneficial ownership of the New Securities, irrevocably settled our obligation, valued at about $13.6 billion on December 31, 2009, to provide retiree health care benefits to eligible active and retired UAW Ford hourly employees and their eligible spouses, surviving spouses and dependents.

The schedule of remaining payments for each of the New Notes (which reflects the partial prepayment made on New Note A described above), as well as the prepayment amount for each of the New Notes in the event we were to pay the remaining balance in full on the corresponding payment date, is as follows:

Payment Date	Principal Payments Note A	Prepayment Amount Note A	Principal Payments Note B	Prepayment Amount Note B
June 30, 2010	$ 249,452,786	$ 3,211,519,680	$ 609,950,000	$ 4,232,000,000
June 30, 2011	249,452,786	3,228,652,915	609,950,000	3,948,000,000
June 30, 2012	584,063,591	3,247,328,141	654,000,000	3,638,000,000
June 30, 2013	584,063,591	2,902,958,359	654,000,000	3,253,000,000
June 30, 2014	584,063,591	2,527,595,297	654,000,000	2,832,000,000
June 30, 2015	584,063,591	2,118,449,560	654,000,000	2,375,000,000
June 30, 2016	584,063,591	1,672,480,706	654,000,000	1,875,000,000
June 30, 2017	584,063,591	1,186,374,655	654,000,000	1,331,000,000
June 30, 2018	584,063,591	656,519,060	654,000,000	738,000,000
June 30, 2019	22,364,733	78,976,461	26,000,000	92,000,000
June 30, 2020	22,364,733	61,706,784	26,000,000	72,000,000
June 30, 2021	22,364,733	42,882,836	26,000,000	50,000,000
June 30, 2022	22,364,733	22,364,733	26,000,000	26,000,000

Pension Plan Contributions. Our policy for funded plans is to contribute annually, at a minimum, amounts required by applicable laws and regulations. We do from time to time make contributions beyond those legally required.

In 2009, we made $900 million of cash contributions to our funded pension plans. During 2010, we expect to contribute $1.1 billion to our worldwide funded pension plans from available Automotive cash and cash equivalents. In addition, benefit payments made directly by us for unfunded plans are expected to be about $400 million. Based on current assumptions and regulations, we do not expect to have a legal requirement to fund our major U.S. pension plans in 2010. For a further discussion of our pension plans, see Note 18 of the Notes to the Financial Statements.

Liquidity Sufficiency. One of the four key priorities of our business plan is to finance our plan and improve our balance sheet. The actions described above are consistent with this priority. Based on our planning assumptions, we believe that we have sufficient liquidity and capital resources to continue to transform our business, invest in new products that customers want and value, pay our debts and obligations as and when they come due, and provide a cushion within the uncertain global economic environment. We will continue to look for opportunities to improve our balance sheet, primarily by working to improve our underlying business to generate positive Automotive operating-related cash flow.

Financial Services Sector

Ford Credit

Funding Strategy. Ford Credit's funding strategy is to maintain sufficient liquidity to meet short-term funding obligations by having a substantial cash balance and committed funding capacity. As a result of lower long-term senior unsecured credit ratings assigned to Ford Credit over the past few years, its unsecured funding costs have increased over time. While Ford Credit has accessed the unsecured debt market when available, Ford Credit has increased its use of securitization funding as this has been more cost effective than unsecured funding and has allowed

Ford Credit access to a broader investor base. Ford Credit plans to meet a significant portion of its 2010 funding requirements through securitization transactions. In addition, Ford Credit has various alternative business arrangements for select products and markets that reduce its funding requirements while allowing Ford Credit 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 and wholesale 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 and disruptions in the asset-backed securitization markets since August 2007. The recent global credit environment has presented many challenges, including reduced access to public and private unsecured and securitization markets, increased credit spreads associated with both asset-backed and unsecured funding, higher renewal costs on its committed liquidity programs, reduced net proceeds from securitization transactions due to greater enhancements, shorter maturities in Ford Credit's public and private securitization transactions in certain circumstances, and reduced capacity to obtain derivatives to manage market risk, including interest rate risk, in Ford Credit's securitization programs.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

While challenges remain, Ford Credit saw improvement in the capital markets in the last three quarters of 2009 evidenced by improvement in market access and credit spreads, including: four unsecured debt issuances in the United States and one in Europe totaling about $5 billion with significantly improved U.S. credit spreads from the first to the most recent; increasingly tighter spreads on Ford Credit's triple-A rated classes of Ford Credit's U.S. retail securitization transactions; a non-TALF public retail securitization transaction in November 2009; two European public retail securitization transactions in the fourth quarter of 2009; Ford Credit's first public wholesale securitization transaction since 2006 in October 2009; a two-year committed lease facility in December 2009; and the sale of over $150 million of subordinated notes from Ford Credit's September 2009 public retail securitization transaction.

Ford Credit's funding plan is subject to risks and uncertainties, many of which are beyond its control, including disruption in the capital markets for the types of asset-backed securities used in Ford Credit's asset-backed funding, as well as disruption beyond the expiration of the government-sponsored securitization funding programs. Potential impact of industry events on Ford Credit's ability to access debt and derivatives markets or renew its committed liquidity programs in sufficient amounts and at competitive rates represents another risk to Ford Credit's funding plan. As a result, Ford Credit may need to further reduce the amount of finance receivables and operating leases it purchases or originates, thereby reducing its ongoing profits and adversely affecting its ability to support the sale of Ford vehicles.

Funding. Ford Credit requires substantial funding in the normal course of business. Its funding requirements are driven mainly by the need to: (i) purchase retail installment sale contracts and retail lease contracts to support the sale of Ford products, which are influenced by Ford-sponsored special-rate financing programs that are available exclusively through Ford Credit, (ii) provide wholesale financing and capital financing for Ford dealers, and (iii) repay its debt obligations.

Ford Credit's funding sources include primarily securitization transactions (including other structured financings) and unsecured debt. Ford Credit issues both short- and long-term debt that is held by both institutional and retail investors, with long-term debt having an original maturity of more than 12 months. Ford Credit sponsors a number of securitization programs that can be structured to provide both short- and long-term funding through institutional investors in the United States and international capital markets.

Ford Credit obtains short-term unsecured funding from the sale of floating rate demand notes under its Ford Interest Advantage program and by issuing unsecured commercial paper in the United States, Europe, and other international markets. At December 31, 2009, the principal amount outstanding of Ford Interest Advantage notes, which may be redeemed at any time at the option of the holders thereof without restriction, was about $4 billion. At present, all of Ford Credit's short-term credit ratings by nationally recognized statistical rating organizations ("NRSROs") are below the Tier-2 category, and as a result it has limited access to the unsecured commercial paper market and Ford Credit's unsecured commercial paper cannot be held by money market funds. At December 31, 2009, the principal amount outstanding of Ford Credit's unsecured commercial paper was less than $1 million. Ford Credit does not hold reserves specifically to fund the payment of any of its unsecured short-term funding obligations. Instead, Ford Credit maintains multiple sources of liquidity, including cash, cash equivalents, and marketable securities (excluding marketable securities related to insurance activities), unused committed liquidity programs, excess securitizable assets, and committed and uncommitted credit facilities, which should be sufficient for Ford Credit's unsecured short-term funding obligations.

Government-Sponsored Securitization Funding Programs. Government-sponsored securitization funding programs have helped stabilize the asset-backed securitization market. Since the third quarter of 2009, Ford Credit significantly reduced the use of these programs as its access to the public and private securitization and unsecured markets continued to improve.

Commercial Paper Funding Facility ("CPFF"): The CPFF became operational in October 2008 and purchased unsecured and asset-backed commercial paper from U.S. issuers. In 2008, Ford Credit registered to sell up to $16 billion from its asset-backed commercial paper program ("FCAR") to the CPFF. At December 31, 2008, FCAR had $7 billion of commercial paper outstanding under the CPFF, which represented about 60% of FCAR's outstanding balance. FCAR was able to issue a limited amount of commercial paper to investors during the first half of 2009 and at lower interest rates than under CPFF, but with a relatively short average maturity compared with CPFF and often overnight. FCAR issued a total of $9 billion of commercial paper to the CPFF in 2009, all of which had matured by September 30, 2009. Commercial paper was sold to the CPFF at a price based on the designated benchmark rate, plus a spread of 300 basis points. This represented a significantly higher rate than those that prevailed in the asset-backed commercial paper market before August 2007, when the disruptions in the debt and asset-backed securitization markets began. As a result of improvements in the asset-backed commercial paper market, as well as a reduction in the overall size of FCAR, FCAR is able to issue commercial paper outside the CPFF at prices and average maturities that are close to those that prevailed before August 2007. The CPFF ceased purchasing commercial paper on February 1, 2010.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Term Asset-Backed Securities Loan Facility ("TALF"): TALF began in March 2009 to make credit available by restoring liquidity in the asset-backed securitization market. Under TALF, the Federal Reserve Bank of New York ("FRBNY") makes loans to holders of TALF-eligible asset-backed securities. The loans are equal to the market value of the asset-backed securities less a discount. Interest rates on most TALF loans are 100 basis points over the respective term benchmark rate, and discounts vary according to the assets supporting the asset-backed securities. The TALF program revived the asset-backed securitization market by attracting new investors who purchased asset-backed securities, receiving higher spreads on these securities than the spreads they pay on their loans from FRBNY. As investor demand increased due to the liquidity provided by TALF, spreads generally narrowed on Ford Credit's issuances and the percentage of non-TALF investors increased. As the spread on certain asset-backed securities fell below the 100 basis point spread on TALF loans, Ford Credit's TALF-eligible asset-backed securities were purchased almost exclusively by non-TALF investors.

Ford Credit issued $10.3 billion of TALF-eligible asset-backed securities in 2009, of which $2.2 billion amortized during the year and $8.1 billion was outstanding at December 31, 2009. Ford Credit has also issued a total of $1.3 billion of TALF-eligible asset-backed securities in 2010. The following table summarizes Ford Credit's TALF-eligible issuances including the weighted average spread of the triple-A rated notes over the relevant benchmark rates for securitization transactions:

Date	Issuer	Size (in billions)	Weighted Average Spread (basis points)
Retail Installment			
March 2009	Ford Credit Auto Owner Trust 2009 – A	$ 3.0	295
June 2009	Ford Credit Auto Owner Trust 2009 – B	1.9	161
July 2009	Ford Credit Auto Owner Trust 2009 – C	1.0	165
September 2009	Ford Credit Auto Owner Trust 2009 – D	2.1	83
Wholesale			
October 2009	Ford Credit Master Owner Trust 2009 – 2	1.5	155
January 2010	Ford Credit Master Owner Trust 2010 – 1	1.3	165
Retail Lease			
June 2009	Ford Credit Auto Lease Trust 2009 – A	0.8	211

Ford Credit recently completed two public asset-backed securitization transactions that were not TALF-eligible: a retail securitization transaction with a weighted average spread of 48 basis points on the triple-A rated notes in November 2009 and a lease securitization transaction with a weighted average spread of 54 basis points on the triple-A rated notes in February 2010. In January 2010, Ford Credit issued about $230 million of non-TALF subordinated wholesale asset-backed securities that were rated double-A and single-A. In February 2010, Ford Credit also issued $250 million of private wholesale asset-backed securities with a maturity of five years compared with the three-year maturity of Ford Credit's previous TALF transactions. Ford Credit does not plan to complete any additional TALF-eligible retail or lease transactions before the expected expiration of TALF on March 31, 2010. Given the recent improvements in the securitization market, and absent further significant market disruptions, Ford Credit has confidence it can obtain funding in the public securitization markets without TALF.

European Central Bank ("ECB") Open Market Operations: FCE is eligible to access liquidity through the ECB's open market operations program. This program allows eligible counterparties to use eligible assets (including asset-backed securities) as collateral for short-term liquidity. The present term limitation is three months; however, in the past the term has been as long as one year. The funding efficiency of liquidity provided under this program is typically lower than if the asset-backed securities were placed in the public or private markets because the ECB applies its own market valuation to the collateral and a discount to the original face value of the asset-backed securities. The market valuation and discount vary by the term of the asset, asset type, and jurisdiction of the asset. During the first half of 2009, FCE used the ECB's open market operations program to provide additional liquidity at a time when access to the asset-backed securitization market was limited and costs for such funding were significantly higher than in the past. FCE had $1.8 billion and $1.1 billion of funding through the ECB at December 31, 2009 and 2008, respectively. During the second half of 2009, improvements in the asset-backed securitization market allowed FCE to receive funding from public and private securitization transactions and sell collateral previously posted with the ECB in the secondary markets. Ford Credit expects FCE's utilization of the ECB open market operations program to decline.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Funding Portfolio. Ford Credit's outstanding debt and off-balance sheet securitization transactions were as follows on the dates indicated (in billions, except for ratios):

	December 31,	
Debt	2009	2008
Asset-backed commercial paper (a)(b)	$6.4	$11.5
Other asset-backed short-term debt (a)	4.5	5.6
Ford Interest Advantage (c)	3.6	2.0
Unsecured commercial paper	—	—
Other short-term debt	0.9	1.0
Total short-term debt	15.4	20.1
Unsecured long-term debt (including notes payable within one year)	38.9	51.2
Asset-backed long-term debt (including notes payable within one year) (a)	42.0	55.2
Total debt	96.3	126.5
Off-Balance Sheet Securitizations		
Securitized off-balance sheet portfolio	0.1	0.6
Retained interest	—	(0.1)
Total off-balance sheet securitization transactions	0.1	0.5
Total debt plus off-balance sheet securitization transactions	$96.4	$127.0
Ratios		
Securitized funding to managed receivables	56%	62%
Short-term debt and notes payable within one year to total debt	43	50
Short-term debt and notes payable within one year to total capitalization	39	46

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(a) Obligations issued in securitization transactions that are payable only out of collections on the underlying securitized assets and related enhancements.
(b) At December 31, 2009, Ford Credit did not have any asset-backed commercial paper sold to the CPFF. At December 31, 2008, includes asset-backed commercial paper sold to the CPFF of $7 billion.
(c) The Ford Interest Advantage program consists of Ford Credit's floating rate demand notes.

At December 31, 2009, unsecured long-term debt (including notes payable within one year) was down about $12 billion from year-end 2008, primarily reflecting about $18 billion of debt maturities and repurchases, offset partially by about $6 billion of new unsecured public and private long-term debt issuance. Unsecured long-term debt maturities were as follows: 2010 — $7 billion; 2011 — $11 billion; 2012 — $7 billion; and the remainder thereafter. At December 31, 2009, asset-backed long-term debt (including notes payable within one year) was down about $13 billion from year-end 2008, reflecting amortization of asset-backed debt in excess of asset-backed long-term debt issuance.

Funding Plan. The following table illustrates Ford Credit's public and private term funding issuances for 2008 and 2009 and its planned issuances for 2010 (in billions):

	2010 Forecast	2009	2008
Public Term Funding			
Unsecured	$3 – 6	$5	$2

Securitization transactions	8 – 12	15	11
Total public term funding	$12 – 17	$20	$13
Private Term Funding*	$8 – 13	$11	$29

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* Includes private term debt, securitization transactions, and other term funding; excludes sales to Ford Credit's on-balance sheet asset-backed commercial paper program.

In 2009, Ford Credit completed about $20 billion of public term funding transactions, including: about $12 billion of retail asset-backed securitization transactions in the United States, Canada, and Europe; about $2 billion of wholesale asset-backed securitization transactions in the United States; about $1 billion of lease asset-backed securitization transactions in the United States; and about $5 billion of unsecured issuances. In 2009, Ford Credit completed about $11 billion of private term funding transactions (excluding Ford Credit's on-balance sheet asset-backed commercial paper program) in several markets, including about $4 billion in Canada. These private transactions included retail, lease, and wholesale asset-backed securitization transactions.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

In 2009, total issuance was about $11 billion lower than 2008, primarily reflecting lower funding requirements resulting from lower receivables. However, 2009 public issuance was about $7 billion higher than 2008, primarily reflecting the availability of and Ford Credit's preference to issue in the public markets. In 2009, there was a corresponding reduction in reliance on private capacity as Ford Credit lowered its utilization of committed funding programs.

Through February 24, 2010, Ford Credit completed about $4 billion of public term funding transactions, including about $1 billion of retail asset-backed securitization transactions in the United States, Canada, and Europe, about $1 billion for a lease asset-backed securitization transaction in the United States, about $1 billion of wholesale asset-backed securitization transactions in the United States, and about $1 billion of unsecured issuances. Ford Credit also completed about $1 billion of private term funding transactions, primarily reflecting retail and wholesale asset-backed securitization transactions in the United States and Europe.

The cost of securitization transactions and unsecured debt funding is based on a margin or spread over a benchmark interest rate. Spreads are typically measured in basis points. Ford Credit's asset-backed funding and unsecured long-term debt costs are based on spreads over U.S. Treasury securities of similar maturities, a comparable London Interbank Offered Rate ("LIBOR") or other comparable benchmark rates. Ford Credit's floating rate demand notes funding costs are changed depending on market conditions. In addition to enhancing Ford Credit's liquidity, one of the main reasons that Ford Credit has increased its use of securitization transactions as a funding source over the last few years has been that spreads on Ford Credit's securitization transactions have been more stable and lower than those on Ford Credit's unsecured long-term debt funding. Prior to August 2007, Ford Credit's securitized funding spreads (which are based on the creditworthiness of the underlying securitized asset and enhancements) were not volatile, while its unsecured long-term spreads were volatile. Consistent with the overall market, Ford Credit was impacted by volatility in the asset-backed securitization market beginning in the second half of 2007. Ford Credit experienced higher spreads for several of its committed liquidity programs as well as its public and private issuances. During 2009, Ford Credit's spreads on the three-year fixed rate notes offered in its U.S. public retail securitization transactions decreased from 425 basis points to 70 basis points over the relevant benchmark rates from March 2009 to November 2009, respectively. During 2009, Ford Credit's U.S. unsecured long-term debt transaction spreads decreased from 1,006 basis points to 480 basis points over the relevant benchmark rates from June 2009 to December 2009, respectively.

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

	2009	2008	2007
Cash, cash equivalents, and marketable securities*	$17.3	$23.6	$16.7
Committed liquidity programs	23.2	28.0	36.8
Asset-backed commercial paper ("FCAR")	9.3	15.7	16.9
Credit facilities	1.3	2.0	3.0
Committed capacity	33.8	45.7	56.7
Committed capacity and cash	51.1	69.3	73.4
Less: Capacity in excess of eligible receivables	(6.5)	(4.8)	(4.7)
Less: Cash and cash equivalents to support on-balance sheet securitization transactions	(5.2)	(5.5)	(4.7)
Liquidity	39.4	59.0	64.0
Less: Utilization	(18.3)	(37.6)	(36.1)
Liquidity available for use	$21.1	$21.4	$27.9

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* Excludes marketable securities related to insurance activities.

At December 31, 2009, committed capacity and cash shown above totaled $51.1 billion, of which $39.4 billion could be utilized (after adjusting for capacity in excess of eligible receivables of $6.5 billion and cash required to support on-balance sheet securitization transactions of $5.2 billion). At December 31, 2009, $18.3 billion was utilized, leaving $21.1 billion available for use (including $12.1 billion of cash, cash equivalents, and marketable securities, but excluding marketable securities related to insurance activities and cash and cash equivalents to support on-balance sheet securitization transactions).

At December 31, 2009, Ford Credit's liquidity available for use was lower than year-end 2008 by about $300 million, as debt maturities and cash payments were higher than the impact of lower receivables and new debt issuances. The reduction in liquidity available for use from year-end 2008 also included a $630 million cumulative adjustment, reflected in the first quarter of 2009, to correct for the overstatement of cash and cash equivalents and certain accounts payable that originated in prior periods. Liquidity available for use was 22% of managed receivables. In addition to the $21.1 billion of liquidity available for use, the $6.5 billion of capacity in excess of eligible receivables provides Ford Credit with an alternative for funding future purchases or originations and gives Ford Credit flexibility to shift capacity to alternate markets and asset classes.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Cash, Cash Equivalents, and Marketable Securities. At December 31, 2009, Ford Credit's cash, cash equivalents, and marketable securities (excluding marketable securities related to insurance activities) totaled $17.3 billion, compared with $23.6 billion at year-end 2008. In the normal course of Ford Credit's funding activities, it may generate more proceeds than are required for Ford Credit's 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 it flexibility in the use of Ford Credit's other funding programs.

Credit Facilities and Committed Liquidity Programs. See Note 19 of the Notes to the Financial Statements for more information regarding credit facilities and committed liquidity programs for Ford Credit. While there is a risk of non-renewal of some of Ford Credit's committed liquidity programs, which could lead to a reduction in the size of these programs and/or higher costs, Ford Credit's capacity in excess of eligible receivables would enable it to absorb some reductions. Ford Credit's ability to obtain funding under these programs is subject to having a sufficient amount of assets eligible for these programs as well as its ability to obtain interest rate hedging arrangements for certain securitization transactions.

Balance Sheet Liquidity Profile. Ford Credit defines its balance sheet liquidity profile as the cumulative maturities of its finance receivables, investment in operating leases, and cash less the cumulative debt maturities over upcoming annual periods. The following table shows Ford Credit's balance sheet liquidity profile for the periods presented as of December 31, 2009 (in billions):

	Cumulative Maturities			
	Through 2010	Through 2011	Through 2012	Through 2013 and Thereafter
Finance receivables (a), investment in operating leases (b), and cash (c)	$73.1	$95.0	$105.5	$113.3
Debt	(49.9)	(70.5)	(81.7)	(96.6)
Finance receivables, investment in operating leases and cash over/(under) debt	$23.2	$24.5	$23.8	$16.7

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(a) Finance receivables net of unearned income.
(b) Investment in operating leases net of accumulated depreciation.
(c) Cash includes cash, cash equivalents, and marketable securities (excludes marketable securities related to insurance activities) at December 31, 2009.

Ford Credit's balance sheet is inherently liquid because of the short-term nature of its finance receivables, investment in operating leases and cash. Maturities of investment in operating leases consist primarily of rental payments attributable to depreciation over the remaining life of the lease and the expected residual value at lease termination. The 2010 finance receivables maturities in the table above include all of the wholesale receivables maturities that are otherwise extending beyond 2010. The table above also reflects the following adjustments to debt maturities to match all of the asset-backed debt maturities with the underlying asset maturities:

- The 2010 maturities include all of the wholesale securitization transactions that otherwise extend beyond 2010; and
- Retail securitization transactions under certain committed liquidity programs are treated as amortizing on January 1, 2010 instead of amortizing after the contractual maturity of those committed liquidity programs that otherwise extend beyond January 1, 2010.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Leverage. Ford Credit uses leverage, or the debt-to-equity ratio, to make various business decisions, including evaluating and establishing pricing for retail, wholesale, and lease financing, and assessing Ford Credit's 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 using the following formulas:

$$\text{Financial Statement Leverage} = \frac{\text{Total Debt}}{\text{Equity}}$$

$$\text{Managed Leverage} = \frac{\text{Total Debt} + \text{Securitized Off-Balance Sheet Receivables} - \text{Retained Interest in Securitized Off-Balance Sheet Receivables} - \text{Cash and Cash Equivalents and Marketable Securities (a)} - \text{Adjustments for Derivative Accounting on Total Debt (b)}}{\text{Equity} - \text{Adjustments for Derivative Accounting on Equity (b)}}$$

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(a) Excluding marketable securities related to insurance activities.

(b) Primarily related to market valuation adjustments to derivatives due to movements in interest rates. Adjustments to debt are related to designated fair value hedges and adjustments to equity are related to retained earnings.

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

	December 31, 2009	2008	2007
Total debt	$96.3	$126.5	$139.4
Equity	11.0	10.6	13.4
Financial statement leverage (to 1)	8.8	12.0	10.4

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

	December 31, 2009	2008	2007
Total debt	$96.3	$126.5	$139.4
Securitized off-balance sheet receivables outstanding	0.1	0.6	6.0
Retained interest in securitized off-balance sheet receivables	—	(0.1)	(0.7)
Adjustments for cash, cash equivalents, and marketable securities (a)	(17.3)	(23.6)	(16.7)
Adjustments for derivative accounting (b)	(0.2)	(0.4)	—
Total adjusted debt	$78.9	$103.0	$128.0
Equity	$11.0	$10.6	$13.4
Adjustments for derivative accounting (b)	(0.2)	(0.2)	(0.3)
Total adjusted equity	$10.8	$10.4	$13.1

Managed leverage (to 1)	7.3	9.9	9.8

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(a) Excluding marketable securities related to insurance activities.
(b) Primarily related to market valuation adjustments to derivatives due to movements in interest rates. Adjustments to debt are related to designated fair value hedges and adjustments to equity are related to retained earnings.

Ford Credit believes that managed leverage is useful to its investors because it reflects the way Ford Credit manages its business. Ford Credit retains interests in receivables sold in off-balance sheet securitization transactions and, with respect to subordinated retained interests, is exposed to credit risk. Accordingly, Ford Credit evaluates charge-offs, receivables, and leverage on a managed as well as a financial statement basis. Ford Credit also deducts cash and cash equivalents, and marketable securities (excluding marketable securities related to insurance activities) because they generally correspond to excess debt beyond the amount required to support its operations and amounts to support on-balance sheet securitization transactions. Ford Credit makes derivative accounting adjustments to its assets, debt, and equity positions to reflect the impact of interest rate instruments Ford Credit uses in connection with its term-debt issuances and securitization transactions. The derivative accounting adjustments related to these instruments vary over the term of the underlying debt and securitized funding obligations based on changes in market interest rates. Ford Credit generally repays its debt obligations as they mature. As a result, Ford Credit excludes the impact of these derivative accounting adjustments on both the numerator and denominator in order to exclude the interim effects of changes in market interest rates. Ford Credit believes the managed leverage measure provides its investors with meaningful information regarding management's decision-making processes.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Ford Credit plans its managed leverage by considering prevailing market conditions and the risk characteristics of its business. At December 31, 2009, Ford Credit's managed leverage was 7.3 to 1, compared with 9.9 to 1 a year ago. Ford Credit's managed leverage is significantly below the threshold of 11.5 to 1 set forth in the Amended and Restated Support Agreement with us. In 2009, Ford Credit distributed $1.5 billion to its parent, which included in the first quarter of 2009 a non-cash distribution of about $1.1 billion and in the third quarter of 2009 a cash distribution of $400 million and a non-cash distribution of $31 million for Ford Credit's ownership interest in AB Volvofinans.

Securitization Transactions by Ford Credit

Securitization. Ford Credit securitizes finance receivables and net investment in operating leases through a variety of programs, utilizing amortizing, variable funding, and revolving structures. Ford Credit also sells finance receivables in structured financing transactions. Due to the similarities between securitization and structured financing, Ford Credit refers to structured financings as securitization transactions. Ford Credit's securitization programs are targeted to many different investors in both public and private transactions in capital markets worldwide. Ford Credit completed its first securitization transaction in 1988, and regularly securitizes assets, purchased or originated, in the United States, Canada, Mexico, and Europe.

Most of Ford Credit's securitization transactions do not satisfy the requirements for accounting sale treatment, and the securitized assets and related debt remain on Ford Credit's balance sheet. Some of Ford Credit's securitization transactions, however, do satisfy accounting sale treatment and are not reflected on Ford Credit's balance sheet in the same way as debt funding. All of Ford Credit's securitization transactions since the first quarter of 2007 have been on-balance sheet transactions. Both on- and off-balance sheet securitization transactions have an effect on its financial condition, operating results, and liquidity.

Ford Credit securitizes its assets because the securitization market provides it with a lower cost source of funding compared with unsecured debt given Ford Credit's present credit ratings, and it diversifies Ford Credit's funding among different markets and investors. In the United States, Ford Credit is generally able to obtain funding in two days for its unutilized capacity in most of its committed liquidity programs. New programs and new transaction structures typically require substantial development time before coming to market.

In a securitization transaction, the securitized assets are generally held by a bankruptcy-remote special purpose entity ("SPE") in order to isolate the securitized assets from the claims of Ford Credit's other creditors and ensure that the cash flows on the securitized assets are available for the benefit of securitization investors. As a result, payments to securitization investors are based on the creditworthiness of the securitized assets and any enhancements, and not on Ford Credit's creditworthiness. Senior asset-backed securities issued by the SPEs generally receive the highest short-term credit ratings and among the highest long-term credit ratings from the rating agencies that rate them.

Securitization SPEs have limited purposes and generally are only permitted to purchase the securitized assets, issue asset-backed securities, and make payments on the securities. Some SPEs, such as certain trusts that issue securities backed by retail installment sale contracts, only issue a single series of securities and generally are dissolved when those securities have been paid in full. Other SPEs, such as the trusts that issue securities backed by wholesale receivables, issue multiple series of securities from time to time and are not dissolved until the last series of securities is paid in full.

Ford Credit's use of SPEs in its securitization transactions is consistent with conventional practices in the securitization industry. Ford Credit sponsors the SPEs used in all of its securitization programs with the exception of bank-sponsored conduits. None of Ford Credit's officers, directors, or employees holds any equity interests in its SPEs or receives any direct or indirect compensation from the SPEs. These SPEs do not own Ford Credit's Shares or shares of any of its affiliates.

In order to be eligible for inclusion in a securitization transaction, each asset must satisfy certain eligibility criteria designed for the specific transaction. For example, for securitization transactions of retail installment sale contracts, the selection criteria may be based on factors such as location of the obligor, contract term, payment schedule, interest rate, financing program, the type of financed vehicle, and whether the contracts are active and in good standing (e.g., when the obligor is not more than 30-days delinquent or bankrupt). Generally, Ford Credit selects the assets to be included in a particular securitization randomly from its entire portfolio of assets that satisfy the applicable eligibility criteria.

Ford Credit provides various forms of credit enhancements to reduce the risk of loss for securitization investors. Credit enhancements include over-collateralization (when the principal amount of the securitized assets exceeds the principal amount of related asset-backed securities), segregated cash reserve funds, subordinated securities, and excess spread (when interest collections on the securitized assets exceed the related fees and expenses, including interest payments on the related asset-backed securities). Ford Credit may also provide payment enhancements that increase the likelihood of the timely payment of interest and the payment of principal at maturity. Payment enhancements include yield supplement arrangements, interest rate swaps, and other hedging arrangements, liquidity facilities, and certain cash deposits.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Ford Credit retains interests in its securitization transactions, including senior and subordinated securities issued by the SPE, rights to cash held for the benefit of the securitization investors (for example, a reserve fund), and residual interests. Residual interests represent the right to receive collections on the securitized assets in excess of amounts needed to pay securitization investors and to pay other transaction participants and expenses. Ford Credit retains credit risk in securitization transactions because its retained interests include the most subordinated interests in the securitized assets and are structured to absorb expected credit losses on the securitized assets before any losses would be experienced by investors. Based on past experience, Ford Credit expects that any losses in the pool of securitized assets would likely be limited to its retained interests.

Ford Credit is engaged as servicer to collect and service the securitized assets. Its servicing duties include collecting payments on the securitized assets and preparing monthly investor reports on the performance of the securitized assets and on amounts of interest and/or principal payments to be made to investors. While servicing securitized assets, Ford Credit applies the same servicing policies and procedures that Ford Credit applies to its owned assets and maintains its normal relationship with its financing customers.

Ford Credit generally has no obligation to repurchase or replace any securitized asset that subsequently becomes delinquent in payment or otherwise is in default. Securitization investors have no recourse to Ford Credit or its other assets for credit losses on the securitized assets and have no right to require Ford Credit to repurchase their investments. Ford Credit does not guarantee any asset-backed securities and has no obligation to provide liquidity or make monetary contributions or contributions of additional assets to its SPEs either due to the performance of the securitized assets or the credit rating of its short-term or long-term debt. However, as the seller and servicer of the securitized assets, Ford Credit is obligated to provide certain kinds of support to its securitization transactions, which are customary in the securitization industry. These obligations include indemnifications, repurchase obligations on assets that do not meet eligibility criteria or that have been materially modified, the mandatory sale of additional assets in revolving transactions, and, in some cases, servicer advances of certain amounts.

Risks to Continued Funding under Securitization Programs. The following securitization programs contain structural features that could prevent Ford Credit from using these sources of funding in certain circumstances:

- Retail Securitization. If the credit enhancement on any asset-backed security held by FCAR is reduced to zero, FCAR may not purchase any additional asset-backed securities or issue additional commercial paper and would wind down its operations. In addition, if credit losses or delinquencies in Ford Credit's portfolio of retail assets exceed specified levels, FCAR is not permitted to purchase additional asset-backed securities for so long as such levels are exceeded.
- Retail Conduits. If credit losses or delinquencies on the pool of assets held by a conduit exceed specified levels, or if the level of over-collateralization or credit enhancements for such pool decreases below a specified level, Ford Credit will not have the right to sell additional pools of assets to that conduit.
- Wholesale Securitization. If the payment rates on wholesale receivables in the securitization trust are lower than specified levels or if there are significant dealer defaults, Ford Credit will be unable to obtain additional funding and any existing funding would begin to amortize.
- Retail Warehouse. If credit losses or delinquencies in Ford Credit's portfolio of retail assets exceed specified levels, Ford Credit will be unable to obtain additional funding from the securitization of retail installment sale contracts through its retail warehouse facility (i.e., a short-term credit facility under which draws are backed by the retail contracts).
- Lease Warehouse. If credit losses or delinquencies in Ford Credit's portfolio of retail lease contracts exceed specified levels, Ford Credit will be unable to obtain additional funding from the securitization of retail lease contracts through its lease warehouse facility (i.e., a credit facility under which draws are backed by the retail lease contracts).

In the past, these features have not limited Ford Credit's ability to use securitization to fund its operations.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

In addition to the specific transaction-related structural features discussed above, Ford Credit's securitization programs may be affected by the following factors: market disruption and volatility, the market capacity for Ford Credit and Ford Credit's sponsored investments, the general demand for the type of assets supporting the asset-backed securities, the availability of committed liquidity facilities, the amount and credit quality of assets available, the performance of assets in its previous securitization transactions, accounting and regulatory changes, and Ford Credit's credit ratings. In addition, a bankruptcy of Ford, Ford Credit, or FCE would cause certain of Ford Credit's funding transactions to amortize and result in a termination of certain liquidity commitments. If, as a result of any of these or other factors, the cost of securitization funding were to increase significantly or funding through securitization transactions were no longer available to Ford Credit, it would have a material adverse impact on Ford Credit's financial condition and results of operations, which could adversely affect its ability to support the sale of Ford vehicles.

On-Balance Sheet Arrangements

Most of Ford Credit's securitization transactions do not satisfy the requirements for accounting sale treatment and, therefore, the securitized assets and related debt are included in Ford Credit's financial statements. Ford Credit expects its future securitization transactions to be on-balance sheet. Ford Credit believes on-balance sheet arrangements are more transparent to its investors. Securitized assets are only available to repay the related asset-backed debt and to pay other securitization investors and other participants. These underlying securitized assets are available only for payment of the debt and other obligations issued or arising in the securitization transactions; they are not available to pay Ford Credit's other obligations or the claims of its other creditors. Ford Credit holds the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of these securitization transactions. This debt is not Ford Credit's legal obligation or the legal obligation of its other subsidiaries. Assets and associated liabilities related to Ford Credit's on-balance sheet securitization transactions are as follows (in billions):

	2009	2008
Total outstanding principal amount of finance receivables and net investment in operating leases included in on-balance sheet securitizations	$ 74.8	$ 89.3
Cash balances to be used only to support the on-balance sheet securitizations	5.2	5.5
Debt payable only out of collections on the underlying securitized assets and related enhancements	52.9	72.2

See Note 19 of the Notes to the Financial Statements for more information regarding on-balance sheet securitization transactions.

Off-Balance Sheet Arrangements

We have entered into various arrangements not reflected on our balance sheet that have or are reasonably likely to have a current or future effect on our financial condition, results of operations or liquidity. These include securitizations by Ford Credit in off-balance sheet transactions, variable interest entities ("VIEs") and guarantees. For a discussion of our VIEs and guarantees, see Notes 13 and 31, respectively, of the Notes to the Financial Statements.

Ford Credit has not entered into any off-balance sheet arrangements (off-balance sheet securitization transactions and whole-loan sale transactions, excluding sales of businesses and liquidating portfolios) since the first quarter of 2007, which is consistent with Ford Credit's plan to execute on-balance sheet securitization transactions.

Total Company

Equity/(Deficit). At December 31, 2009, Total equity/(deficit) attributable to Ford Motor Company was negative $7.8 billion, an improvement of $7.9 billion compared with December 31, 2008. The improvement is more than explained by favorable changes in Capital in excess of par value of stock (primarily the various equity issuances ($1.9 billion), the conversion of a portion of the 2036 Convertible Notes ($1.4 billion), the issuance of warrants related to the UAW Amended Settlement Agreement ($1.2 billion), the equity component related to the issuance of the 2016 Convertible Notes (about $700 million), and the debt securities exchanged for equity (about $600 million)); and favorable changes in Retained earnings (primarily related to 2009 net income attributable to Ford ($2.7 billion)).

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Credit Ratings. Our short-term and long-term debt is rated by four credit rating agencies designated as NRSROs by the SEC:

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

In several markets, locally recognized rating agencies also rate us. A credit rating reflects an assessment by the rating agency of the credit risk associated with a corporate entity or particular securities issued by that entity. Their ratings of us are based on information provided by us and other sources. Credit ratings are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by the assigning rating agency. Each rating agency may have different criteria for evaluating company risk and, therefore, ratings should be evaluated independently for each rating agency. Lower credit ratings generally result in higher borrowing costs and reduced access to capital markets.

The following rating actions have been taken by these NRSROs since October 1, 2009:

Ford — On November 2, 2009, DBRS placed Ford's long-term credit ratings under review with positive implications; Fitch revised Ford's outlook to positive from stable; and Moody's raised Ford's corporate rating to B3 from Caa1, its senior unsecured rating to Caa1 from Caa2, and its senior secured rating to Ba3 from B1. Moody's outlook for Ford remains stable.

On November 3, 2009, S&P upgraded Ford's corporate rating to B- from CCC+, its senior secured rating to B- from CCC+, and its senior unsecured rating to CCC from CCC-. S&P's ratings outlook for Ford remains stable.

On December 1, 2009, DBRS upgraded Ford's issuer Rating to B(low) from CCC(high) and upgraded Ford's senior secured rating to B(high) from B(low). DBRS' outlook for Ford remains stable. Also on December 1, Fitch Ratings upgraded Ford's senior secured rating to B+ from B, with a positive outlook.

On January 11, 2010, Fitch upgraded Ford's corporate rating to B- from CCC and the senior secured rating to BB- from B+; the outlook remains positive.

Ford Credit — On November 2, 2009, DBRS placed Ford Credit's ratings under review with positive implications; Fitch revised Ford Credit's outlook to positive from stable; and Moody's upgraded Ford Credit's senior unsecured rating to B3 from Caa1 while keeping its credit ratings under review for a possible upgrade.

On November 3, 2009, S&P upgraded Ford Credit's senior unsecured rating to B- from CCC+ with a stable outlook.

On December 1, 2009, DBRS upgraded Ford Credit's corporate and senior unsecured ratings to B from B (low) with a stable outlook.

On January 11, 2010, Fitch upgraded Ford Credit's corporate rating to B- from CCC, the senior unsecured rating to B+ from B, and the short-term rating to B from C; the outlook remains positive.

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	B (high)	Stable	B	R-5	Stable
Fitch	B-	CC	BB-	Positive	B+	B	Positive
Moody's	B3	Caa1	Ba3	Stable	B3	NP	Review
S&P	B-	CCC	B-	Stable	B- *	NR	Stable

* S&P assigns FCE a long-term senior unsecured rating of B, maintaining a one notch differential versus Ford Credit.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

OUTLOOK

Although a global economic recovery is underway, the economic environment remains uncertain. We believe that in the face of this uncertainty, our One Ford plan – to aggressively restructure our business to operate profitably at current demand and changing model mix, accelerate development of new products customers want and value, finance our plan and improve our balance sheet, and work together effectively as one team to leverage our global resources – provides the right strategy to achieve our objectives. For additional discussion of the economic environment, and discussion and assessment of the risks and opportunities with regard to our planning assumptions, see our "Risk Factors" and "Overview" discussion above, and "Critical Accounting Estimates" discussion below.

Our projection of upcoming vehicle production (including Ford-badged vehicles manufactured by unconsolidated affiliates and non-Ford-badged vehicles manufactured by Ford or its consolidated affiliates) is as follows (in thousands):

	First Quarter 2010	
	Vehicle Unit Production	Over/(Under) First Quarter 2009
Ford North America	570	221
Ford South America	111	12
Ford Europe	440	97
Ford Asia Pacific Africa	147	49
Volvo	93	28

The increase in first quarter 2010 production compared with a year ago reflects strong customer demand for our products, and the non-recurrence of prior-year dealer stock declines. We expect gradual improvement in global industry sales volume during 2010, but significant uncertainties remain. As a result of the very effective 2009 scrappage programs in Europe, we expect vehicle demand in that region to be lower in 2010, particularly in Germany.

Our planning assumptions for 2010 include the following:

Industry Volume (a) (million units)	Full-Year Plan
–United States	11.5 – 12.5
–Europe (b)	13.5 – 14.5
Operational Metrics (c)	
Compared with prior year:	
–Quality	Improve
–Automotive Structural Costs (d)	Somewhat Higher
–U.S. Market Share (Ford Lincoln Mercury)	Equal / Improve
–U.S. Share of Retail Market	Equal / Improve
–Europe Market Share (b)	Equal
Absolute Amount:	
–Automotive Operating-Related Cash Flow (e)	Positive
–Capital Spending	$4.5 Billion – $5 Billion

(a) Includes medium and heavy trucks.

(b) For the 19 markets we track in Europe as defined in Item 1.
(c) Excludes Volvo, and reflects new accounting standard effective January 1, 2010 related to the consolidation of variable interest entities.
(d) Structural cost changes are measured at constant exchange, and exclude special items and discontinued operations.
(e) See "Liquidity and Capital Resources" discussion above for reconciliation to U.S. GAAP.

Although we see improvement in leading economic indicators in our major markets and financial markets have continued to normalize with ongoing policy support, low levels of consumer confidence and continuing labor market weakness present a challenge to the near-term economic outlook (particularly for the United States and Europe). The outlook for consumer spending in the United States and Europe remains weak, with below-trend growth likely in 2010. In addition, our suppliers and dealers have been weakened by the global economic downturn.

Commodity prices have begun to increase with the emergence of initial signs of economic recovery, and we anticipate this trend will continue in 2010. Our business also will continue to be affected by currency volatility.

We experienced significant positive net pricing in 2009; we expect year-over-year improvement in 2010, but this will be a smaller magnitude than in 2009.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

As reported, we have achieved significant structural cost reductions over the past four years; in 2010, we expect Automotive structural costs to be somewhat higher as we increase production to meet demand.

We expect that full-year 2010 Automotive operating-related cash flow will be positive, though less than the run rate implied by our strong second half 2009 cash flow. Our recent performance was heavily influenced by seasonal factors, including normal year-end inventory reductions, and significant non-recurring factors such as tax refunds and higher production to rebuild depleted dealer stocks.

Capital spending in 2010 is expected to be in the range of $4.5 billion to $5 billion as we continue to focus on our product plan. This planning assumption for capital spending excludes Volvo and joint ventures that are being deconsolidated under the new accounting standard effective January 1, 2010. On a comparable basis, planned 2010 capital spending is about $1 billion higher than our actual 2009 spending.

We have excluded Volvo from our 2010 planning assumptions based on its held-for-sale status. As announced, we have settled on substantive terms for the sale of Volvo to Zhejiang Geely Group Holding Co. Ltd. While some work still remains relating to final documentation, financing and government approvals, we expect to reach a definitive sales agreement in the first quarter of 2010, with closing of the sale likely to occur in the second quarter of 2010.

While deconsolidation of joint ventures pursuant to the new accounting standard will have no effect on Net income/(loss) attributable to Ford Motor Company and is not expected to have a substantial impact on total cash flow, we estimate that the accounting change will reduce our full-year 2010 pre-tax operating results by $350 million to $400 million. Additionally, deconsolidation will reduce Automotive gross cash by about $550 million, and decrease Automotive debt by about $800 million (of which about $500 million is to mature during 2010) compared with December 31, 2009 levels.

Ford Credit expects to be profitable in 2010, but at a reduced level compared with 2009, reflecting lower average receivables and the non-recurrence of certain favorable factors experienced during 2009. At year-end 2010, Ford Credit anticipates managed receivables to be in the range of $80 billion to $90 billion. The projected decline in managed receivables primarily reflects lower industry and financing volumes in 2009 and 2010 compared with prior years, and the effect of transitioning Jaguar, Land Rover, Mazda and some Volvo financing to other providers. Ford Credit expects to pay distributions of about $1.5 billion in 2010. Ford Credit will continue to assess its ability to make future distributions based on its available liquidity and managed leverage objectives.

Based on our planning assumptions, which include continued improvement in U.S. and global industry sales volume during 2010 and beyond, for full-year 2010 we plan to be profitable on a pre-tax basis excluding special items for Ford North America, total Automotive and total company, with positive Automotive operating-related cash flow. We remain on track for full-year 2011 to be solidly profitable on a pre-tax basis excluding special items, with positive Automotive operating-related cash flow.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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:

- Further declines in industry sales volume, particularly in the United States or Europe, due to financial crisis, deepening recession, geo-political events, or other factors;
- Decline in market share;
- Lower-than-anticipated market acceptance of new or existing products;
- An increase in or acceleration of market shift beyond our current planning assumptions from sales of trucks, medium- and large-sized utilities, or other more profitable vehicles, particularly in the United States;
- A return to elevated gasoline prices, as well as the potential for volatile prices or reduced availability;
- Continued or increased price competition resulting from industry overcapacity, currency fluctuations, or other factors;
- Adverse effects from the bankruptcy, insolvency, or government-funded restructuring of, change in ownership or control of, or alliances entered into by a major competitor;
- A prolonged disruption of the debt and securitization markets;
- Fluctuations in foreign currency exchange rates, commodity prices, and interest rates;
- Economic distress of suppliers that may require us to provide substantial financial support or take other measures to ensure supplies of components or materials and could increase our costs, affect our liquidity, or cause production disruptions;
- Single-source supply 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 production;
- Substantial pension and postretirement health care and life insurance liabilities impairing our liquidity or financial condition;
- Worse-than-assumed economic and demographic experience for our postretirement benefit plans (e.g., discount rates or investment returns);
- Restriction on use of tax attributes from tax law "ownership change;"
- The discovery of defects in vehicles resulting in delays in new model launches, recall campaigns, or increased warranty costs;
- Increased safety, emissions, 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, perceived environmental impacts, or otherwise;
- A change in our requirements for parts or materials where we have 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 related to capital investments;
- Adverse effects on our operations resulting from certain geo-political or other events;
- 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);
- Failure of financial institutions to fulfill commitments under committed credit facilities;
- Inability of Ford Credit to obtain competitive funding;
-

Inability of Ford Credit to access debt, securitization, or derivative markets around the world at competitive rates or in sufficient amounts due to credit rating downgrades, market volatility, market disruption, or other factors;

- Higher-than-expected credit losses;
- Increased competition from banks or other financial institutions seeking to increase their share of financing Ford vehicles;
- 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;
- New or increased credit, consumer, or data protection or other regulations resulting in higher costs and/or additional financing restrictions; and
- Inability to implement our One Ford plan.

We cannot be certain that any expectation, forecast, or assumption made 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."

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

CRITICAL ACCOUNTING ESTIMATES

We consider an accounting estimate to be critical if: 1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and 2) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements.

Warranty and Additional Service Actions

Nature of Estimates Required. The estimated warranty and additional service action costs are accrued for each vehicle at the time of sale. Estimates are principally based on assumptions regarding the lifetime warranty costs of each vehicle line and each model year of that vehicle line, where little or no claims experience may exist. In addition, the number and magnitude of additional service actions expected to be approved, and policies related to additional service actions, are taken into consideration. Due to the uncertainty and potential volatility of these estimated factors, changes in our assumptions could materially affect net income.

Assumptions and Approach Used. Our estimate of warranty and additional service action obligations is re-evaluated on a quarterly basis. Experience has shown that initial data for any given model year can be volatile; therefore, our process relies upon long-term historical averages until sufficient data are available. As actual experience becomes available, it is used to modify the historical averages to ensure that the forecast is within the range of likely outcomes. Resulting accruals are then compared with present spending rates to ensure that the balances are adequate to meet expected future obligations.

See Note 31 of the Notes to the Financial Statements for more information regarding costs and assumptions for warranties and additional service actions.

Pensions

Nature of Estimates Required. The estimation of our pension obligations, costs, and liabilities requires that we make use of estimates of the present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events such as demographic experience. These assumptions may have an effect on the amount and timing of future contributions.

Assumptions and Approach Used. The assumptions used in developing the required estimates include the following key factors:

- Discount rates. We base the discount rate assumption primarily on the results of a cash flow matching analysis, which matches the future cash outflows for each major plan to a yield curve comprised of high quality bonds specific to the country of the plan. Benefit payments are discounted at the rates on the curve and a single discount rate specific to the plan is determined.
- Expected return on plan assets. The expected return on plan assets assumption reflects historical returns and long-run inputs from a range of advisors for capital market returns, inflation, bond yields, and other variables, adjusted for specific aspects of our investment strategy. The assumption is based on consideration of all inputs, with a focus on long-term trends to avoid short-term market influences. Assumptions are not changed unless

structural trends in the underlying economy are identified, our asset strategy changes, or there are significant changes in other inputs.

- Salary growth. The salary growth assumption reflects our long-term actual experience, outlook, and assumed inflation.
    - Inflation. Our inflation assumption is based on an evaluation of external market indicators.
- Expected contributions. The expected amount and timing of contributions is based on an assessment of minimum requirements, and additional amounts based on cash availability and other considerations (e.g., funded status, avoidance of regulatory premiums and levies, and tax efficiency).
    - Retirement rates. Retirement rates are developed to reflect actual and projected plan experience.
    - Mortality rates. Mortality rates are developed to reflect actual and projected plan experience.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Plan obligations and costs are based on existing retirement plan provisions. No assumption is made regarding any potential future changes to benefit provisions beyond those to which we are presently committed (e.g., in existing labor contracts).

The effects of actual results differing from our assumptions and the effects of changing assumptions are included in unamortized net gains and losses. Unamortized gains and losses are amortized over future periods and, therefore, generally affect our recognized expense in future periods. Amounts are recognized as a component of net expense over the expected future years of service (approximately 12 years for the major U.S. plans). In 2009, the U.S. actual return on assets was 14.4%, which was higher than the expected return of 8.25%. The year-end 2009 weighted average discount rates for the U.S. and non-U.S. plans decreased by 64 and 27 basis points, respectively. These differences resulted in unamortized losses of about $2 billion (excluding Volvo). These losses are only amortized to the extent they exceed 10% of the higher of the market-related value of assets or the projected benefit obligation of the respective plan. For the major U.S. plans, the losses do not exceed this threshold and recognition will begin at a future measurement date.

See Note 18 of the Notes to the Financial Statements for more information regarding costs and assumptions for employee retirement benefits.

Sensitivity Analysis. The December 31, 2009 pension funded status and 2010 expense are affected by year-end 2009 assumptions. These sensitivities may be asymmetric and are specific to the time periods noted. They also may not be additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown. The effect of the indicated increase/(decrease) in selected factors is shown below (in millions):

	Percentage Point	Increase/(Decrease) in:			
		2010 Expense		December 31, 2009 Obligation	
Assumption*	Change	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Discount rate	+/- 1.0 pt.	$70/$210	$(130)/$180	$(4,150)/$4,950	$(2,690)/$3,060
Expected return on assets	+/- 1.0	(380)/380	(180)/180	—	—

* Excludes Volvo

The foregoing indicates that changes in the discount rate and return on assets can have a significant effect on the expense of our pension plans and/or obligation. We cannot predict these changes in discount rates or investment returns and, therefore, cannot reasonably estimate whether adjustments to our expense or obligation in subsequent years will be significant.

Other Postretirement Employee Benefits

Nature of Estimates Required. The estimation of our obligations, costs, and liabilities associated with OPEB, primarily retiree health care and life insurance, requires that we make use of estimates of the present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events such as health care cost increases and demographic experience, which may have an effect on the amount and timing of future payments.

Assumptions and Approach Used. The assumptions used in developing the required estimates include the following key factors:

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Discount rates. We base the discount rate assumption primarily on the results of a cash flow matching analysis, which matches the future cash outflows for each plan to a yield curve comprised of high quality bonds specific to the country of the plan. Benefit payments are discounted at the rates on the curve and a single discount rate specific to the plan is determined.

- Health care cost trends. Our health care cost trend assumptions are developed based on historical cost data, the near-term outlook, and an assessment of likely long-term trends.
- Salary growth. The salary growth assumptions reflect our long-term actual experience, outlook and assumed inflation.
- Retirement rates. Retirement rates are developed to reflect actual and projected plan experience.
- Mortality rates. Mortality rates are developed to reflect actual and projected plan experience.

Plan obligations and costs are based on existing retirement plan provisions. No assumption is made regarding any potential future changes to benefit provisions beyond those to which we are presently committed (e.g., in existing labor contracts).

The effects of actual results differing from our assumptions and the effects of changing assumptions are included in unamortized net gains and losses. Unamortized gains and losses are amortized over future periods and, therefore, generally affect our recognized expense in future periods. The weighted average discount rate used to determine the benefit obligation for U.S. plans at December 31, 2009 was 5.74%, compared with 4.95% (6.37% excluding the UAW retiree health care obligation) at December 31, 2008, resulting in an unamortized loss of about $250 million. This amount is expected to be recognized as a component of net expense over the expected future years of service (approximately 14 years).

See Note 18 of the Notes to the Financial Statements for more information regarding costs and assumptions for other postretirement employee benefits.

Sensitivity Analysis. The effect on U.S. and Canadian plans of a one percentage point increase/(decrease) in the assumed discount rate would be a (decrease)/increase in the postretirement health care benefit expense for 2010 of approximately $(30) million/$40 million, and in the year-end 2009 obligation of approximately $(590) million/$720 million.

Impairments of Goodwill and Long-Lived Assets

Nature of Estimates Required – Goodwill. Goodwill is not amortized, but is subject to periodic assessments of impairment. We test goodwill for impairment annually during the fourth quarter, or when events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. Impairment of goodwill is evaluated using a two step process. The first step involves comparison of the fair value of a reporting unit with its carrying value. If the carrying value of the reporting unit exceeds its fair value, the second step of the process involves comparison of the implied fair value of goodwill with its carrying value. The implied fair value of goodwill is equivalent to the excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities as if the reporting unit had been acquired in a business combination. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Restoration of a previously-recognized goodwill impairment loss is not allowed.

Nature of Estimates Required – Held-and-Used 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 and projected future operating results, and significant negative industry or economic trends. When a triggering event occurs, a test for recoverability is performed, comparing projected undiscounted future cash flows to the carrying value of the asset group. If the test for recoverability identifies a possible impairment, the asset group's fair value is measured relying primarily on a discounted cash flow methodology. An impairment charge is recognized for the amount by which the carrying value of the asset group exceeds its estimated fair value. 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. 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.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Nature of Estimates Required – Held-for-Sale Operations. We perform an impairment test on an asset group to be discontinued, held for sale, or otherwise disposed of when management has committed to the action and the action is expected to be completed within one year. We estimate fair value to approximate the expected proceeds to be received. An impairment charge is recognized when the carrying value of the asset group exceeds the estimated fair value less transaction costs.

Automotive Sector

Assumptions and Approach Used. We measure the fair value of a reporting unit or 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 reporting unit or 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 a reporting unit or 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 at least annually 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 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 sales 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 a reporting unit or 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.

Automotive Sector – Goodwill

We had $34 million of Automotive goodwill on our balance sheet at December 31, 2009, all related to Ford of Europe. Volvo goodwill is reflected as part of held-for-sale assets (see Note 24 of the Notes to the Financial Statements for additional detail).

Ford Europe. We performed our annual goodwill testing in the fourth quarter of 2009 and assessed that the carrying value of our Ford Europe reporting unit at December 31, 2009 did not exceed its fair value.

Volvo. As previously disclosed, in the fourth quarter of 2007 we recorded a $2.4 billion impairment of our Volvo goodwill. We estimated at that time that a 0.5 percentage point decrease in the long-term growth rate would have decreased our fair value estimate by about $250 million. A 0.5 percentage point increase in the discount rate assumption would have decreased the fair value estimate by about $350 million.

In the fourth quarter of 2008, we performed annual goodwill impairment testing for our Volvo reporting unit. We compared the carrying value of our Volvo reporting unit to its fair value, and concluded that the goodwill was not impaired. We performed this measurement relying primarily on the income approach, applying a discounted cash flow methodology.

Our valuation was based on an in-use premise which considered a discount rate, after-tax return on sales rate, growth rate, and terminal value consistent with assumptions we believed principal market participants (i.e., other global automotive manufacturers) would use. This methodology produced appropriate valuations for entities we disposed of in recent years; in light of worsening economic conditions, however, we also considered other valuations, including a discounted cash flow analysis using more conservative assumptions than we initially used. This alternative analysis incorporated a significantly higher discount rate, offset partially by a higher growth rate; a much lower after-tax return on sales rate; and a lower terminal value. This alternative analysis reduced the valuation of our Volvo reporting unit by about 50%. Even this more conservative analysis, however, did not support an impairment of Volvo goodwill at year-end 2008. For information regarding 2009 testing, see "Automotive Sector – Held-for-Sale Operations" shown below.

Automotive Sector – Held-and-Used Long-Lived Assets

In 2008, we examined each of our asset groups for triggering events and recorded a pre-tax impairment charge for Ford North America. All other asset groups were found to either have no triggering events or have a carrying value of assets that was recoverable.

Ford North America. Due to rapidly-changing U.S. market conditions in the second quarter of 2008 (discussed in Note 15 of the Notes to the Financial Statements), we tested the long-lived assets of our Ford North America segment and recorded 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.

Sensitivity Analysis. The impairment reflected changes in the assumptions used to measure the fair value of the asset group based on the 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 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. For additional discussion of the planning assumptions used, see the "Outlook" discussion in our Quarterly Report on Form 10-Q for the period ended June 30, 2008.

Beyond the business and economic projections discussed above, we also updated our assumptions with regard to long-term growth and discount rates. The long-term growth rate assumption used in our second quarter 2008 testing 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 lowered business plan period projections, resulted 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 of 2008 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.

During the third quarter of 2008, we experienced a severe deterioration in U.S. credit markets, which adversely affected economic conditions and depressed automotive sales. As a result of this significant adverse change in the U.S. business climate, we again tested the long-lived assets of our Ford North America segment. Using updated business and economic projections, we assessed that the carrying value of our long-lived assets at September 30, 2008 did not exceed their fair value. We used the same long-term growth rate as used in our second quarter testing as we believe that long-term economic conditions have not deteriorated as a result of the present credit crisis. We estimate that a 0.5 percentage point decrease in the long-term growth rate assumed in our third quarter impairment testing would have decreased the fair value estimate by about $800 million. Additionally, we used the same discount rate as used in our second quarter testing. This is based on the assumption that the present credit crisis does not have a material impact on the weighted cost of capital in the medium- to long-term (consistent with our planning horizon). 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 $1.3 billion.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

We closely examined each of our asset groups for triggering events and most recently tested each of our held-and-used asset groups in the first quarter of 2009. We assessed that the carrying value of our long-lived assets was recoverable.

In 2010, we have plans to expand our product line-up in the United States to include additional small, more fuel-efficient vehicles to our product portfolio which will more closely match the overall market. Additionally, we continue to align our production capacity with industry sales volume and market share. As our plan progresses, we will be less exposed to rapid changes in vehicle mix and demand, and less susceptible to future impairment of long-lived assets. For further discussion of actions we are taking to respond to changing market conditions, see "Overview" above.

Refer to the Held-for-Sale Operations discussion below for detail regarding our 2009 impairment testing of Volvo.

Automotive Sector – Held-for-Sale Operations

Volvo. As previously disclosed, in recent years we have undertaken efforts to divest non-core assets in order to allow us to focus exclusively on our global Ford brand. Toward that end, in 2007 we sold our interest in Aston Martin; in 2008, we sold our interest in Jaguar Land Rover, and a significant portion of our ownership in Mazda. During the first quarter of 2009, based on our strategic review of Volvo and in light of our goal to focus on the global Ford brand, our Board of Directors committed to actively market Volvo for sale, notwithstanding the current distressed market for automotive-related assets. Accordingly, in the first quarter of 2009 we reported Volvo as held for sale and we ceased depreciation of its long-lived assets in the second quarter of 2009.

Our commitment to actively market Volvo for sale also triggered a held-for-sale impairment test in the first quarter of 2009. We received information from our discussions with potential buyers that provided us a value for Volvo using a market approach, rather than an income approach. We concluded that the information we received from our discussions with potential buyers was more representative of the value of Volvo given the current market conditions, the characteristics of viable market participants, and our anticipation of a more immediate transaction for Volvo. These inputs resulted in a lower value for Volvo than the discounted cash flow method we had previously used.

After considering deferred gains reported in Accumulated other comprehensive income/(loss), we recognized a pre-tax impairment charge of $650 million related to our total investment in Volvo. The impairment was recorded in Automotive cost of sales for the first quarter of 2009.

Had we not committed to actively market Volvo for sale, we would not have been afforded the benefit of the new information obtained in discussions with potential buyers. Rather, we would have continued to employ an in-use premise to test Volvo's goodwill and long-lived assets, using a discounted cash flow methodology with assumptions similar to those we used at year-end 2008. Such a discounted cash flow methodology would not have resulted in an impairment of goodwill or long-lived assets at March 31, 2009.

See Notes 15, 16 and 24 of the Notes to the Financial Statements for more information regarding impairment of long-lived assets, goodwill, and held-for-sale operations.

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.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Changes in assumptions or estimates may materially affect the fair value measurement of an asset group, and therefore may 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 Notes 15 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 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 SUVs (as discussed in Note 15 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, Ford Credit concluded that the operating lease portfolio was impaired and we and Ford Credit recorded a pre-tax charge of $2.1 billion in 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 SUVs, exceeded their fair value. See "Residual Risk" discussion above for additional information regarding the significant decrease in auction values.

At the time of the impairment, Ford Credit estimated that a one percent 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.

Although at this time we do not anticipate additional impairment charges, a deterioration of the business climate would impact the assumptions we use in future impairment testing and could result in additional impairments.

Valuation of Deferred Tax Assets

Nature of Estimates Required. Deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences that exist between the financial statement carrying value of assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards on a taxing jurisdiction basis. We measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which we expect the temporary differences to be recovered or paid.

U.S. GAAP standards of accounting for income taxes require a reduction of the carrying amounts of deferred tax assets by recording a valuation allowance if, based on the available evidence, it is more likely than not (defined as a likelihood of more than 50%) such assets will not be realized. The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability. Our accounting for deferred tax consequences represents our best estimate of those future events. Changes in our current estimates, due to unanticipated events or otherwise, could have a material impact on our financial condition and results of operations.

Assumptions and Approach Used. In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. If, based on the weight of available evidence, it is more likely than not the deferred tax assets will not be realized, we record a valuation allowance. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses. U.S. GAAP states that a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

This assessment, which is completed on a taxing jurisdiction basis, takes into account a number of types of evidence, including the following:

- Nature, frequency, and severity of current and cumulative financial reporting losses. A pattern of objectively measured recent financial reporting losses is heavily weighted as a source of negative evidence. In certain circumstances, historical information may not be as relevant due to changed circumstances;
- Sources of future taxable income. Future reversals of existing temporary differences are heavily-weighted sources of objectively verifiable positive evidence. Projections of future taxable income exclusive of reversing temporary differences are a source of positive evidence only when the projections are combined with a history of recent profits and can be reasonably estimated. Otherwise, these projections are considered inherently subjective and generally will not be sufficient to overcome negative evidence that includes relevant cumulative losses in recent years, particularly if the projected future taxable income is dependent on an anticipated turnaround to profitability that has not yet been achieved. In such cases, we generally give these projections of future taxable income no weight for the purposes of our valuation allowance assessment pursuant to U.S. GAAP; and
- Tax planning strategies. If necessary and available, tax planning strategies would be implemented to accelerate taxable amounts to utilize expiring carryforwards. These strategies would be a source of additional positive evidence and, depending on their nature, could be heavily weighted.

See Note 23 of the Notes to the Financial Statements for more information regarding deferred tax assets.

Sensitivity Analysis. In 2006, our net deferred tax position in the United States changed from a net deferred tax liability position to a net deferred tax asset position. In our assessment of the need for a valuation allowance, we heavily weighted the negative evidence of cumulative financial reporting losses in recent periods and the positive evidence of future reversals of existing temporary differences. Although a sizable portion of our North American losses in recent years were the result of charges incurred for restructuring actions, impairments, and other special items, even without these charges we still would have incurred significant operating losses. Accordingly, we considered our pattern of recent losses to be relevant to our analysis. Considering this pattern of recent relevant losses and the uncertainties associated with projected future taxable income exclusive of reversing temporary differences, we gave no weight to projections showing future U.S. taxable income for purposes of assessing the need for a valuation allowance. As a result of our assessment, we concluded that the net deferred tax assets of our U.S. entities required a full valuation allowance. We also recorded a full valuation allowance on the net deferred tax assets of certain foreign entities, such as Germany, Canada, and Spain, as the realization of these foreign deferred tax assets are reliant upon U.S.-source taxable income.

At December 31, 2006, we reported a $7.3 billion valuation allowance against our deferred tax assets (including $2.7 billion resulting from the adoption of the revised standard on accounting for defined benefit pension and other postretirement benefit plans). During 2007, we recorded an additional valuation allowance of $700 million. Losses during 2008, primarily in the United States, increased the valuation allowance by $9.3 billion to a balance of $17.3 billion at December 31, 2008. The valuation allowance increased by $200 million in 2009, which reflects a $1.1 billion increase related to charges to other comprehensive income, partially offset by a $900 million decrease as a result of operating profits.

A sustained period of profitability in our North America operations is required before we would change our judgment regarding the need for a full valuation allowance against our net deferred tax assets. Accordingly, although we were profitable in 2009, we continue to record a full valuation allowance against the net deferred tax assets in the United States and foreign entities discussed above. Although the weight of negative evidence related to cumulative losses is decreasing as we deliver on our One Ford plan (discussed in "Overview" and "Outlook" above), we believe that this objectively-measured negative evidence outweighs the subjectively-determined positive evidence and, as such, we currently do not anticipate a change in judgment regarding the need for a full valuation allowance in 2010. The consumption of tax attributes to offset expected operating profits during 2010, however, would reduce the overall level of deferred tax assets subject to valuation allowance.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

At December 31, 2009 and 2008, our net deferred tax assets, net of the valuation allowances of $17.5 billion and $17.3 billion, respectively, were $1.1 billion in each period. Unlike our U.S. operations where, considering the pattern of recent relevant losses and the uncertainties associated with projected future taxable income exclusive of reversing temporary differences, we gave no weight to projections showing future taxable income, these net deferred tax assets relate to certain operations outside North America where we generally have had a long history of profitability and believe it is more likely than not that the net deferred tax assets will be realized through future taxable earnings. Accordingly, we have not established a valuation allowance on our remaining net deferred tax assets. Most notably, at December 31, 2009 and 2008, we recognized a net deferred tax asset of $1.5 billion and $1.4 billion, respectively, in our U.K. Automotive operations, primarily based upon the tax return consolidation of our Automotive operations with our U.K. FCE operation. Our U.K. FCE operation has a long history of profitability, and we believe it will provide a source of future taxable income that can be reasonably estimated. Even with lower volumes and higher credit losses in the recent past as discussed in "Results of Operations" above, FCE operations remain profitable in 2009. If in the future FCE profits in the United Kingdom decline, additional valuation allowances may be required. We will continue to assess the need for a valuation allowance in the future.

Accumulated Depreciation on Vehicles Subject to Operating Leases

Accumulated depreciation on vehicles subject to operating leases reduces the value of the leased vehicles in our operating lease portfolio from their original acquisition value to their expected residual value at the end of the lease term. These vehicles primarily consist of retail lease contracts for Ford Credit and vehicles sold to daily rental car companies subject to a guaranteed repurchase option ("rental repurchase vehicles") for the Automotive sector.

We monitor residual values each month, and we review the adequacy of our accumulated depreciation on a quarterly basis. If we believe that the expected residual values for our vehicles have changed, we revise depreciation to ensure that our net investment in operating leases (equal to our acquisition value of the vehicles less accumulated depreciation) will be adjusted to reflect our revised estimate of the expected residual value at the end of the lease term. Such adjustments to depreciation expense would result in a change in the depreciation rates of the vehicles subject to operating leases, and are recorded prospectively on a straight-line basis.

For retail leases, each lease customer has the option to buy the leased vehicle at the end of the lease or to return the vehicle to the dealer. If the customer returns the vehicle to the dealer, the dealer may buy the vehicle from Ford Credit or return it to Ford Credit. Ford Credit's North America operating lease activity was as follows for each of the last three years (in thousands, except percentages):

	2009	2008	2007
Vehicle return volume	314	327	300
Return rate	81 %	86 %	79 %

For rental repurchase vehicles, practically all vehicles have been returned to us.

Nature of Estimates Required. Each operating lease in our portfolio represents a vehicle we own that has been leased to a customer. At the time we purchase a lease, we establish an expected residual value for the vehicle. We estimate the expected residual value by evaluating recent auction values, historical return volumes for our leased vehicles, industry-wide used vehicle prices, our marketing incentive plans and vehicle quality data.

Assumptions Used. For retail leases, our accumulated depreciation on vehicles subject to operating leases is based on our assumptions of:

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Auction value. Ford Credit's projection of the market value of the vehicles when we sell them at the end of the lease; and

- Return volume. Ford Credit's projection of the number of vehicles that will be returned to us at lease-end.

See Note 8 of the Notes to the Financial Statements for more information regarding accumulated depreciation on vehicles subject to operating leases.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Sensitivity Analysis. For returned vehicles, we face a risk that the amount we obtain from the vehicle sold at auction will be less than our estimate of the expected residual value for the vehicle. At December 31, 2009, if future auction values for Ford Credit's existing portfolio of operating leases on Ford, Lincoln and Mercury brand vehicles in the United States were to decrease by one percent from its present estimates, the effect would be to increase the depreciation on these vehicles by about $50 million. Similarly, if return volumes for Ford Credit's existing portfolio of operating leases on Ford, Lincoln and Mercury brand vehicles in the United States were to increase by one percent from its present estimates, the effect would be to increase the depreciation on these vehicles by about $7 million. These increases in depreciation would be charged to depreciation expense during the 2010 through 2013 period so that the net investment in operating leases at the end of the lease term for these vehicles is equal to the revised expected residual value. Adjustments to the amount of accumulated depreciation on operating leases will be reflected on our balance sheet as Net investment in operating leases and on the statement of operations in Depreciation, in each case under the Financial Services sector.

Allowance for Credit Losses

The allowance for credit losses is Ford Credit's estimate of the probable credit losses inherent in finance receivables and operating leases at the date of the balance sheet. Consistent with its normal practices and policies, Ford Credit assesses the adequacy of its allowance for credit losses quarterly and regularly evaluates the assumptions and models used in establishing the allowance. Because credit losses can vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain.

Nature of Estimates Required. Ford Credit estimates the probable credit losses inherent in finance receivables and operating leases based on several factors.

Retail Installment and Lease Portfolio. The retail installment and lease portfolio is evaluated using a combination of models and management judgment, and is based on factors such as historical trends in credit losses and recoveries (including key metrics such as delinquencies, repossessions, and bankruptcies), the composition of Ford Credit's present portfolio (including vehicle brand, term, risk evaluation, and new/used vehicles), trends in historical and projected used vehicle values, and economic conditions. Estimates from models may not fully reflect losses inherent in the present portfolio, and an element of the allowance for credit losses is established for the imprecision inherent in loan loss models. Reasons for imprecision include changes in economic trends and conditions, portfolio composition and other relevant factors.

Assumptions Used. Ford Credit makes projections of two key assumptions:

- Frequency. The number of finance receivables and operating lease contracts that Ford Credit expects will default over a period of time, measured as repossessions; and
- Loss severity. The expected difference between the amount a customer owes Ford Credit when Ford Credit charges off the finance contract and the amount Ford Credit receives, net of expenses, from selling the repossessed vehicle, including any recoveries from the customer.

Ford Credit uses these assumptions to assist in estimating its allowance for credit losses. See Note 9 of the Notes to the Financial Statements for more information regarding allowance for credit losses.

Sensitivity Analysis. Changes in the assumptions used to derive frequency and severity would affect the allowance for credit losses. The effect of the indicated increase/decrease in the assumptions is shown below for Ford, Lincoln, and Mercury brand vehicles in the U.S. retail and lease portfolio (in millions):

Increase/(Decrease)

Assumption	Percentage Point Change	December 31, 2009 Allowance for Credit Losses	2009 Expense
Repossession rates*	+/- 0.1 pt.	$30/$(30)	$30/$(30)
Loss severity	+/- 1.0	10/(10)	10/(10)

* Reflects the number of finance receivables and operating lease contracts that Ford Credit expects will default over a period of time relative to the average number of contracts outstanding.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Wholesale and Dealer Loan Portfolio. The wholesale and dealer loan portfolio is evaluated by segmenting individual loans into risk pools, which are determined by the risk characteristics of the loan (such as the amount of the loan, the nature of collateral, and the financial status of the dealer). The risk pools are analyzed to determine if individual loans are impaired, and an allowance is estimated for the expected loss of these loans.

Changes in Ford Credit's assumptions affect the Provision for credit and insurance losses on our statement of operations and the allowance for credit losses contained within Finance receivables, net and Net investment in operating leases on our balance sheet, in each case under the Financial Services sector.

ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

For information on accounting standards issued but not yet adopted, see Note 3 of the Notes to the Financial Statements.

AGGREGATE CONTRACTUAL OBLIGATIONS

We are party to many contractual obligations involving commitments to make payments to third parties. Most of these are debt obligations incurred by our Financial Services sector. Long-term debt may have fixed or variable interest rates. For long-term debt with variable rate interest, we estimate the future interest payments based on projected market interest rates for various floating-rate benchmarks received from third parties. In addition, as part of our normal business practices, we enter into contracts with suppliers for purchases of certain raw materials, components and services. These arrangements may contain fixed or minimum quantity purchase requirements. We enter into such arrangements to facilitate adequate supply of these materials and services. "Purchase obligations" are defined as off-balance sheet agreements to purchase goods or services that are enforceable and legally binding on the Company and that specify all significant terms.

The table below summarizes our contractual obligations as of December 31, 2009 (in millions):

	Payments Due by Period				
	2010	2011 - 2012	2013 - 2014	2015 and Thereafter	Total
Automotive Sector					
On-balance sheet					
Long-term debt (a) (b) (excluding capital leases)	$1,618	$3,720	$14,749	$18,030	$38,117
Interest payments relating to long-term debt (c)	1,149	2,711	3,492	11,468	18,820
Capital leases	23	32	9	26	90
Off-balance sheet					
Purchase obligations	1,564	858	241	183	2,846
Operating leases	217	280	161	211	869
Total Automotive sector	4,571	7,601	18,652	29,918	60,742
Financial Services Sector					
On-balance sheet					
Long-term debt (a) (b) (excluding capital leases)	26,300	40,810	10,096	6,145	83,351
Interest payments relating to long-term debt (c)	3,651	4,551	1,918	3,114	13,234

Capital leases	—	—	—	—	—
Off-balance sheet					
Purchase obligations	45	14	4	4	67
Operating leases	92	126	56	52	326
Total Financial Services sector	30,088	45,501	12,074	9,315	96,978
Intersector elimination (d)	(646)	—	—	—	(646)
Total Company	$34,013	$53,102	$30,726	$39,233	$157,074

(a) Amount includes, prior to adjustment noted above, $1,641 million for the Automotive sector and $26.3 billion for the Financial Services sector for the current portion of long-term debt. See Note 19 of the Notes to the Financial Statements for additional discussion.

(b) Automotive sector excludes unamortized debt discounts of $(4,578) million. Financial Services sector excludes unamortized debt discounts of $(530) million and adjustments of $231 million related to designated fair value hedges of the debt.

(c) For the years 2010 – 2013, excludes deferred interest on our Subordinated Convertible Debentures; for all periods, excludes amortization of debt discounts.

(d) Intersector elimination related to Ford's acquisition of Ford Credit debt securities. See Note 1 of the Notes to the Financial Statements for additional detail.

The amount of unrecognized tax benefits for 2009 of $1.2 billion (see Note 23 of the Notes to the Financial Statements) is excluded from the table above. Final settlement of a significant portion of these obligations will require bilateral tax agreements among us and various countries, the timing of which cannot be reasonably estimated.

For additional information regarding long-term debt, operating lease obligations, and pension and OPEB obligations and the UAW VEBA Trust, see Notes 19, 8, and 18, respectively, of the Notes to the Financial Statements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

OVERVIEW

We are exposed to a variety of market and other risks, including the effects of changes in foreign currency exchange rates, commodity prices, interest rates, as well as risks to availability of funding sources, hazard events, and specific asset risks.

These risks affect our Automotive and Financial Services sectors differently. We monitor and manage these exposures as an integral part of our overall risk management program, which includes regular reports to a central management committee, the Global Risk Management Committee ("GRMC"). The GRMC is chaired by our Chief Financial Officer, and its members include our Treasurer, our Corporate Controller, and other members of senior management.

Our Automotive and Financial Services sectors are exposed to liquidity risk, or the possibility of having to curtail their businesses or being unable to meet present and future financial obligations as they come due because funding sources may be reduced or become unavailable. We maintain plans for sources of funding to ensure liquidity through a variety of economic or business cycles. As discussed in greater detail in Item 7 our funding sources include sales of receivables in securitizations and other structured financings, unsecured debt issuances, equity and equity-linked issuances, and bank borrowings.

We are exposed to a variety of insurable risks, such as loss or damage to property, liability claims, and employee injury. We protect against these risks through a combination of self-insurance and the purchase of commercial insurance designed to protect against events that could generate significant losses.

Direct responsibility for the execution of our market risk management strategies resides with our Treasurer's Office and is governed by written polices and procedures. Separation of duties is maintained between the development and authorization of derivative trades, the transaction of derivatives, and the settlement of cash flows. Regular audits are conducted to ensure that appropriate controls are in place and that they remain effective. In addition, our market risk exposures and our use of derivatives to manage these exposures are approved by the GRMC, and reviewed by the Audit Committee of our Board of Directors.

In accordance with corporate risk management policies, we use derivative instruments, when available, such as forward contracts, swaps and options that economically hedge certain exposures (foreign currency, commodity, and interest rates). Derivative positions, when available, are used to hedge underlying exposures; we do not use derivative contracts for trading, market-making or speculative purposes. In certain instances, we forgo hedge accounting, which results in unrealized gains and losses that are recognized currently in net income.

The continued deterioration of our derivative capacity in the first half of 2009 resulted in unhedged currency exposure from cross-border intercompany lending during 2009. Total unhedged intercompany loans were about $1.7 billion as of March 31, 2009 and increased to about $5.5 billion as of June 30, 2009. Currency exposure from intercompany loans was substantially hedged at December 31, 2009 through implementation of collateral arrangements with certain counterparties and continued reduction in intercompany loans resulting from local funding actions. For additional information on our derivatives, see Note 26 of the Notes to the Financial Statements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk (continued)

The market and counterparty risks of our Automotive sector and Ford Credit are discussed and quantified below.

AUTOMOTIVE MARKET AND COUNTERPARTY RISK

Our Automotive sector frequently has expenditures and receipts denominated in foreign currencies, including the following: purchases and sales of finished vehicles and production parts, debt and other payables, subsidiary dividends, and investments in foreign operations. These expenditures and receipts create exposures to changes in exchange rates. We also are exposed to changes in prices of commodities used in our Automotive sector and changes in interest rates.

Foreign currency risk and commodity risk are measured and quantified using a model to evaluate the sensitivity of the fair value of currency and commodity derivative instruments with exposure to market risk that assumes instantaneous, parallel shifts in rates and/or prices. For options and instruments with non-linear returns, appropriate models are utilized to determine the impact of shifts in rates and prices.

Foreign Currency Risk. Foreign currency risk is the possibility that our financial results could be better or worse than planned because of changes in currency exchange rates. Accordingly, our normal practice is to use derivative instruments, when available, to hedge our economic exposure with respect to forecasted revenues and costs, assets, liabilities, investments in foreign operations, and firm commitments denominated in foreign currencies. In our hedging actions, we use primarily instruments commonly used by corporations to reduce foreign exchange risk (e.g., forward and option contracts).

The net fair value of foreign exchange forward and option contracts (including adjustments for credit risk) as of December 31, 2009 was a liability of $26 million compared to a net fair value asset of $249 million as of December 31, 2008. The potential decrease in fair value of foreign exchange forward and option contracts (excluding adjustments for credit risk), assuming a 10% adverse change in the underlying foreign currency exchange rates versus the U.S. dollar, would be approximately $622 million at December 31, 2009 and was $600 million as of December 31, 2008. If adjustments for credit risk were to be included, the decrease would be smaller.

At December 31, 2009, substantially all of our intercompany loans were fully hedged.

Commodity Price Risk. Commodity price risk is the possibility that our financial results could be better or worse than planned because of changes in the prices of commodities used in the production of motor vehicles, such as non-ferrous metals (e.g., aluminum), precious metals (e.g., palladium), ferrous metals (e.g., steel and iron castings), energy (e.g., natural gas and electricity), and plastics/resins (e.g., polypropylene). Steel and resins are two of our largest commodity exposures and are among the most difficult to hedge.

Our normal practice is to use derivative instruments, when available, to hedge the price risk associated with the purchase of those commodities that we can economically hedge (primarily non-ferrous metals, precious metals and energies). In our hedging actions, we primarily use instruments commonly used by corporations to reduce commodity price risk (e.g., financially settled forward contracts, swaps, and options).

The net fair value of commodity forward and option contracts (including adjustments for credit risk) as of December 31, 2009 was a liability of $39 million, compared to a liability of $212 million as of December 31, 2008. The potential decrease in fair value of commodity forward and option contracts (excluding adjustments for credit risk), assuming a 10% decrease in the underlying commodity prices, would be approximately $20 million at December 31, 2009, compared with a decrease of $26 million at December 31, 2008. If adjustments for credit risk were to be included, the decrease would be smaller.

In addition, our purchasing organization (with guidance from the GRMC as appropriate) negotiates contracts to ensure continuous supply of raw materials. In some cases, these contracts stipulate minimum purchase amounts and specific prices, and as such, play a role in managing price risk.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk (continued)

Interest Rate Risk. Interest rate risk relates to the gain or loss we could incur in our Automotive investment portfolios due to a change in interest rates. Our interest rate sensitivity analysis on the investment portfolios includes cash and cash equivalents and net marketable securities. At December 31, 2009, we had $25.5 billion in our Automotive investment portfolios, compared to $13.4 billion at December 31, 2008. We invest the portfolios in securities of various types and maturities, the value of which are subject to fluctuations in interest rates. The portfolios are classified as trading portfolios and gains and losses (unrealized and realized) are reported in the statement of operations. The investment strategy is based on clearly defined risk and liquidity guidelines to maintain liquidity, minimize risk, and earn a reasonable return on the short-term investment. In 2009, safety of principal was the primary objective in investing our Automotive cash.

At any time, a rise in interest rates could have a material adverse impact on the fair value of our portfolios. Assuming a hypothetical increase in interest rates of one percentage point, the value of our portfolios would be reduced by about $62 million. This compares to $57 million, as calculated as of December 31, 2008. While these are our best estimates of the impact of the specified interest rate scenario, actual results could differ from those projected. The sensitivity analysis presented assumes interest rate changes are instantaneous, parallel shifts in the yield curve. In reality, interest rate changes of this magnitude are rarely instantaneous or parallel.

Counterparty Risk. Counterparty risk relates to the loss we could incur if an obligor or counterparty defaulted on an investment or a derivative contract. We enter into master agreements with counterparties that allow netting of certain exposures in order to manage this risk. Exposures primarily relate to investments in fixed income instruments and derivative contracts used for managing interest rate, foreign currency exchange rate and commodity price risk. We, together with Ford Credit, establish exposure limits for each counterparty to minimize risk and provide counterparty diversification.

Our approach to managing counterparty risk is forward-looking and proactive, allowing us to take risk mitigation actions before risks become losses. We establish exposure limits for both net fair value and future potential exposure, based on our overall risk tolerance and ratings-based historical default probabilities. The exposure limits are lower for lower-rated counterparties and for longer-dated exposures. We use a model to assess our potential exposure, defined at a 95% confidence level. Our exposures are monitored on a regular basis and included in periodic reporting to our Treasurer.

Substantially all of our counterparty exposures are with counterparties that are rated single-A or better. Our guideline for counterparty minimum long-term ratings is BBB-.

For additional information about derivative notional amount and fair value of derivatives, please refer to Note 26 of the Notes to the Financial Statements.

FORD CREDIT MARKET RISK

Overview. Ford Credit is exposed to a variety of risks in the normal course of its business activities. In addition to counterparty risk discussed above, Ford Credit is subject to the following additional types of risks that it seeks to identify, assess, monitor, and manage, in accordance with defined policies and procedures:

- Market risk — the possibility that changes in interest and currency exchange rates will adversely affect cash flow and economic value;
  - Credit risk — the possibility of loss from a customer's failure to make payments according to contract terms;
- Residual risk — the possibility that the actual proceeds received at lease termination will be lower than projections or return volumes will be higher than projections; and
-

Liquidity risk — the possibility that Ford Credit may be unable to meet all of its current and future obligations in a timely manner.

Each form of risk is uniquely managed in the context of its contribution to Ford Credit's overall global risk. Business decisions are evaluated on a risk-adjusted basis and services are priced consistent with these risks. Credit and residual risks, as well as liquidity risk, are discussed above in Item 7. A discussion of Ford Credit's market risks (interest rate risk and foreign currency risk) is included below.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk (continued)

Interest Rate Risk. Ford Credit's primary market risk exposure is interest rate risk, and the particular market to which it is most exposed is U.S. dollar LIBOR. Interest rate risk exposure results principally from “re-pricing risk” or differences in the re-pricing characteristics of assets and liabilities. An instrument’s re-pricing period is a term used to describe how an interest rate-sensitive instrument responds to changes in interest rates. It refers to the time it takes an instrument’s interest rate to reflect a change in market interest rates. For fixed-rate instruments, the re-pricing period is equal to the maturity of the instrument’s principal, because the principal is considered to re-price only when re-invested in a new instrument. For a floating-rate instrument, the re-pricing period is the period of time before the interest rate adjusts to the market rate. For instance, a floating-rate loan whose interest rate is reset to a market index annually on December 31 would have a re-pricing period of one year on January 1, regardless of the instrument’s maturity.

Re-pricing risk arises when assets and the related debt have different re-pricing periods, and consequently, respond differently to changes in interest rates. As an example, consider a hypothetical portfolio of fixed-rate assets that is funded with floating-rate debt. If interest rates increase, the interest paid on debt increases while the interest received on assets remains fixed. In this case, the hypothetical portfolio’s cash flows are exposed to changes in interest rates because its assets and debt have a re-pricing mismatch.

Ford Credit's receivables consist primarily of fixed-rate retail installment sale and lease contracts and floating-rate wholesale receivables. Fixed-rate retail installment sale and lease contracts are originated principally with maturities ranging between two and six years and generally require customers to make equal monthly payments over the life of the contract. Wholesale receivables are originated to finance new and used vehicles held in dealers’ inventory and generally require dealers to pay a floating rate.

Funding sources consist primarily of securitizations and short- and long-term unsecured debt. In the case of unsecured term debt, and in an effort to have funds available throughout business cycles, Ford Credit may borrow at terms longer than the terms of their assets, in most instances with up to ten year maturities. These debt instruments are principally fixed-rate and require fixed and equal interest payments over the life of the instrument and a single principal payment at maturity.

Ford Credit is exposed to interest rate risk to the extent that a difference exists between the re-pricing profile of its assets and its debt. Specifically, without derivatives, in the aggregate Ford Credit's assets would re-price more quickly than its debt.

Ford Credit's interest rate risk management objective is to maximize its economic value while limiting the impact of changes in interest rates. Ford Credit achieves this objective by setting an established risk tolerance and staying within the tolerance through the following risk management process.

Ford Credit determines the sensitivity of its economic value to hypothetical changes in interest rates. Ford Credit then enters into interest rate swaps, when available, to economically convert portions of its floating-rate debt to fixed or fixed-rate debt to floating to ensure that the sensitivity of its economic value falls within an established tolerance. As part of its process, Ford Credit also monitors the sensitivity of its pre-tax cash flow using simulation techniques. To measure this sensitivity, Ford Credit calculates the change in expected cash flows to changes in interest rates over a twelve-month horizon. This calculation determines the sensitivity of changes in cash flows associated with the re-pricing characteristics of its interest-rate-sensitive assets, liabilities, and derivative financial instruments under various hypothetical interest rate scenarios including both parallel and non-parallel shifts in the yield curve. This sensitivity calculation does not take into account any future actions Ford Credit may take to reduce the risk profile that arises from a change in interest rates. These quantifications of interest rate risk are reported to the Treasurer regularly (either monthly or quarterly depending on the market).

The process described above is used to measure and manage the interest rate risk of Ford Credit's operations in the United States, Canada, and the United Kingdom, which together represented approximately 80% of its total on-balance sheet finance receivables at December 31, 2009. For its other international affiliates, Ford Credit uses a technique, commonly referred to as "gap analysis," to measure re-pricing mismatch. This process uses re-pricing schedules that group assets, debt, and swaps into discrete time-bands based on their re-pricing characteristics. Ford Credit then enters into interest rate swaps, when available, which effectively change the re-pricing profile of its debt, to ensure that any re-pricing mismatch (between assets and liabilities) existing in a particular time-band falls within an established tolerance.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk (continued)

As of December 31, 2009, in the aggregate Ford Credit's assets re-price faster than its debt (including the derivative instruments economically hedging the debt). Other things being equal, this means that during a period of rising interest rates, the interest rates earned on its assets will increase more rapidly than the interest rates paid on its debt, thereby initially increasing Ford Credit's pre-tax cash flow. Correspondingly, during a period of falling interest rates, Ford Credit would expect its pre-tax cash flow to initially decrease.

To provide a quantitative measure of the sensitivity of its 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 one percentage point across all maturities (a "parallel shift"), as well as a base case that assumes that interest rates remain constant at existing levels. In reality, interest rate changes are rarely instantaneous or parallel and rates could move more or less than the one percentage point assumed in Ford Credit's analysis. As a result, the actual impact to pre-tax cash flow could be higher or lower than the results detailed in the table below. These interest rate scenarios are purely hypothetical and do not represent Ford Credit's view of future interest rate movements.

Pre-tax cash flow sensitivity as of year-end 2009 and 2008 was as follows (in millions):

	Pre-Tax Cash Flow Sensitivity (given a one percentage point instantaneous increase in interest rates)	Pre-Tax Cash Flow Sensitivity (given a one percentage point instantaneous decrease in interest rates)
December 31, 2009	$ 27	$ (27)
December 31, 2008	(28)	28

* Pre-tax cash flow sensitivity given a one percentage point decrease in interest rates requires an assumption of negative interest rates in markets where existing interest rates are below one percent.

Based on assumptions included in the analysis, sensitivity to a one-percentage point instantaneous increase in interest rates at year-end 2009 was an increase in Ford Credit's pre-tax cash flow over a twelve-month horizon of $27 million compared to a decrease of $28 million at year-end 2008. Correspondingly, the sensitivity to a one-percentage point instantaneous decrease in interest rates at year-end 2009 was a decrease in its pre-tax cash flow over a twelve-month horizon of $27 million compared to an increase of $28 million at year-end 2008. This change primarily results from the decline in Ford Credit's managed receivables and Ford Credit's limited ability to obtain interest rate derivatives.

Foreign Currency Risk. Ford Credit's policy is to minimize exposure to changes in currency exchange rates. To meet funding objectives, Ford Credit borrows in a variety of currencies, principally U.S. dollars and euros. Ford Credit faces exposure to currency exchange rates if a mismatch exists between the currency of receivables and the currency of the debt funding those receivables. When possible, receivables are funded with debt in the same currency, minimizing exposure to exchange rate movements. When a different currency is used, Ford Credit may execute the following foreign currency derivatives to convert substantially all of foreign currency debt obligations to the local country currency of the receivables:

- Foreign currency swap — an agreement to convert non-U.S. dollar long-term debt to U.S. dollar-denominated payments or non-local market debt to local market debt for our international affiliates; or
- Foreign currency forward — an agreement to buy or sell an amount of funds in an agreed currency at a certain time in the future for a certain price.

As a result of this policy, Ford Credit believes its market risk exposure relating to changes in currency exchange rates is insignificant.

While the sensitivity analysis presented is Ford Credit's best estimate of the impacts of the specified assumed interest rate scenarios, its actual results could differ from those projected. The model Ford Credit uses to conduct this analysis is heavily dependent on assumptions. Embedded in the model are assumptions regarding the reinvestment of maturing asset principal, refinancing of maturing debt, replacement of maturing derivatives, exercise of options embedded in debt and derivatives, and predicted repayment of retail installment sale and lease contracts ahead of contractual maturity. Ford Credit's repayment projections ahead of contractual maturity are based on historical experience. If interest rates or other factors change, Ford Credit's actual prepayment experience could be different than projected.

The fair value of Ford Credit's net derivative financial instruments (derivative assets less derivative liabilities) at December 31, 2009 was $683 million, which was $963 million lower than December 31, 2008. The decrease primarily reflects lower derivative notional value. For additional information regarding our Financial Services sector derivatives, see Note 26 of the Notes to the Financial Statements.

ITEM 8. Financial Statements and Supplementary Data

Our Financial Statements, the accompanying Notes to the Financial Statements, the Report of Independent Registered Public Accounting Firm, and the Financial Statement Schedule that are filed as part of this Report are listed under "Item 15. Exhibits and Financial Statement Schedules" and are set forth on pages FS-1 through FS-93 and FSS-1 immediately following the signature pages of this Report.

Selected quarterly financial data for 2009 and 2008 is provided in Note 30 of the Notes to the Financial Statements.

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

None.

ITEM 9A. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Alan Mulally, our Chief Executive Officer ("CEO"), and Lewis Booth, 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 (the "Exchange Act"), as of December 31, 2009 and each has concluded that such disclosure controls and procedures were 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 the Securities and Exchange Commission's rules and forms and such information is accumulated and communicated to our management as appropriate to allow for timely decisions regarding required disclosure.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2009. The assessment was based on criteria established in the framework Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2009.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report included herein.

MATERIAL CHANGES IN INTERNAL CONTROL

We identified the following changes in internal control over financial reporting that materially affected or are reasonably likely to materially affect internal control over financial reporting during the fourth quarter of 2009:

German Payroll System. Ford Europe launched a new payroll system for Germany during the quarter.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers of Ford and Corporate Governance

The information required by Item 10 regarding our directors is incorporated by reference from the information under the captions "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Management Stock Ownership" in our Proxy Statement. The information required by Item 10 regarding our executive officers appears as Item 4A under Part I of this Report. The information required by Item 10 regarding an audit committee financial expert is incorporated by reference from the information under the caption "Corporate Governance" in our Proxy Statement. The information required by Item 10 regarding the members of our Audit Committee of the Board of Directors is incorporated by reference from the information under the caption "Committees of the Board of Directors" in our Proxy Statement. The information required by Item 10 regarding the Audit Committee's review and discussion of the audited financial statements is incorporated by reference from information under the caption "Audit Committee Report" in our Proxy Statement. The information required by Item 10 regarding our codes of ethics is incorporated by reference from the information under the caption "Corporate Governance" in our Proxy Statement. In addition, we have included in Item 1 instructions for how to access our codes of ethics on our website and our Internet address. Amendments to, and waivers granted under, our Code of Ethics for Senior Financial Personnel, if any, will be posted to our website as well.

ITEM 11. Executive Compensation

The information required by Item 11 is incorporated by reference from the information under the following captions in our Proxy Statement: "Director Compensation," "Compensation Discussion and Analysis," "Compensation Committee Report," "Compensation Committee Interlocks and Insider Participation," "Compensation of Executive Officers," "Grants of Plan-Based Awards in 2009," "Outstanding Equity Awards at 2009 Fiscal Year-End," "Option Exercises and Stock Vested in 2009," "Pension Benefits in 2009," "Nonqualified Deferred Compensation in 2009," and "Potential Payments Upon Termination or Change in Control."

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is incorporated by reference from the information under the captions "Equity Compensation Plan Information" and "Management Stock Ownership" in our Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is incorporated by reference from the information under the captions "Certain Relationships and Related Transactions" and "Corporate Governance" in our Proxy Statement.

ITEM 14. Principal Accounting Fees and Services

The information required by Item 14 is incorporated by reference from the information under the caption "Audit Committee Report" in our Proxy Statement.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements – Ford Motor Company and Subsidiaries

The following are contained in this 2009 Form 10-K Report:

- Consolidated Statement of Operations and Sector Statement of Operations for the years ended December 31, 2009, 2008, and 2007.
- Consolidated Balance Sheet and Sector Balance Sheet at December 31, 2009 and 2008.
- Consolidated Statement of Cash Flows and Sector Statement of Cash Flows for the years ended December 31, 2009, 2008, and 2007.
- Consolidated Statement of Equity for the years ended December 31, 2009, 2008, and 2007.
- Notes to the Financial Statements.
- Report of Independent Registered Public Accounting Firm.

The Consolidated and Sector Financial Statements, the Notes to the Financial Statements and the Report of Independent Registered Public Accounting Firm listed above are filed as part of this Report and are set forth on pages FS-1 through FS-93 immediately following the signature pages of this Report.

(a) 2. Financial Statement Schedules

Designation	Description
Schedule II	Valuation and Qualifying Accounts

Schedule II is filed as part of this Report and is set forth on page FSS-1 immediately following the Notes to the Financial Statements referred to above. The other schedules are omitted because they are not applicable, the information required to be contained in them is disclosed elsewhere in our Consolidated and Sector Financial Statements or the amounts involved are not sufficient to require submission.

(a) 3. Exhibits

Designation	Description	Method of Filing
Exhibit 2	Stock Purchase Agreement dated as of September 12, 2005 between CCMG Holdings, Inc., Ford Holdings LLC and Ford Motor Company.	Filed as Exhibit 2 to our Quarterly Report on Form 10-Q for the period ended September 30, 2005.*
Exhibit 3-A	Restated Certificate of Incorporation, dated August 2, 2000.	Filed as Exhibit 3-A to our Annual Report on Form 10-K for the year ended December 31, 2000.*
Exhibit 3-B		Filed as Exhibit 3-B to our Annual Report on

	By-Laws as amended through December 14, 2006.	Form 10-K for the year ended December 31, 2006.*
Exhibit 10-A	Executive Separation Allowance Plan as amended and restated as of December 31, 2008.**	Filed as Exhibit 10-A to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-B	Deferred Compensation Plan for Non-Employee Directors, as amended and restated as of December 31, 2008.**	Filed as Exhibit 10-B to our Annual Report on Form 10-K for the year ended December 31, 2008.*

ITEM 15. Exhibits and Financial Statement Schedules (continued)

Exhibit 10-C	Benefit Equalization Plan, as amended and restated as of December 31, 2008.**	Filed as Exhibit 10-C to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-D	Description of financial counseling services provided to certain executives.**	Filed as Exhibit 10-F to Ford's Annual Report on Form 10-K for the year ended December 31, 2002.*
Exhibit 10-E	Supplemental Executive Retirement Plan, as amended and restated as of December 31, 2008.**	Filed as Exhibit 10-E to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-F	Restricted Stock Plan for Non-Employee Directors adopted by the Board of Directors on November 10, 1988.**	Filed as Exhibit 10-P to our Annual Report on Form 10-K for the year ended December 31, 1988.*
Exhibit 10-F-1	Amendment to Restricted Stock Plan for Non-Employee Directors, effective as of August 1, 1996.**	Filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.*
Exhibit 10-F-2	Amendment to Restricted Stock Plan for Non-Employee Directors, effective as of July 1, 2004.**	Filed as Exhibit 10 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.*
Exhibit 10-F-3	Third Amendment to Restricted Stock Plan for Non-Employee Directors, effective as of December 31, 2008.**	Filed as Exhibit 10-F-3 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-F-4	Description of Director Compensation as of July 13, 2006.**	Filed as Exhibit 10-G-3 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.*
Exhibit 10-F-5	Amendment to Description of Director Compensation as of March 1, 2009.**	Filed as Exhibit 10-F-5 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-F-6	Amendment to Description of Director Compensation as of February 25, 2010.**	Filed with this Report.
Exhibit 10-G	2008 Long-Term Incentive Plan.**	Filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.*
Exhibit 10-H	Description of Matching Gift Program and Vehicle Evaluation Program for Non-Employee Directors.**	Filed as Exhibit 10-I to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-I		Filed as Exhibit 10-I to our Annual Report on

	Non-Employee Directors Life Insurance and Optional Retirement Plan as amended and restated as of December 31, 2008.**	Form 10-K for the year ended December 31, 2008.*
Exhibit 10-J	Description of Non-Employee Directors Accidental Death, Dismemberment and Permanent Total Disablement Indemnity.**	Filed as Exhibit 10-S to our Annual Report on Form 10-K for the year ended December 31, 1992.*
Exhibit 10-K	Agreement dated December 10, 1992 between Ford and William C. Ford.**	Filed as Exhibit 10-T to our Annual Report on Form 10-K for the year ended December 31, 1992.*
Exhibit 10-L	Select Retirement Plan, as amended and restated as of December 31, 2008.**	Filed as Exhibit 10-L to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-M	Deferred Compensation Plan, as amended and restated as of December 31, 2008.**	Filed as Exhibit 10-M to our Annual Report on Form 10-K for the year ended December 31, 2008.*

ITEM 15. Exhibits and Financial Statement Schedules (continued)

Exhibit 10-M-1	Suspension of Open Enrollment in Deferred Compensation Plan.**	Filed with this Report.
Exhibit 10-N	Annual Incentive Compensation Plan, as amended and restated as of March 1, 2008.**	Filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.*
Exhibit 10-N-1	Amendment to the Ford Motor Company Annual Incentive Compensation Plan (effective as of December 31, 2008).**	Filed as Exhibit 10-N-1 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-N-2	Annual Incentive Compensation Plan Metrics for 2010.**	Filed with this Report.
Exhibit 10-N-3	Performance-Based Restricted Stock Unit Metrics for 2008.**	Filed as Exhibit 10-O-3 to our Annual Report on Form 10-K for the year ended December 31, 2007.*
Exhibit 10-N-4	Performance-Based Restricted Stock Unit Metrics for 2009.**	Filed as Exhibit 10-N-5 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-N-5	Performance-Based Restricted Stock Unit Metrics for 2010.**	Filed with this Report.
Exhibit 10-O	1998 Long-Term Incentive Plan, as amended and restated effective as of January 1, 2003.**	Filed as Exhibit 10-R to our Annual Report on Form 10-K for the year ended December 31, 2002.*
Exhibit 10-O-1	Amendment to Ford Motor Company 1998 Long-Term Incentive Plan (effective as of January 1, 2006).**	Filed as Exhibit 10-P-1 to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-O-2	Form of Stock Option Agreement (NQO) with Terms and Conditions.**	Filed as Exhibit 10-P-2 to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-O-3	Form of Stock Option (NQO) Terms and Conditions for 2008 Long-Term Incentive Plan.**	Filed as Exhibit 10-O-3 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-O-4	Form of Stock Option (NQO) Agreement for 2008 Long-Term Incentive Plan.**	Filed as Exhibit 10-O-4 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-O-5	Form of Stock Option Agreement (ISO) with Terms and Conditions.**	Filed as Exhibit 10-P-3 to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*

Exhibit 10-O-6	Form of Stock Option (ISO) Terms and Conditions for 2008 Long-Term Incentive Plan.**	Filed as Exhibit 10-O-6 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-O-7	Form of Stock Option Agreement (ISO) for 2008 Long-Term Incentive Plan.**	Filed as Exhibit 10-O-7 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-O-8	Form of Stock Option Agreement (U.K. NQO) with Terms and Conditions.**	Filed as Exhibit 10-P-4 to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-O-9	Form of Stock Option (U.K.) Terms and Conditions for 2008 Long-Term Incentive Plan.**	Filed with this Report.

ITEM 15. Exhibits and Financial Statement Schedules (continued)

Exhibit 10-O-10	Form of Stock Option Agreement (U.K.) for 2008 Long-Term Incentive Plan.**	Filed with this Report.
Exhibit 10-O-11	Performance Stock Rights Description for 2006-2008 Performance Period.**	Filed as Exhibit 10-P-6 to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-O-12	Form of Restricted Stock Grant Letter.**	Filed as Exhibit 10-O-14 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-O-13	Form of Final Award Notification Letter for 2007 Performance-Based Restricted Stock Units.**	Filed as Exhibit 10-P-15 to our Annual Report on Form 10-K for the year ended December 31, 2007.*
Exhibit 10-O-14	Form of Final Award Notification Letter for Performance-Based Restricted Stock Units.**	Filed as Exhibit 10-O-17 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-O-15	Form of Performance-Based Restricted Stock Unit Opportunity Letter for 2008.**	Filed as Exhibit 10-P-16 to our Annual Report on Form 10-K for the year ended December 31, 2007.*
Exhibit 10-O-16	Form of Performance-Based Restricted Stock Unit Opportunity Letter (2008 Long-Term Incentive Plan).**	Filed as Exhibit 10-O-19 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-O-17	Form of Final Award Notification Letter for 2006-2008 Performance Period.**	Filed as Exhibit 10-O-20 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-O-18	1998 Long-Term Incentive Plan Restricted Stock Unit Agreement.**	Filed as Exhibit 10-P-19 to our Annual Report on Form 10-K for the year ended December 31, 2007.*
Exhibit 10-O-19	2009 Long-Term Incentive Plan Restricted Stock Unit Agreement.**	Filed as Exhibit 10-O-22 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-O-20	1998 Long-Term Incentive Plan Restricted Stock Unit Terms and Conditions.**	Filed as Exhibit 10-P-20 to our Annual Report on Form 10-K for the year ended December 31, 2007.*
Exhibit 10-O-21	2008 Long-Term Incentive Plan Restricted Stock Unit Terms and Conditions.**	Filed as Exhibit 10-O-24 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-O-22		Filed as Exhibit 10-P-21 to our Annual Report on

	Form of Final Award Agreement for Performance-Based Restricted Stock Units under 1998 Long-Term Incentive Plan.**	Form 10-K for the year ended December 31, 2007.*
Exhibit 10-O-23	Form of Final Award Agreement for Performance-Based Restricted Stock Units under 2008 Long-Term Incentive Plan.**	Filed as Exhibit 10-O-26 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-O-24	Form of Final Award Terms and Conditions for Performance-Based Restricted Stock Units under 1998 Long-Term Incentive Plan.**	Filed as Exhibit 10-O-22 to our Annual Report on Form 10-K for the year ended December 31, 2007.*
Exhibit 10-O-25	Form of Final Award Terms and Conditions for Performance-Based Restricted Stock Units under 2008 Long-Term Incentive Plan.**	Filed as Exhibit 10-O-28 to our Annual Report on Form 10-K for the year ended December 31, 2008.*

ITEM 15. Exhibits and Financial Statement Schedules (continued)

Exhibit 10-O-26	Form of Notification Letter for Time-Based Restricted Stock Units.**	Filed as Exhibit 10-O-29 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-P	Agreement dated January 13, 1999 between Ford Motor Company and Edsel B. Ford II.**	Filed as Exhibit 10-X to our Annual Report on Form 10-K for the year ended December 31, 1998.*
Exhibit 10-Q	Amended and Restated Agreement between Ford Motor Company and Ford Motor Credit Company dated as of December 12, 2006.	Filed as Exhibit 10-R to our Annual Report on Form 10-K for the year ended December 31, 2006.*
Exhibit 10-R	Agreement between Ford and Carl Reichardt, entered into in June 2002.**	Filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.*
Exhibit 10-S	Form of Trade Secrets/Non-Compete Statement between Ford and certain of its Executive Officers.**	Filed as Exhibit 10-V to our Annual Report on Form 10-K for the year ended December 31, 2003.*
Exhibit 10-T	Description of Settlement of Special 2006 – 2008 Senior Executive Retention Program.**	Filed as Exhibit 10-U-1 to our Annual Report on Form 10-K for the year ended December 31, 2006.*
Exhibit 10-T-1	Form of Final Award Letter for Performance-Based Restricted Stock Unit Enhanced Grant.**	Filed as Exhibit 10-T-1 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-U	Form of Special 2006 Performance Incentive Opportunity Letter.**	Filed as Exhibit 10-V to our Annual Report on Form 10-K/A for the year ended December 31, 2005.*
Exhibit 10-U-1	Form of Final Award Letter for Performance Incentive Opportunity.**	Filed as Exhibit 10-V-1 to our Annual Report on Form 10-K for the year ended December 31, 2007.*
Exhibit 10-V	Arrangement between Ford Motor Company and William C. Ford, Jr., dated February 25, 2009.**	Filed as Exhibit 10-V to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-W	Arrangement between Ford Motor Company and Mark Fields dated February 7, 2007.**	Filed as Exhibit 10-AA-1 to our Annual Report on Form 10-K for the year ended December 31, 2006.*
Exhibit 10-X	Description of Company Practices regarding Club Memberships for Executives.**	Filed as Exhibit 10-BB to our Annual Report on Form 10-K for the year ended December 31, 2006.*
Exhibit 10-Y		

	Accession Agreement between Ford Motor Company and Alan Mulally as of September 1, 2006.**	Filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.*
Exhibit 10-Y-1	Description of Special Terms and Conditions for Stock Options Granted to Alan Mulally.**	Filed as Exhibit 10-CC-1 to our Annual Report on Form 10-K for the year ended December 31, 2006.*
Exhibit 10-Y-2	Description of President and CEO Compensation Arrangements.**	Filed as Exhibit 10-CC-2 to our Annual Report on Form 10-K for the year ended December 31, 2006.*
Exhibit 10-Y-3	Form of Alan Mulally Agreement Amendment.**	Filed as Exhibit 10-Y-3 to our Annual Report on Form 10-K for the year ended December 31, 2008.*
Exhibit 10-Z	Amended and Restated Credit Agreement dated as of November 24, 2009.	Filed as Exhibit 99.2 to our Current Report on Form 8-K filed November 25, 2009.*
Exhibit 10-AA	Amended Ford-UAW Retiree Health Care Settlement Agreement dated July 23, 2009.	Filed as Exhibit 10.2 to our Current Report on Form 8-K filed July 28, 2009.*

ITEM 15. Exhibits and Financial Statement Schedules (continued)

Exhibit 10-AA-1	Amendment dated July 22, 2009 to the Note Purchase Agreement dated April 7, 2008 between Ford Motor Company and its wholly-owned subsidiary Ford-UAW Holdings LLC.	Filed as Exhibit 10.3 to our Current Report on Form 8-K filed July 28, 2009.*
Exhibit 10-BB	Ford Motor Company, TML Holdings Limited and Tata Motors Limited Agreement for the Sale and Purchase of Jaguar and Land Rover dated as of March 25, 2008.	Filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.*
Exhibit 10-CC	Amended and Restated Support Agreement (formerly known as Amended and Restated Profit Maintenance Agreement) dated November 6, 2008 between Ford Motor Company and Ford Motor Credit Company LLC.	Filed as Exhibit 10 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.*
Exhibit 10-DD	Certificate of Designation of Series A Junior Participating Preferred Stock filed on September 11, 2009.	Filed as Exhibit 3.1 to our Current Report on Form 8-K filed September 11, 2009.*
Exhibit 10-EE	Tax Benefit Preservation Plan dated September 11, 2009 between Ford Motor Company and Computershare Trust Company, N.A.	Filed as Exhibit 4.1 to our Current Report on Form 8-K filed September 11, 2009.*
Exhibit 10-FF	Loan Arrangement and Reimbursement Agreement between Ford Motor Company and the U.S. Department of Energy dated as of September 16, 2009.	Filed as Exhibit 10.1 to our Current Report on Form 8-K filed September 22, 2009.*
Exhibit 10-GG	Note Purchase Agreement dated as of September 16, 2009 among the Federal Financing Bank, Ford Motor Company, and the U.S. Secretary of Energy.	Filed as Exhibit 10.2 to our Current Report on Form 8-K filed September 22, 2009.*
Exhibit 10-HH	Employment Arrangement dated as of October 3, 2007 between Ford Motor Company and James Farley.**	Filed as Exhibit 10-B to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.*
Exhibit 10-HH-1	Employment Arrangement Amendment dated as of December 31, 2008 between Ford Motor Company and James Farley.**	Filed as Exhibit 10-B-1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.*
Exhibit 10-II	Employment Arrangement dated as of March 22, 2005 between Ford Motor Company and David Leitch.**	Filed as Exhibit 10-C to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.*

Exhibit 10-II-1	Employment Arrangement Amendment dated as of January 1, 2009 between Ford Motor Company and David Leitch.**	Filed as Exhibit 10-C-1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.*
Exhibit 12	Calculation of Ratio of Earnings to Combined Fixed Charges.	Filed with this Report.
Exhibit 21	List of Subsidiaries of Ford as of February 19, 2010.	Filed with this Report.

ITEM 15. Exhibits and Financial Statement Schedules (continued)

Exhibit 23	Consent of Independent Registered Public Accounting Firm.	Filed with this Report.
Exhibit 24	Powers of Attorney.	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.

* Incorporated by reference as an exhibit to this Report (file number reference 1-3950, unless otherwise indicated).
** Management contract or compensatory plan or arrangement.

Instruments defining the rights of holders of certain issues of long-term debt of Ford and of certain consolidated subsidiaries and of any unconsolidated subsidiary, for which financial statements are required to be filed with this Report, have not been filed as exhibits to this Report because the authorized principal amount of any one of such issues does not exceed 10% of the total assets of Ford and our subsidiaries on a consolidated basis. Ford agrees to furnish a copy of each of such instrument to the Securities and Exchange Commission upon request.

In addition to the exhibits listed herein, Ford also files electronically certain exhibits containing its XBRL-tagged Financial Statements and Notes to the Financial Statements pursuant to SEC requirements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, Ford has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

FORD MOTOR COMPANY

By: /s/ Bob Shanks
Bob Shanks, Vice President and Controller
(Chief Accounting Officer)

Date: February 25, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of Ford and in the capacities on the date indicated:

Signature	Title	Date
WILLIAM CLAY FORD, JR.* William Clay Ford, Jr.	Director, Chairman of the Board, Executive Chairman, Chair of the Office of the Chairman and Chief Executive, and Chair of the Finance Committee	February 25, 2010
ALAN MULALLY* Alan Mulally	Director, President and Chief Executive Officer (principal executive officer)	February 25, 2010
STEPHEN G. BUTLER* Stephen G. Butler	Director and Chair of the Audit Committee	February 25, 2010
KIMBERLY A. CASIANO* Kimberly A. Casiano	Director	February 25, 2010
ANTHONY F. EARLEY, JR.* Anthony F. Earley, Jr.	Director	February 25, 2010
EDSEL B. FORD II* Edsel B. Ford II	Director	February 25, 2010
RICHARD A. GEPHARDT* Richard A. Gephardt	Director	February 25, 2010
IRVINE O. HOCKADAY, JR.* Irvine O. Hockaday, Jr.	Director	February 25, 2010
RICHARD A. MANOOGIAN* Richard A. Manoogian	Director and Chair of the Compensation Committee	February 25, 2010
ELLEN R. MARRAM* Ellen R. Marram	Director and Chair of the Nominating and Governance Committee	February 25, 2010

HOMER A. NEAL* Homer A. Neal	Director and Chair of the Sustainability Committee	February 25, 2010

Signature	Title	Date
GERALD L. SHAHEEN* Gerald L. Shaheen	Director	February 25, 2010
JOHN L. THORNTON* John L. Thornton	Director	February 25, 2010
LEWIS BOOTH* L.W.K. Booth	Executive Vice President and Chief Financial Officer (principal financial officer)	February 25, 2010
BOB SHANKS* Bob Shanks	Vice President and Controller (principal accounting officer)	February 25, 2010
*By: /s/ PETER J. SHERRY, JR. (Peter J. Sherry, Jr.) Attorney-in-Fact		February 25, 2010

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FORD MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
For the Years Ended December 31, 2009, 2008 and 2007
(in millions, except per share amounts)

	2009	2008	2007
Sales and revenues			
Automotive sales	$ 105,893	$ 129,165	$ 154,379
Financial Services revenues	12,415	15,949	16,193
Total sales and revenues	118,308	145,114	170,572
Costs and expenses			
Automotive cost of sales	100,016	127,102	142,587
Selling, administrative and other expenses	13,258	21,430	21,169
Goodwill impairment	—	—	2,400
Interest expense	6,828	9,805	11,038
Financial Services provision for credit and insurance losses	1,030	1,874	668
Total costs and expenses	121,132	160,211	177,862