FORD MOTOR CO
Form 10-Q
August 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

[ ] 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	38-0549190
(State of Incorporation)	(IRS Employer Identification No.)
One American Road, Dearborn, Michigan	48126
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer R Accelerated filer £ Non-accelerated filer £ Smaller reporting company £

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

As of July 28, 2011, the registrant had outstanding 3,728,976,657 shares of Common Stock and 70,852,076 shares of Class B Stock.

Exhibit Index begins on p. 86

FORD MOTOR COMPANY

QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended JUNE 30, 2011

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements.

CONSOLIDATED STATEMENT OF OPERATIONS
For the Periods Ended June 30, 2011 and 2010
(in millions, except per share amounts)

	Second Quarter		First Half	
	2011	2010	2011	2010
	(unaudited)			
Revenues				
Automotive	$33,476	$32,564	$64,514	$61,458
Financial Services	2,051	2,503	4,127	5,175
Total revenues	35,527	35,067	68,641	66,633
Costs and expenses				
Automotive cost of sales	29,253	27,828	56,029	52,967
Selling, administrative and other expenses	2,907	3,137	5,641	6,226
Interest expense	1,127	1,636	2,301	3,337
Financial Services provision for credit and insurance losses	21	(131)	(33)	(172)
Total costs and expenses	33,308	32,470	63,938	62,358
Automotive interest income and other non-operating income/(expense), net (Note 12)	199	59	239	248
Financial Services other income/(loss), net (Note 12)	53	67	138	193
Equity in net income/(loss) of affiliated companies	135	124	302	266
Income/(Loss) before income taxes	2,606	2,847	5,382	4,982
Provision for/(Benefit from) income taxes	206	251	426	301
Income/(Loss) from continuing operations	2,400	2,596	4,956	4,681
Income/(Loss) from discontinued operations	—	—	—	—
Net income/(loss)	2,400	2,596	4,956	4,681
Less: Income/(Loss) attributable to noncontrolling interests	2	(3)	7	(3)
Net income/(loss) attributable to Ford Motor Company	$2,398	$2,599	$4,949	$4,684
NET INCOME/(LOSS) ATTRIBUTABLE TO FORD MOTOR COMPANY				
Income/(Loss) from continuing operations	$2,398	$2,599	$4,949	$4,684
Income/(Loss) from discontinued operations	—	—	—	—
Net income/(loss)	$2,398	$2,599	$4,949	$4,684
AMOUNTS PER SHARE ATTRIBUTABLE TO FORD MOTOR COMPANY COMMON AND CLASS B STOCK (Note 15)				
Basic income/(loss)				
Income/(Loss) from continuing operations	$0.63	$0.76	$1.31	$1.38
Income/(Loss) from discontinued operations	—	—	—	—
Net income/(loss)	$0.63	$0.76	$1.31	$1.38
Diluted income/(loss)				
Income/(Loss) from continuing operations	$0.59	$0.61	$1.20	$1.10
Income/(Loss) from discontinued operations	—	—	—	—

Net income/(loss)	$0.59	$0.61	$1.20	$1.10

The accompanying notes are part of the financial statements.

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Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

SECTOR STATEMENT OF OPERATIONS
For the Periods Ended June 30, 2011 and 2010
(in millions, except per share amounts)

	Second Quarter		First Half	
	2011	2010	2011	2010
	(unaudited)			
AUTOMOTIVE				
Revenues	$33,476	$32,564	$64,514	$61,458
Costs and expenses				
Cost of sales	29,253	27,828	56,029	52,967
Selling, administrative and other expenses	2,345	2,424	4,488	4,644
Total costs and expenses	31,598	30,252	60,517	57,611
Operating income/(loss)	1,878	2,312	3,997	3,847
Interest expense	202	518	453	1,060
Interest income and other non-operating income/(expense), net (Note 12)	199	59	239	248
Equity in net income/(loss) of affiliated companies	129	119	291	257
Income/(Loss) before income taxes — Automotive	2,004	1,972	4,074	3,292
FINANCIAL SERVICES				
Revenues	2,051	2,503	4,127	5,175
Costs and expenses				
Interest expense	925	1,118	1,848	2,277
Depreciation	378	494	808	1,154
Operating and other expenses	184	219	345	428
Provision for credit and insurance losses	21	(131)	(33)	(172)
Total costs and expenses	1,508	1,700	2,968	3,687
Other income/(loss), net (Note 12)	53	67	138	193
Equity in net income/(loss) of affiliated companies	6	5	11	9
Income/(Loss) before income taxes — Financial Services	602	875	1,308	1,690
TOTAL COMPANY				
Income/(Loss) before income taxes	2,606	2,847	5,382	4,982
Provision for/(Benefit from) income taxes	206	251	426	301
Income/(Loss) from continuing operations	2,400	2,596	4,956	4,681
Income/(Loss) from discontinued operations	—	—	—	—
Net income/(loss)	2,400	2,596	4,956	4,681
Less: Income/(Loss) attributable to noncontrolling interests	2	(3)	7	(3)
Net income/(loss) attributable to Ford Motor Company	$2,398	$2,599	$4,949	$4,684
NET INCOME/(LOSS) ATTRIBUTABLE TO FORD MOTOR COMPANY				
Income/(Loss) from continuing operations	$2,398	$2,599	$4,949	$4,684
Income/(Loss) from discontinued operations	—	—	—	—

Net income/(loss)	$2,398	$2,599	$4,949	$4,684
AMOUNTS PER SHARE ATTRIBUTABLE TO FORD MOTOR COMPANY COMMON AND CLASS B STOCK (Note 15)				
Basic income/(loss)				
Income/(Loss) from continuing operations	$0.63	$0.76	$1.31	$1.38
Income/(Loss) from discontinued operations	—	—	—	—
Net income/(loss)	$0.63	$0.76	$1.31	$1.38
Diluted income/(loss)				
Income/(Loss) from continuing operations	$0.59	$0.61	$1.20	$1.10
Income/(Loss) from discontinued operations	—	—	—	—
Net income/(loss)	$0.59	$0.61	$1.20	$1.10

The accompanying notes are part of the financial statements.

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Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(in millions)

	June 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Cash and cash equivalents	$17,472	$14,805
Marketable securities	16,049	20,765
Finance receivables, net (Note 5)	71,023	70,070
Other receivables, net	9,473	7,388
Net investment in operating leases	12,155	11,675
Inventories (Note 7)	7,036	5,917
Equity in net assets of affiliated companies	2,593	2,569
Net property	23,263	23,179
Deferred income taxes	2,103	2,003
Net intangible assets (Note 9)	103	102
Assets of held-for-sale operations (Note 14)	419	—
Other assets	6,397	6,214
Total assets	$168,086	$164,687
LIABILITIES		
Payables	$19,424	$16,362
Accrued liabilities and deferred revenue	43,262	43,844
Debt (Note 11)	98,550	103,988
Deferred income taxes	1,371	1,135
Liabilities of held-for-sale operations (Note 14)	129	—
Total liabilities	162,736	165,329
EQUITY		
Capital stock		
Common Stock, par value $.01 per share (3,744 million shares issued)	37	37
Class B Stock, par value $.01 per share (71 million shares issued)	1	1
Capital in excess of par value of stock	20,762	20,803
Accumulated other comprehensive income/(loss)	(13,236)	(14,313)
Treasury stock	(166)	(163)
Retained earnings/(Accumulated deficit)	(2,089)	(7,038)
Total equity/(deficit) attributable to Ford Motor Company (Note 19)	5,309	(673)
Equity/(Deficit) attributable to noncontrolling interests (Note 19)	41	31
Total equity/(deficit) (Note 19)	5,350	(642)
Total liabilities and equity	$168,086	$164,687

The following table includes assets to be used to settle liabilities of the consolidated variable interest entities ("VIEs"). These assets and liabilities are included in the consolidated balance sheet above. See Note 8 for additional information on our VIEs.

ASSETS		
Cash and cash equivalents	$3,890	$4,062
Finance receivables, net	53,146	50,473

Other receivables, net	—	13
Net investment in operating leases	3,706	6,121
Inventories	—	19
Net property	—	31
Other assets	93	28
LIABILITIES		
Payables	—	16
Accrued liabilities and deferred revenue	103	222
Debt	39,973	40,247

The accompanying notes are part of the financial statements.

Item 1. Financial Statements (Continued)

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

	June 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Automotive		
Cash and cash equivalents	$9,822	$6,301
Marketable securities	12,139	14,207
Total cash and marketable securities	21,961	20,508
Receivables, less allowances of $154 and $228	4,374	3,992
Inventories (Note 7)	7,036	5,917
Deferred income taxes	306	359
Net investment in operating leases	1,571	1,282
Other current assets	823	610
Current receivable from Financial Services	2,005	1,700
Total current assets	38,076	34,368
Equity in net assets of affiliated companies	2,446	2,441
Net property	23,119	23,027
Deferred income taxes	2,340	2,468
Net intangible assets (Note 9)	103	102
Assets of held-for-sale operations (Note 14)	419	—
Non-current receivable from Financial Services	279	181
Other assets	2,471	2,019
Total Automotive assets	69,253	64,606
Financial Services		
Cash and cash equivalents	7,650	8,504
Marketable securities	4,111	6,759
Finance receivables, net (Note 5)	75,902	73,265
Net investment in operating leases	10,584	10,393
Equity in net assets of affiliated companies	147	128
Other assets	3,683	4,221
Total Financial Services assets	102,077	103,270
Intersector elimination	(2,486)	(2,083)
Total assets	$168,844	$165,793
LIABILITIES		
Automotive		
Trade payables	$16,483	$13,466
Other payables	1,827	1,544
Accrued liabilities and deferred revenue	17,012	17,065
Deferred income taxes	244	392
Debt payable within one year (Note 11)	1,055	2,049
Total current liabilities	36,621	34,516
Long-term debt (Note 11)	12,947	17,028
Other liabilities	22,892	23,016
Deferred income taxes	300	344
Liabilities of held-for-sale operations (Note 14)	129	—
Total Automotive liabilities	72,889	74,904
Financial Services		

Payables	1,114	1,352
Debt (Note 11)	84,749	85,112
Deferred income taxes	1,585	1,505
Other liabilities and deferred income	3,359	3,764
Payable to Automotive	2,284	1,881
Total Financial Services liabilities	93,091	93,614
Intersector elimination	(2,486)	(2,083)
Total liabilities	163,494	166,435
EQUITY		
Capital stock (Note 15)		
Common Stock, par value $.01 per share (3,744 million shares issued)	37	37
Class B Stock, par value $.01 per share (71 million shares issued)	1	1
Capital in excess of par value of stock	20,762	20,803
Accumulated other comprehensive income/(loss)	(13,236)	(14,313)
Treasury stock	(166)	(163)
Retained earnings/(Accumulated deficit)	(2,089)	(7,038)
Total equity/(deficit) attributable to Ford Motor Company (Note 19)	5,309	(673)
Equity/(Deficit) attributable to noncontrolling interests (Note 19)	41	31
Total equity/(deficit) (Note 19)	5,350	(642)
Total liabilities and equity	$ 168,844	$ 165,793

The accompanying notes are part of the financial statements.

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Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the Periods Ended June 30, 2011 and 2010
(in millions)

	First Half 2011 (unaudited)	2010
Cash flows from operating activities of continuing operations		
Net cash (used in)/provided by operating activities	$6,226	$6,457
Cash flows from investing activities of continuing operations		
Capital expenditures	(2,022)	(2,027)
Acquisitions of retail and other finance receivables and operating leases	(17,355)	(14,707)
Collections of retail and other finance receivables and operating leases	17,052	19,613
Purchases of securities	(41,761)	(52,139)
Sales and maturities of securities	46,680	52,118
Proceeds from sale of business	144	—
Settlements of derivatives	103	(79)
Other	(18)	65
Net cash (used in)/provided by investing activities	2,823	2,844
Cash flows from financing activities of continuing operations		
Sales of Common Stock	—	842
Changes in short-term debt	662	(700)
Proceeds from issuance of other debt	18,513	15,282
Principal payments on other debt	(26,292)	(26,636)
Other	112	39
Net cash (used in)/provided by financing activities	(7,005)	(11,173)
Effect of exchange rate changes on cash	632	(700)
Net increase/(decrease) in cash and cash equivalents	$2,676	$(2,572)
Cash and cash equivalents at January 1	$14,805	$20,894
Cash and cash equivalents of held-for-sale operations at January 1	—	—
Net increase/(decrease) in cash and cash equivalents	2,676	(2,572)
Less: Cash and cash equivalents of held-for-sale operations at June 30	9	—
Cash and cash equivalents at June 30	$17,472	$18,322

The accompanying notes are part of the financial statements.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

CONDENSED SECTOR STATEMENT OF CASH FLOWS
For the Periods Ended June 30, 2011 and 2010
(in millions)

	First Half 2011		First Half 2010	
	Automotive	Financial Services	Automotive	Financial Services
	(unaudited)			
Cash flows from operating activities of continuing operations				
Net cash (used in)/provided by operating activities	$5,744	$2,133	$3,004	$2,157
Cash flows from investing activities of continuing operations				
Capital expenditures	(2,017)	(5)	(2,018)	(9)
Acquisitions of retail and other finance receivables and operating leases	—	(17,062)	—	(14,463)
Collections of retail and other finance receivables and operating leases	—	17,052	—	19,613
Net (acquisitions)/collections of wholesale receivables	—	(1,944)	—	(248)
Purchases of securities	(25,560)	(16,201)	(27,946)	(24,384)
Sales and maturities of securities	27,817	18,863	29,894	22,756
Settlements of derivatives	92	11	(225)	146
Proceeds from sale of business	135	9	—	—
Investing activity (to)/from Financial Services	1,859	—	434	—
Other	145	(163)	100	(35)
Net cash (used in)/provided by investing activities	2,471	560	239	3,376
Cash flows from financing activities of continuing operations				
Sales of Common Stock	—	—	842	—
Changes in short-term debt	(241)	903	182	(882)
Proceeds from issuance of other debt	1,201	17,312	835	14,447
Principal payments on other debt	(6,136)	(20,156)	(6,094)	(19,583)
Financing activity to/(from) Automotive	—	(1,859)	—	(434)
Other	70	42	140	(101)
Net cash (used in)/provided by financing activities	(5,106)	(3,758)	(4,095)	(6,553)
Effect of exchange rate changes on cash	421	211	(263)	(437)
Net increase/(decrease) in cash and cash equivalents	$3,530	$(854)	$(1,115)	$(1,457)
Cash and cash equivalents at January 1	$6,301	$8,504	$9,762	$11,132
Cash and cash equivalents of held-for-sale operations at January 1	—	—	—	—
Net increase/(decrease) in cash and cash equivalents	3,530	(854)	(1,115)	(1,457)
Less: Cash and cash equivalents of held-for-sale operations at June 30	9	—	—	—
Cash and cash equivalents at June 30	$9,822	$7,650	$8,647	$9,675

The accompanying notes are part of the financial statements.

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Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Periods Ended June 30, 2011 and 2010
(in millions)

	Second Quarter		First Half	
	2011	2010	2011	2010
	(unaudited)			
Net income/(loss)	$2,400	$2,596	$4,956	$4,681
Other comprehensive income/(loss), net of tax:				
Foreign currency translation	248	(1,240)	836	(1,729)
Net gain/(loss) on derivative instruments	17	(28)	134	(29)
Employee benefit-related	183	190	105	347
Net holding gain/(loss)	—	—	—	(2)
Total other comprehensive income/(loss), net of tax	448	(1,078)	1,075	(1,413)
Comprehensive income/(loss)	2,848	1,518	6,031	3,268
Less: Comprehensive income/(loss) attributable to noncontrolling interests (Note 19)	2	(3)	5	(3)
Comprehensive income/(loss) attributable to Ford Motor Company	$2,846	$1,521	$6,026	$3,271

The accompanying notes are part of the financial statements.

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Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

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Item 1. Financial Statements (Continued)

NOTE 1. PRESENTATION

Our financial statements are presented in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. We show certain of our financial statements on both a consolidated and a sector basis for our Automotive and Financial Services sectors. Intercompany items and transactions have been eliminated in both the consolidated and sector balance sheets. Where the presentation of these intercompany eliminations or consolidated adjustments differ between the consolidated and sector financial statements, reconciliations of certain line items are explained below in this Note and in Notes 5 and 11.

In the opinion of management, these unaudited financial statements reflect a fair statement of the results of operations and financial condition of Ford Motor Company, its consolidated subsidiaries, and consolidated VIEs of which we are the primary beneficiary for the periods and at the dates presented. The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. Reference should be made to the financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2010 ("2010 Form 10-K Report"). For purposes of this report, "Ford," the "Company," "we," "our," "us" or similar references mean Ford Motor Company, our consolidated subsidiaries, and our consolidated VIEs of which we are the primary beneficiary, unless the context requires otherwise.

Adoption of New Accounting Standards

Business Combinations. On January 1, 2011 we adopted the new accounting standard on business combinations. The new standard requires public entities that present comparative financial statements to disclose the revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the prior annual reporting period. The new accounting standard did not have an impact on our financial statement disclosures.

Reconciliations between Consolidated and Sector Financial Statements

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

	June 30, 2011	December 31, 2010
Sector balance sheet presentation of deferred income tax assets:		
Automotive sector current deferred income tax assets	$306	$359
Automotive sector non-current deferred income tax assets	2,340	2,468
Financial Services sector deferred income tax assets *	215	282
Total	2,861	3,109
Reclassification for netting of deferred income taxes	(758)	(1,106)
Consolidated balance sheet presentation of deferred income tax assets	$2,103	$2,003
Sector balance sheet presentation of deferred income tax liabilities:		
Automotive sector current deferred income tax liabilities	$244	$392
Automotive sector non-current deferred income tax liabilities	300	344
Financial Services sector deferred income tax liabilities	1,585	1,505
Total	2,129	2,241
Reclassification for netting of deferred income taxes	(758)	(1,106)
Consolidated balance sheet presentation of deferred income tax liabilities	$1,371	$1,135

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

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Item 1. Financial Statements (Continued)

NOTE 1. PRESENTATION (Continued)

Sector to Consolidated Cash Flow. We present certain cash flows from wholesale receivables, finance receivables and the Automotive acquisition of Financial Services debt differently on our sector and consolidated statements of cash flows. The reconciliation between totals for the sector and consolidated cash flows is as follows (in millions):

	First Half	
	2011	2010
Automotive cash flows from operating activities of continuing operations	$5,744	$3,004
Financial Services cash flows from operating activities of continuing operations	2,133	2,157
Total sector cash flows from operating activities of continuing operations	7,877	5,161
Reclassifications from investing to operating cash flows:		
Wholesale receivables (a)	(1,944)	(248)
Finance receivables (b)	293	244
Reclassifications from operating to financing cash flows:		
Payments on notes to the Voluntary Employee Benefit Association ("VEBA") trust ("UAW VEBA Trust") (c)	—	1,300
Consolidated cash flows from operating activities of continuing operations	$6,226	$6,457
Automotive cash flows from investing activities of continuing operations	$2,471	$239
Financial Services cash flows from investing activities of continuing operations	560	3,376
Total sector cash flows from investing activities of continuing operations	3,031	3,615
Reclassifications from investing to operating cash flows:		
Wholesale receivables (a)	1,944	248
Finance receivables (b)	(293)	(244)
Reclassifications from investing to financing cash flows:		
Automotive sector acquisition of Financial Services sector debt (d)	—	(341)
Elimination of investing activity to/(from) Financial Services in consolidation	(1,859)	(434)
Consolidated cash flows from investing activities of continuing operations	$2,823	$2,844
Automotive cash flows from financing activities of continuing operations	$(5,106)	$(4,095)
Financial Services cash flows from financing activities of continuing operations	(3,758)	(6,553)
Total sector cash flows from financing activities of continuing operations	(8,864)	(10,648)
Reclassifications from investing to financing cash flows:		
Automotive sector acquisition of Financial Services sector debt (d)	—	341
Reclassifications from operating to financing cash flows:		
Payments on notes to the UAW VEBA Trust (c)	—	(1,300)
Elimination of investing activity to/(from) Financial Services in consolidation	1,859	434
Consolidated cash flows from financing activities of continuing operations	$(7,005)	$(11,173)

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

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

(c) See "Notes Due to UAW VEBA Trust" in Note 11 for discussion of these transactions. Cash outflows related to this transaction are reported as financing activities on the consolidated statement of cash flows and operating activities on the sector statement of cash flows.

(d)

See "Automotive Acquisition of Financial Services Debt" in Note 11 for discussion of these transactions. Cash inflows related to these transactions are reported as financing activities on the consolidated statement of cash flows and investing activities on the sector statement of cash flows.

Venezuelan Operations

At June 30, 2011 and December 31, 2010, we had $121 million and $41 million, respectively, in net monetary assets (primarily cash and receivables partially offset by payables and accrued liabilities) denominated in Venezuelan bolivars. These net monetary assets included $207 million and $132 million in cash and cash equivalents at June 30, 2011 and December 31, 2010, respectively. As a result of regulation of foreign currency exchange in Venezuela, the official exchange rate of 4.3 bolivars to the U.S. dollar is used to re-measure the assets and liabilities of our Venezuelan operations for GAAP financial statement presentation. The Venezuelan government also controls securities transactions in the parallel exchange market. Our ability to obtain funds in the parallel exchange market has been limited. For any U.S. dollars that we obtain at a rate less favorable than the official rate, we realize a loss for the difference in the exchange rates. Continuing restrictions on the foreign currency exchange market could affect our Venezuelan operations' ability to pay U.S.-dollar denominated obligations as well as our ability to benefit from those operations.

Item 1. Financial Statements (Continued)

NOTE 2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

Comprehensive Income - Presentation. In June 2011, the Financial Accounting Standards Board ("FASB") issued a new standard that modifies the options for presentation of other comprehensive income. The new standard will require us to present comprehensive income either on a single continuous statement or two separate but consecutive statements. The standard is effective for us as of January 1, 2012. We do not expect this standard to have a material impact on our financial condition or results of operations.

Fair Value Measurement. In May 2011, FASB issued a new standard that provides a consistent definition of fair value measurement and closely aligns disclosure requirements between GAAP and International Financial Reporting Standards. The new standard will require us to report the level in the fair value hierarchy of assets and liabilities not measured at fair value in the balance sheet but for which the fair value is disclosed, and to expand existing disclosures. The standard is effective for us as of January 1, 2012. We do not expect this standard to have a material impact on our financial condition or results of operations.

Transfers and Servicing - Repurchase Agreements. In April 2011, FASB issued a new standard for agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The standard is effective for us as of January 1, 2012. We do not expect this standard to have a material impact on our financial condition, results of operations, or financial statement disclosures.

Troubled Debt Restructurings. In April 2011, FASB issued a new standard to clarify the accounting for and disclosures regarding troubled debt restructurings ("TDRs") by creditors. The new standard provides additional guidance as to whether a restructuring meets the criteria to be considered a TDR. The standard is effective for us as of July 1, 2011 and will be applied to TDRs occurring on or after January 1, 2011. We do not expect this standard to have a material impact on our financial condition, results of operations, or financial statement disclosures.

Financial Services - Insurance. In October 2010, FASB issued a new standard addressing the deferral of acquisition costs within the insurance industry. The new standard modifies which types of costs can be capitalized in the acquisition and renewal of insurance contracts. The standard is effective for us as of January 1, 2012. We do not expect this standard to have a material impact on our financial condition, results of operations, or financial statement disclosures.

NOTE 3. FAIR VALUE MEASUREMENTS

Cash equivalents, marketable securities, and derivative financial instruments are presented on our financial statements at fair value. The fair value of finance receivables and debt, together with the related carrying value, is disclosed in Notes 5 and 11, respectively. Certain other assets and liabilities are measured at fair value on a nonrecurring basis and vary based on specific circumstances such as impairments.

Fair Value Measurements

In determining fair value, we use various valuation methodologies and prioritize the use of observable inputs. We assess the inputs used to measure fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market:

- Level 1 — inputs include quoted prices for identical instruments and are the most observable.
- Level 2 — inputs include quoted prices for similar assets and observable inputs such as interest rates, currency exchange rates and yield curves.
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Level 3 — inputs include data not observable in the market and reflect management's judgments about the assumptions market participants would use in pricing the asset or liability.

The use of observable and unobservable inputs and their significance in measuring fair value are reflected in our hierarchy assessment.

Item 1. Financial Statements (Continued)

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

Valuation Methodologies

Cash and Cash Equivalents. Included in Cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value due to interest rate, market price, or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has a remaining time to maturity of 90 days or less from the date of acquisition. Amounts on deposit and available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as Cash and cash equivalents. These include $1.8 billion of demand deposits with financial institutions which were classified as Marketable securities prior to 2011, and this amount is reported in Sales and maturities of securities in the 2011 consolidated statement of cash flows. Time deposits, certificates of deposit, and money market accounts that meet the above criteria are classified as Cash and cash equivalents, reported at par value, and excluded from the tables below.

Marketable Securities. Investments in securities with a maturity date greater than 90 days at the date of purchase and other securities for which there is a more than insignificant risk of changes in value because of interest rate, market price, or penalty on withdrawal are classified as Marketable securities. For marketable securities, we generally measure fair value based on a market approach using prices obtained from pricing services. We review all pricing data for reasonability and observability of inputs. Pricing methodologies and inputs to valuation models used by the pricing services depend on the security type (i.e., asset class). Where possible, fair values are generated using market inputs including quoted prices (the closing price in an exchange market), bid prices (the price at which a dealer stands ready to purchase), and other market information. For securities that are not actively traded, the pricing services obtain quotes for similar fixed-income securities or utilize matrix pricing, benchmark curves, or other factors to determine fair value. In certain cases, when observable pricing data are not available, we estimate the fair value of investment securities based on an income approach using industry standard valuation models and estimates regarding non-performance risk.

Derivative Financial Instruments. Our derivatives are over-the-counter customized derivative transactions and are not exchange traded. We estimate the fair value of these instruments based on an income approach using industry standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates, foreign exchange rates, and the contractual terms of the derivative instruments. The discount rate used is the relevant interbank deposit rate (e.g., LIBOR) plus an adjustment for non-performance risk. The adjustment reflects the full credit default swap ("CDS") spread applied to a net exposure, by counterparty, considering the master netting agreements and posted collateral. We use our counterparty's CDS spread when we are in a net asset position and our own CDS spread when we are in a net liability position.

In certain cases, market data are not available and we develop assumptions or use models (e.g., Black Scholes) to determine fair value. This includes situations where there is illiquidity for a particular currency or commodity or for longer-dated instruments. Also, for interest rate swaps and cross-currency interest rate swaps used in securitization transactions, the notional amount of the swap is reset based on actual payments on the securitized contracts. We use management judgment to estimate timing and amount of the swap cash flows based on historical pre-payment speeds.

Ford Credit has two asset-backed debt transactions with derivative features, Ford Upgrade Exchange Linked ("FUEL") notes. These features include a mandatory exchange to Ford Credit unsecured notes when Ford Credit's senior unsecured debt receives two investment grade credit ratings among Fitch, Moody's and S&P and a make-whole provision. We estimated the fair value of these features by comparing the market value of the FUEL notes to the value of a hypothetical debt instrument without these features.

Finance Receivables. We generally estimate the fair value of finance receivables based on an income approach using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest). The projected cash flows are discounted to a present value based on market inputs and our own assumptions regarding credit losses, pre-payment speed, and the discount rate. Our assumptions regarding pre-payment speed and credit losses are based on historical performance.

Debt. We estimate the fair value of debt based on a market approach using quoted market prices or current market rates for similar debt with approximately the same remaining maturities, where possible. Where market prices or current market rates are not available, we estimate fair value based on an income approach using discounted cash flow models. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates, our own credit risk and the contractual terms of the debt instruments. For asset-backed debt issued in securitization transactions, the principal payments are based on projected payments for specific assets securing the underlying debt considering historical prepayment speeds.

Item 1. Financial Statements (Continued)

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

Input Hierarchy of Items Measured at Fair Value on a Recurring Basis

The following tables summarize the fair values by input hierarchy of items measured at fair value on a recurring basis on our balance sheet (in millions):

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Automotive Sector				
Assets				
Cash equivalents – financial instruments (a)				
U.S. government	$3	$—	$—	$3
U.S. government-sponsored enterprises	—	1,885	—	1,885
Government – non-U.S.	—	728	—	728
Foreign government agencies (b)	—	1,255	—	1,255
Corporate debt	—	—	—	—
Total cash equivalents – financial instruments	3	3,868	—	3,871
Marketable securities (c)				
U.S. government	1,412	—	—	1,412
U.S. government-sponsored enterprises	—	3,464	—	3,464
Foreign government agencies (b)	—	4,842	—	4,842
Corporate debt	—	933	5	938
Mortgage-backed and other asset-backed	—	43	1	44
Equity	184	—	—	184
Government – non-U.S.	—	1,026	—	1,026
Other liquid investments (d)	—	28	—	28
Total marketable securities	1,596	10,336	6	11,938
Derivative financial instruments				
Foreign exchange contracts	—	307	—	307
Commodity contracts	—	22	2	24
Other – warrants	—	—	6	6
Total derivative financial instruments (e)	—	329	8	337
Total assets at fair value	$1,599	$14,533	$14	$16,146
Liabilities				
Derivative financial instruments				
Foreign exchange contracts	$—	$147	$3	$150
Commodity contracts	—	25	21	46
Total derivative financial instruments (e)	—	172	24	196
Total liabilities at fair value	$—	$172	$24	$196

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(a) "Cash equivalents - financial instruments" in this table excludes time deposits, certificates of deposit, money market accounts, and other cash equivalents reported at par value totaling $4.2 billion as of June 30, 2011 for the Automotive sector. In addition to these cash equivalents, our Automotive sector also had cash on hand totaling $1.7 billion as of June 30, 2011.

(b) Includes notes issued by foreign government agencies that include implicit and explicit guarantees, as well as notes issued by supranational institutions.

(c) Excludes an investment in Ford Credit debt securities held by the Automotive sector with a carrying value of $201 million and an estimated fair value of $200 million as of June 30, 2011; see Note 11 for additional detail.

(d) "Other liquid investments" in this table includes certificates of deposit and time deposits.

(e) See Note 16 for additional information regarding derivative financial instruments.

Item 1. Financial Statements (Continued)

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Financial Services Sector				
Assets				
Cash equivalents – financial instruments (a)				
U.S. government	$—	$—	$—	$—
U.S. government-sponsored enterprises	—	175	—	175
Government – non-U.S.	—	420	—	420
Foreign government agencies (b)	—	—	—	—
Corporate debt	—	—	—	—
Mortgage-backed and other asset-backed	—	6	—	6
Total cash equivalents – financial instruments	—	601	—	601
Marketable securities				
U.S. government	827	—	—	827
U.S. government-sponsored enterprises	—	1,056	—	1,056
Foreign government agencies (b)	—	652	—	652
Corporate debt	—	1,197	5	1,202
Mortgage-backed and other asset-backed	—	165	—	165
Government – non-U.S.	—	190	—	190
Other liquid investments (c)	—	19	—	19
Total marketable securities	827	3,279	5	4,111
Derivative financial instruments				
Interest rate contracts	—	729	191	920
Foreign exchange contracts	—	64	—	64
Cross currency interest rate swap contracts	—	—	—	—
Other (d)	—	—	75	75
Total derivative financial instruments (e)	—	793	266	1,059
Total assets at fair value	$827	$4,673	$271	$5,771
Liabilities				
Derivative financial instruments				
Interest rate contracts	$—	$76	$129	$205
Foreign exchange contracts	—	66	—	66
Cross-currency interest rate swap contracts	—	—	42	42
Total derivative financial instruments (e)	—	142	171	313
Total liabilities at fair value	$—	$142	$171	$313

(a) "Cash equivalents - financial instruments" in this table excludes time deposits, certificates of deposit, money market accounts, and other cash equivalents reported at par value on our balance sheet totaling $4.6 billion as of June 30, 2011 for the Financial Services sector. In addition to these cash equivalents, our Financial Services sector also had cash on hand totaling $2.5 billion as of June 30, 2011.

(b) Includes notes issued by foreign government agencies that include implicit and explicit guarantees, as well as notes issues by supranational institutions.

(c) "Other liquid investments" in this table includes certificates of deposit and time deposits.

(d) "Other" in this table represents derivative features included in the FUEL notes.

(e) See Note 16 for additional information regarding derivative financial instruments.

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Item 1. Financial Statements (Continued)

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Automotive Sector				
Assets				
Cash equivalents – financial instruments (a)				
U.S. government	$—	$—	$—	$—
U.S. government-sponsored enterprises	—	224	—	224
Government – non-U.S.	—	133	—	133
Foreign government agencies (b)	—	1,619	—	1,619
Corporate debt	—	199	—	199
Total cash equivalents – financial instruments	—	2,175	—	2,175
Marketable securities (c)				
U.S. government	2,718	—	—	2,718
U.S. government-sponsored enterprises	—	4,809	—	4,809
Foreign government agencies (b)	—	3,215	1	3,216
Corporate debt	—	517	—	517
Mortgage-backed and other asset-backed	—	20	—	20
Equity	203	—	—	203
Government – non-U.S.	—	818	1	819
Other liquid investments (d)	—	1,704	—	1,704
Total marketable securities	2,921	11,083	2	14,006
Derivative financial instruments				
Foreign exchange contracts	—	58	—	58
Commodity contracts	—	36	33	69
Other – warrants	—	—	5	5
Total derivative financial instruments (e)	—	94	38	132
Total assets at fair value	$2,921	$13,352	$40	$16,313
Liabilities				
Derivative financial instruments				
Foreign exchange contracts	$—	$93	$—	$93
Commodity contracts	—	6	—	6
Total derivative financial instruments (e)	—	99	—	99
Total liabilities at fair value	$—	$99	$—	$99

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(a) "Cash equivalents - financial instruments" in this table excludes time deposits, certificates of deposit, money market accounts, and other cash equivalents reported at par value totaling $2.2 billion as of December 31, 2010 for the Automotive sector. In addition to these cash equivalents, our Automotive sector also had cash on hand totaling $1.9 billion as of December 31, 2010.

(b) Includes notes issued by foreign government agencies that include implicit and explicit guarantees, as well as notes issued by supranational institutions.

(c) Excludes an investment in Ford Credit debt securities held by the Automotive sector with a carrying value of $201 million and an estimated fair value of $203 million as of December 31, 2010; see Note 11 for additional detail.

(d) "Other liquid investments" in this table includes certificates of deposit and time deposits.

(e) See Note 16 for additional information regarding derivative financial instruments.

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Item 1. Financial Statements (Continued)

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Financial Services Sector				
Assets				
Cash equivalents – financial instruments (a)				
U.S. government	$9	$—	$—	$9
U.S. government-sponsored enterprises	—	150	—	150
Government – non-U.S.	—	323	—	323
Foreign government agencies (b)	—	100	—	100
Corporate debt	—	200	—	200
Total cash equivalents – financial instruments	9	773	—	782
Marketable securities				
U.S. government	1,671	—	—	1,671
U.S. government-sponsored enterprises	—	2,905	—	2,905
Foreign government agencies (b)	—	821	1	822
Corporate debt	—	732	—	732
Mortgage-backed and other asset-backed	—	177	—	177
Government – non-U.S.	—	364	—	364
Other liquid investments (c)	—	88	—	88
Total marketable securities	1,671	5,087	1	6,759
Derivative financial instruments				
Interest rate contracts	—	1,035	177	1,212
Foreign exchange contracts	—	24	—	24
Cross currency interest rate swap contracts	—	25	—	25
Total derivative financial instruments (d)	—	1,084	177	1,261
Total assets at fair value	$1,680	$6,944	$178	$8,802
Liabilities				
Derivative financial instruments				
Interest rate contracts	$—	$134	$195	$329
Foreign exchange contracts	—	73	—	73
Cross-currency interest rate swap contracts	—	118	71	189
Total derivative financial instruments (d)	—	325	266	591
Total liabilities at fair value	$—	$325	$266	$591

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(a) "Cash equivalents - financial instruments" in this table excludes time deposits, certificates of deposit, money market accounts, and other cash equivalents reported at par value on our balance sheet totaling $5.7 billion as of December 31, 2010 for the Financial Services sector. In addition to these cash equivalents, our Financial Services sector also had cash on hand totaling $2.0 billion as of December 31, 2010.

(b) Includes notes issued by foreign government agencies that include implicit and explicit guarantees, as well as notes issues by supranational institutions.

(c) "Other liquid investments" in this table includes certificates of deposit and time deposits.

(d) See Note 16 for additional information regarding derivative financial instruments.

Item 1. Financial Statements (Continued)

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

Reconciliation of Changes in Level 3 Balances

The following tables summarize the changes in Level 3 items measured at fair value on a recurring basis on our balance sheet for the periods ending June 30 (in millions):

	First Half 2011						
	Marketable Securities						
	Foreign Government Agencies	Corporate Debt	Mortgage-Backed and Other Asset-Backed	Government Non-U.S.	Total Marketable Securities	Derivative Financial Instruments, Net	Total Level 3 Fair Value
Automotive Sector							
Beginning balance	$1	$—	$—	$1	$2	$ 38	$40
Realized/unrealized gains/(losses)							
Cost of sales	—	—	—	—	—	(23)	(23)
Interest income and other non-operating income/(loss), net	—	—	—	(1)	(1)	1	—
Other comprehensive income/(loss) (a)	—	—	—	—	—	—	—
Total realized/unrealized gains/(losses)	—	—	—	(1)	(1)	(22)	(23)
Purchases, issues, sales, settlements							
Purchases	—	5	1	1	7	—	7
Issues	—	—	—	—	—	—	—
Sales	—	—	—	(1)	(1)	—	(1)
Settlements	—	—	—	—	—	(32)	(32)
Total purchases, issues, sales, settlements	—	5	1	—	6	(32)	(26)
Transfers into Level 3	—	—	—	—	—	—	—
Transfers out of Level 3 (b)	(1)	—	—	—	(1)	—	(1)
Ending balance	$—	$5	$1	$—	$6	$ (16)	$(10)
Change in unrealized gains/(losses) on instruments still held	$—	$—	$—	$—	$—	$ (20)	$(20)
Financial Services Sector							
Beginning balance	$1	$—	$—	$—	$1	$ (89)	$(88)
Realized/unrealized gains/(losses)							
Other income/(loss), net	—	—	—	—	—	(13)	(13)
Other comprehensive income/(loss) (a)	—	—	—	—	—	(2)	(2)
	—	—	—	—	—	26	26

Interest income/(expense)							
Total realized/unrealized gains/(losses)	—	—	—	—	—	11	11
Purchases, issues, sales, settlements							
Purchases	—	5	—	—	5	—	5
Issues (c)	—	—	—	—	—	73	73
Sales	—	—	—	—	—	—	—
Settlements	—	—	—	—	—	103	103
Total purchases, issues, sales, settlements	—	5	—	—	5	176	181
Transfers into Level 3	—	—	—	—	—	—	—
Transfers out of Level 3 (b)	(1)	—	—	—	(1)	(3)	(4)
Ending balance	$—	$5	$—	$—	$5	$ 95	$100
Change in unrealized gains/(losses) on instruments still held	$—	$—	$—	$—	$—	$ 80	$80

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(a) "Other comprehensive income/(loss)" represents foreign currency translation on derivative asset and liability balances held by non-U.S. dollar foreign affiliates.

(b) Represents transfers due to the availability of observable data for $2 million of marketable securities as a result of increased market activity for these securities and transfers for $3 million due to shorter duration of derivative financial instruments. Transfers in and transfers out represent the value at the end of the reporting period.

(c) Reflects $73 million in Level 3 under Derivative financial instruments, net for derivative features included in the FUEL notes.

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Item 1. Financial Statements (Continued)

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

	First Half 2010							
	Marketable Securities							
	Foreign Government Agencies	Corporate Debt	Mortgage-Backed and Other Asset-Backed	Government Non-U.S.	Total Marketable Securities	Derivative Financial Instruments, Net	Retained Interest in Securitized Assets	Total Level 3 Fair Value
Automotive Sector								
Beginning balance	$—	$8	$ 17	$—	$ 25	$ 9	$—	$34
Realized/unrealized gains/(losses)								
Cost of sales	—	—	—	—	—	—	—	—
Interest income and other non-operating income/(loss), net	—	—	(1)	—	(1)	1	—	—
Other comprehensive income/(loss) (a)	—	—	—	—	—	—	—	—
Total realized/unrealized gains/(losses)	—	—	(1)	—	(1)	1	—	—
Purchases, issues, sales, settlements								
Purchases	—	—	—	—	—	—	—	—
Issues	—	—	—	—	—	—	—	—
Sales	—	(8)	(15)	—	(23)	—	—	(23)
Settlements	—	—	—	—	—	(5)	—	(5)
Total purchases, issues, sales, settlements	—	(8)	(15)	—	(23)	(5)	—	(28)
Transfers into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3 (b)	—	—	—	—	—	—	—	—
Ending balance	$—	$—	$ 1	$—	$ 1	$ 5	$—	$6
Change in unrealized gains/ (losses) on instruments still held	$—	$—	$ —	$—	$ —	$ (1)	$—	$(1)
Financial Services Sector								
Beginning balance	$—	$4	$ —	$—	$ 4	$ (155)	$26	$(125)
Realized/unrealized gains/(losses)								
Other income/(loss), net	—	(4)	—	—	(4)	(23)	(3)	(30)
Other comprehensive income/(loss) (a)	—	—	—	—	—	2	2	4
Interest income/(expense)	—	—	—	—	—	—	—	—

Total realized/unrealized gains/(losses)	—	(4)	—	—	(4)	(21)	(1)	(26)
Purchases, issues, sales, settlements								
Purchases	—	—	—	—	—	—	—	—
Issues	—	—	—	—	—	—	—	—
Sales	—	—	—	—	—	—	—	—
Settlements	—	—	—	—	—	82	(21)	61
Total purchases, issues, sales, settlements	—	—	—	—	—	82	(21)	61
Transfers into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3 (b)	—	—	—	—	—	—	—	—
Ending balance	$—	$—	$ —	$—	$—	$ (94)	$4	$(90)
Change in unrealized gains/(losses) on instruments still held	$—	$—	$ —	$—	$—	$ 59	$—	$59

(a) "Other comprehensive income/(loss)" represents foreign currency translation on derivative asset and liability balances held by non-U.S. dollar foreign affiliates.
(b) Transfers in and transfers out represent the value at the end of the reporting period.

Item 1. Financial Statements (Continued)

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

Input Hierarchy of Items Measured at Fair Value on a Nonrecurring Basis

The following tables summarize the items measured at fair value subsequent to initial recognition on a nonrecurring basis by input hierarchy for the quarter and year ended June 30, 2011 and December 31, 2010, respectively, that were still held on our balance sheet at those dates (in millions):

	June 30, 2011 (a)				December 31, 2010 (a)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial Services Sector								
North America								
Retail receivables (b)	$—	$—	$76	$76	$—	$—	$82	$82
Dealer loans, net (b)	—	3	10	13	—	—	22	22
Total North America	—	3	86	89	—	—	104	104
International								
Retail receivables (b)	—	—	46	46	—	—	45	45
Total International	—	—	46	46	—	—	45	45
Total Financial Services sector	$—	$3	$132	$135	$—	$—	$149	$149

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(a) There were no Automotive sector nonrecurring fair value measurements subsequent to initial recognition recorded.

(b) Finance receivables, including retail accounts that have been charged off and individual dealer loans where foreclosure is probable, are measured based on the fair value of the collateral adjusted for estimated costs to sell. The collateral for retail receivables is the vehicle being financed and for dealer loans is real estate or other property. See Note 6 for additional information related to the development of Ford Credit's allowance for credit losses.

Nonrecurring Fair Value Changes

The following table summarizes the total change in value of items for which a nonrecurring fair value adjustment has been included in our consolidated statement of operations for the periods ended June 30, 2011 and 2010, related to items still held on our balance sheet at those dates (in millions):

	Total Gains / (Losses)			
	Second Quarter		First Half	
	2011	2010	2011	2010
Financial Services Sector				
North America				
Retail receivables *	$(6)	$(8)	$(16)	$(19)
Dealer loans, net *	(1)	(1)	(1)	(4)
Total North America	(7)	(9)	(17)	(23)
International				
Retail receivables *	(5)	(9)	(10)	(20)
Total International	(5)	(9)	(10)	(20)
Total Financial Services sector	$(12)	$(18)	$(27)	$(43)

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* Fair value changes related to retail finance receivables that have been charged off or dealer loans that have been impaired based on the fair value of the collateral adjusted for estimated costs to sell are recorded in Financial Services provision for credit and insurance losses.

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Item 1. Financial Statements (Continued)

NOTE 4. RESTRICTED CASH

Cash and cash equivalents that are restricted as to withdrawal or usage under the terms of certain contractual agreements are recorded as restricted in Other assets on our balance sheet.

Our Automotive sector restricted cash balances primarily include cash collateral required to be held against loans from the European Investment Bank ("EIB") and cash collateral required for bank guarantees. Additionally, restricted cash includes various escrow agreements related to insurance, customs, and environmental matters. Our Financial Services sector restricted cash balances primarily include cash collateral required to be held against loans from the EIB and cash held to meet certain local governmental and regulatory reserve requirements.

Restricted cash does not include required minimum balances or cash securing debt issued through securitization transactions ("securitization cash").

Restricted cash reflected on our balance sheet is as follows (in millions):

	June 30, 2011	December 31, 2010
Automotive sector	$454	$433
Financial Services sector	505	298
Total Company	$959	$731

NOTE 5. FINANCE RECEIVABLES

Finance receivables reflected on our consolidated balance sheet are as follows (in millions):

	June 30, 2011	December 31, 2010
Automotive sector *	$247	$224
Financial Services sector	75,902	73,265
Reclassification of receivables purchased by Financial Services sector from Automotive sector to Other receivables, net	(5,126)	(3,419)
Finance receivables, net	$71,023	$70,070

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* Finance receivables are reported on our sector balance sheet in Receivables, less allowances and Other assets.

Automotive Sector

Our Automotive sector holds notes receivable, which consist primarily of a note with Geely Sweden AB related to our sale of Volvo and loans with certain suppliers. Performance of this group of receivables is evaluated based on payment activity and the financial stability of the debtor. Notes receivable initially are recorded at fair value and subsequently measured at amortized cost.

Notes receivable, net, were as follows (in millions):

	June 30, 2011	December 31, 2010
Notes receivable	$304	$344
Less: Allowance for credit losses	(57)	(120)
Notes receivable, net	$247	$224

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Item 1. Financial Statements (Continued)

NOTE 5. FINANCE RECEIVABLES (Continued)

Financial Services Sector

Ford Credit segments its North America and International portfolio of finance receivables into "consumer" and "non-consumer" receivables. The receivables are secured by the vehicles, inventory, or other property being financed.

Consumer Segment – Receivables in this portfolio segment relate to products offered to individuals and businesses that finance the acquisition of Ford vehicles from dealers for personal or commercial use. The products include:

- Retail financing – retail installment contracts for new and used vehicles
- Direct financing leases – direct financing leases with retail customers, government entities, daily rental companies, and fleet customers

Non-consumer Segment – Receivables in this portfolio segment relate to products offered to dealers. The products include:

- Wholesale financing – loans to dealers to finance the purchase of vehicle inventory, also known as floorplan financing
- Dealer loans – loans to dealers to finance working capital, and to finance the purchase of dealership real estate and/or make improvements to dealership facilities
- Other financing – purchased receivables from Ford and its affiliates, primarily related to the sale of parts and accessories to dealers

Finance receivables are recorded at the time of origination or purchase for the principal amount financed and are subsequently reported at amortized cost, net of any allowance for credit losses. Amortized cost is the outstanding principal adjusted for any charge-offs and any unamortized deferred fees or costs. At June 30, 2011 and December 31, 2010, the recorded investment in Ford Credit's finance receivables excluded $170 million and $176 million of accrued uncollected interest receivable, respectively, which we report in Other assets on the balance sheet.

Finance receivables, net were as follows (in millions):

	June 30, 2011			December 31, 2010		
	North America	International	Total Finance Receivables	North America	International	Total Finance Receivables
Consumer						
Retail, gross	$38,533	$9,666	$48,199	$39,129	$9,436	$48,565
Less: Unearned interest supplements	(1,551)	(290)	(1,841)	(1,580)	(289)	(1,869)
Retail	36,982	9,376	46,358	37,549	9,147	46,696
Direct financing leases, gross	7	3,084	3,091	17	3,011	3,028
Less: Unearned interest supplements	—	(112)	(112)	—	(84)	(84)
Direct financing leases	7	2,972	2,979	17	2,927	2,944
Consumer finance receivables	$36,989	$12,348	$49,337	$37,566	$12,074	$49,640
Non-consumer						
Wholesale	$14,378	$10,260	$24,638	$13,273	$8,851	$22,124
Dealer loans	1,047	66	1,113	1,117	33	1,150
Other	945	488	1,433	738	390	1,128
Non-consumer finance receivables	16,370	10,814	27,184	15,128	9,274	24,402

Total recorded investment	$53,359	$23,162	$76,521	$52,694	$21,348	$74,042
Recorded investment in finance receivables	$53,359	$23,162	$76,521	$52,694	$21,348	$74,042
Less: Allowance for credit losses	(482)	(137)	(619)	(625)	(152)	(777)
Finance receivables, net	$52,877	$23,025	$75,902	$52,069	$21,196	$73,265
Net finance receivables subject to fair value *			$72,921			$70,318
Fair value			74,574			72,021

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* At June 30, 2011 and December 31, 2010, excludes $3 billion and $2.9 billion, respectively, of certain receivables (primarily direct financing leases) that are not subject to fair value disclosure requirements.

Item 1. Financial Statements (Continued)

NOTE 5. FINANCE RECEIVABLES (Continued)

Included in the recorded investment in finance receivables at June 30, 2011 and December 31, 2010 were $29.8 billion and $28.7 billion of North America consumer receivables, $13 billion and $12.8 billion of non-consumer receivables, International consumer receivables of $8.3 billion and $7.6 billion, and non-consumer receivables of $6.8 billion and $5.9 billion, respectively, that secure certain debt obligations. The cash flows generated from collection of these receivables can be used only for payment of the related debt and obligations; they are not available to pay the other obligations of our Financial Services sector or the claims of its other creditors (see Notes 8 and 11).

Aging. For all classes of finance receivables, Ford Credit defines "past due" as any payment, including principal and interest, that has not been collected and is at least 31 days past the contractual due date. The aging analysis of Ford Credit's finance receivables balances at June 30, 2011 was as follows (in millions):

	31-60 Days Past Due	61-90 Days Past Due	91-120 Days Past Due	Greater Than 120 Days	Total Past Due	Current	Total Finance Receivables
North America							
Consumer							
Retail	$637	$77	$25	$76	$815	$36,167	$ 36,982
Direct financing leases	1	1	—	—	2	5	7
Non-consumer							
Wholesale	—	—	—	3	3	14,375	14,378
Dealer loans	4	1	4	13	22	1,025	1,047
Other	—	—	—	—	—	945	945
Subtotal	642	79	29	92	842	52,517	53,359
International							
Consumer							
Retail	68	35	18	48	169	9,207	9,376
Direct financing leases	11	5	3	4	23	2,949	2,972
Non-consumer							
Wholesale	1	—	—	17	18	10,242	10,260
Dealer loans	—	—	—	1	1	65	66
Other	—	—	—	—	—	488	488
Subtotal	80	40	21	70	211	22,951	23,162
Total recorded investment	$722	$119	$50	$162	$1,053	$75,468	$ 76,521

Consumer Credit Quality. When originating all classes of consumer finance receivables, Ford Credit uses a proprietary scoring system that measures the credit quality of the related receivables using several factors, such as credit bureau information, consumer credit risk scores (e.g., FICO score), customer characteristics, and contract characteristics. In addition to its proprietary scoring system, Ford Credit considers other individual consumer factors, such as employment history, financial stability, and capacity to pay.

Subsequent to origination, Ford Credit reviews the credit quality of retail and direct financing lease receivables based on customer payment activity. As each customer develops a payment history, Ford Credit uses an internally-developed behavioral scoring model to assist in determining the best collection strategies. Based on data from this scoring model, contracts are categorized by collection risk. Ford Credit's collection models evaluate several factors, including origination characteristics, updated credit bureau data, and payment patterns. These models allow for more focused collection activity on higher-risk accounts and are used to refine Ford Credit's risk-based staffing model to ensure collection resources are aligned with portfolio risk.

Credit quality ratings for Ford Credit's consumer finance receivables are categorized as follows:

- Pass – receivables that are current to 60 days past due
- Special Mention – receivables 61 to 120 days past due and in aggressive collection status
- Substandard – receivables greater than 120 days past due and for which the uncollectible portion of the receivables has already been charged-off, as measured using the fair value of the collateral

Item 1. Financial Statements (Continued)

NOTE 5. FINANCE RECEIVABLES (Continued)

The credit quality analysis of Ford Credit's consumer finance receivables portfolio was as follows (in millions):

	June 30, 2011		December 31, 2010	
	Retail	Direct Financing Leases	Retail	Direct Financing Leases
North America				
Pass	$36,804	$6	$37,348	$17
Special Mention	102	1	119	—
Substandard	76	—	82	—
Subtotal	36,982	7	37,549	17
International				
Pass	9,276	2,960	9,068	2,914
Special Mention	52	8	60	10
Substandard	48	4	19	3
Subtotal	9,376	2,972	9,147	2,927
Total recorded investment	$46,358	$2,979	$46,696	$2,944

Non-Consumer Credit Quality. For all classes of non-consumer receivables, Ford Credit extends commercial credit to dealers primarily in the form of approved lines of credit to purchase new Ford and Lincoln vehicles as well as used vehicles. Each commercial lending request is evaluated, taking into consideration the borrower's financial condition and the underlying collateral securing the loan. Ford Credit uses a proprietary model to assign each dealer a risk rating. This model uses historical performance data to identify key factors about a dealer that Ford Credit considers significant in predicting a dealer's ability to meet its financial obligations. Ford Credit also considers numerous other financial and qualitative factors including capitalization and leverage, liquidity and cash flow, profitability, and credit history with Ford Credit and other creditors. A dealer's risk rating does not reflect any guarantees or a dealer owner's net worth.

Dealers are assigned to one of four groups according to risk rating as follows:

- Group I – Dealers with strong to superior financial metrics
- Group II – Dealers with fair to favorable financial metrics
- Group III – Dealers with marginal to weak financial metrics
- Group IV – Dealers with poor financial metrics, including dealers classified as uncollectible

Ford Credit suspends credit lines and extends no further funding to dealers classified in Group IV.

Ford Credit regularly reviews its model to confirm the continued business significance and statistical predictability of the factors and updates the model to incorporate new factors or other information that improves its statistical predictability. In addition, Ford Credit verifies the existence of the assets collateralizing the receivables by physical audits of vehicle inventories, which are performed with increased frequency for higher-risk (i.e., Group III and Group IV) dealers. Ford Credit performs a credit review of each dealer at least annually and adjusts the dealer's risk rating, if necessary.

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Item 1. Financial Statements (Continued)

NOTE 5. FINANCE RECEIVABLES (Continued)

Performance of non-consumer receivables is evaluated based on Ford Credit's internal dealer risk rating analysis, as payment for wholesale receivables generally is not required until the dealer has sold the vehicle inventory. Wholesale and dealer loan receivables with the same dealer customer share the same risk rating. The credit quality analysis of wholesale and dealer loan receivables was as follows (in millions):

	June 30, 2011		December 31, 2010	
	Wholesale	Dealer Loan	Wholesale	Dealer Loan
North America				
Group I	$11,808	$777	$10,540	$785
Group II	2,170	160	2,372	208
Group III	385	99	353	107
Group IV	15	11	8	17
Subtotal	14,378	1,047	13,273	1,117
International				
Group I	6,144	38	5,135	5
Group II	2,526	16	2,189	15
Group III	1,576	11	1,527	12
Group IV	14	1	—	1
Subtotal	10,260	66	8,851	33
Total recorded investment	$24,638	$1,113	$22,124	$1,150

Non-Accrual Status. The accrual of revenue is discontinued at the earlier of the time a receivable is determined to be uncollectible, bankruptcy status notification, or 120 days past due. Finance receivable accounts may be restored to accrual status only when a customer settles all past-due deficiency balances and future payments are reasonably assured. For receivables in non-accrual status, subsequent financing revenue is recognized only to the extent a payment is received. Payments are generally applied first to outstanding interest and then to the unpaid principal balance.

Consumer receivables in non-accrual status were as follows (in millions):

	June 30, 2011		December 31, 2010	
	Retail	Direct Financing Leases	Retail	Direct Financing Leases
North America				
Greater than 120 days past due	$76	$—	$82	$—
Less than 120 days past due	328	—	355	—
Subtotal	404	—	437	—
International				
Greater than 120 days past due	48	4	19	3
Less than 120 days past due	4	—	26	1
Subtotal	52	4	45	4
Total recorded investment	$456	$4	$482	$4

Finance receivables greater than 90 days past due and still accruing interest at June 30, 2011 and December 31, 2010, represent $20 million and $7 million, respectively, of non-bankrupt retail accounts in the 91-120 days past due category that are in the process of collection and $4 million and $1 million, respectively, of dealer loans.

Item 1. Financial Statements (Continued)

NOTE 5. FINANCE RECEIVABLES (Continued)

Impairment. Ford Credit's consumer receivables are evaluated collectively for impairment. Ford Credit's non-consumer receivables are evaluated both collectively and specifically for impairment. Specifically-impaired non-consumer receivables represent accounts with dealers that have weak or poor financial metrics or dealer loans that have been modified in TDRs. Ford Credit places impaired receivables in non-accrual status. The following factors (not necessarily in order of importance or probability of occurrence) are considered in determining whether a receivable is impaired:

- Delinquency in contractual payments of principal or interest
- Deterioration of the borrower's competitive position
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of dealer bankruptcy or other insolvency proceedings
- Fraud or criminal conviction

See Note 6 for additional information related to the development of Ford Credit's allowance for credit losses.

The table below identifies non-consumer receivables that were both impaired and in non-accrual status for the period ended June 30, 2011 (in millions):

	Recorded Investment in Impaired Receivables & Receivables in Non-Accrual Status	Unpaid Principal Balance	Related Allowance for Credit Losses	Average Recorded Investment	Financing Revenue Collected	
					Second Quarter 2011	First Half 2011
North America						
With no allowance recorded						
Wholesale	$15	$15	$—	$18	$1	$1
Dealer loans	2	2	—	7	—	—
With an allowance recorded						
Wholesale	—	—	—	—	—	—
Dealer loans	62	62	8	66	1	1
International						
With no allowance recorded						
Wholesale	20	20	—	18	—	—
Dealer loans	2	2	—	1	—	—
With an allowance recorded						
Wholesale	7	7	2	3	—	—

Dealer loans	—	—	—	—	—	—
Total						
Wholesale	42	42	2	39	1	1
Dealer loans	66	66	8	74	1	1
Total	$108	$108	$10	$113	$2	$2

Item 1. Financial Statements (Continued)

NOTE 5. FINANCE RECEIVABLES (Continued)

The table below identifies non-consumer receivables that were both impaired and in non-accrual status for the period ended December 31, 2010 (in millions):

	Recorded Investment in Impaired Receivables & Receivables in Non-Accrual Status	Unpaid Principal Balance	Related Allowance for Credit Losses	Average Recorded Investment
North America				
With no allowance recorded				
Wholesale	$8	$8	$—	$19
Dealer loans	2	2	—	9
With an allowance recorded				
Wholesale	—	—	—	—
Dealer loans	64	64	10	69
International				
With no allowance recorded				
Wholesale	22	22	—	29
Dealer loans	1	1	—	2
With an allowance recorded				
Wholesale	5	5	2	8
Dealer loans	—	—	—	—
Total				
Wholesale	35	35	2	56
Dealer loans	67	67	10	80
Total	$102	$102	$12	$136

Impaired receivables with no related allowance for credit losses recorded are primarily attributable to accounts for which the uncollectible portion of the receivables already has been charged off.

Troubled Debt Restructurings

A restructuring of debt constitutes a TDR if Ford Credit grants a concession for economic or legal reasons related to the debtor's financial difficulties that Ford Credit otherwise would not consider in the normal course of business.

Consumer. While payment extensions are granted on consumer finance receivables in the normal course of the collection process, no concessions are made on the principal balance loaned or the interest rate charged. Payment extensions typically result in a one-month deferral of the consumer's normal monthly payment and do not constitute a TDR.

Non-Consumer. Within Ford Credit's non-consumer receivables segment, only dealer loans subject to forbearance, moratoriums, extension agreements or other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral are classified as TDRs. Dealer loans that are in TDRs are assessed for impairment and included in Ford Credit's allowance for credit losses based on either the present value of the expected future cash flows of the receivable discounted at the loan's original effective interest rate, or the fair value of the collateral adjusted for estimated costs to sell. For loans where foreclosure is probable, the fair value of the collateral is used to estimate the specific impairment. An impairment charge is recorded as part of the provision to the allowance for credit losses for the amount by which the recorded investment of the receivable exceeds its estimated fair value. Ford Credit does not grant concessions on the principal balance of dealer loan modifications, but may make other concessions if the dealer is experiencing financial difficulties. During the first half of 2011, the principal balance of dealer loans that are in TDRs was $12 million.

Item 1. Financial Statements (Continued)

NOTE 6. ALLOWANCE FOR CREDIT LOSSES

Automotive Sector

We estimate credit loss reserves for notes receivable on an individual receivable basis. A specific impairment allowance reserve is established based on expected future cash flows, the fair value of any collateral, and the financial condition of the debtor. Following is an analysis of the allowance for credit losses for the period ended June 30, 2011 (in millions):

	Second Quarter 2011	First Half 2011
Allowance for credit losses:		
Beginning balance	$101	$120
Charge-offs	—	—
Recoveries	(59)	(59)
Provision for credit losses	—	2
Other	15	(6)
Ending balance	$57	$57

Financial Services Sector

The allowance for credit losses represents Ford Credit's estimate of the probable loss on the collection of finance receivables and operating leases as of the balance sheet date. The adequacy of the allowance for credit losses is assessed quarterly and the assumptions and models used in establishing the allowance are evaluated regularly. Because credit losses may vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain.

Additions to the allowance for credit losses are made by recording charges to Provision for credit and insurance losses on the sector statement of operations. The outstanding balances of finance receivables and investments in operating leases are charged to the allowance for credit losses at the earlier of when an account is deemed to be uncollectible or when an account is 120 days delinquent, taking into consideration the financial condition of the borrower or lessee, the value of the collateral, recourse to guarantors and other factors. In the event we repossess the collateral, the receivable is written off and we record the collateral at its estimated fair value less costs to sell and report it in Other assets on the balance sheet. Recoveries on finance receivables and investment in operating leases previously charged-off as uncollectible are credited to the allowance for credit losses.

Consumer Receivables

The majority of credit losses are attributable to Ford Credit's consumer receivables segment. Ford Credit estimates the allowance for credit losses on its consumer receivables segment and on its investments in operating leases using a combination of measurement models and management judgment. The models consider factors such as historical trends in credit losses and recoveries (including key metrics such as delinquencies, repossessions and bankruptcies), the composition of the 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 these models rely on historical information and may not fully reflect losses inherent in the present portfolio. Therefore, Ford Credit may adjust the estimate to reflect management's judgment regarding justifiable changes in recent economic trends and conditions, portfolio composition, and other relevant factors.

Ford Credit makes projections of two key assumptions to assist in estimating the consumer allowance for credit losses:

- Frequency - the number of finance receivables that are expected to default over the loss emergence period, measured as repossessions
- Loss severity - the expected difference between the amount a customer owes when the finance contract is charged off and the amount received, net of expenses from selling the repossessed vehicle, including any recoveries from the customer

Item 1. Financial Statements (Continued)

NOTE 6. ALLOWANCE FOR CREDIT LOSSES (Continued)

The consumer receivables portfolio allowance is evaluated primarily using a collective loss-to-receivables ("LTR") model that, based on historical experience, indicates credit losses have been incurred in the portfolio even though the particular receivables that are uncollectible cannot be specifically identified. The LTR model is based on the most recent years of history. Each LTR is calculated by dividing credit losses by average end-of-period receivables excluding unearned interest supplements and allowance for credit losses. A weighted-average LTR is calculated for each class of consumer receivables and multiplied by the end-of-period receivable balances for that given class.

The loss emergence period ("LEP") is a key assumption within Ford Credit's models and represents the average amount of time between when a loss event first occurs and when it is charged off. This time period starts when the consumer begins to experience financial difficulty. It is evidenced later, typically through delinquency, before eventually resulting in a charge-off. The LEP is a multiplier in the calculation of the collective consumer allowance for credit losses.

For consumer receivables greater than 120 days past due, the uncollectible portion of the receivable is charged-off, such that the remaining recorded investment in the loan is equal to the estimated fair value of the collateral less costs to sell.

After the establishment of this allowance for credit losses, if management believes the allowance does not reflect all losses inherent in the portfolio due to changes in recent economic trends and conditions, or other relevant factors, an adjustment is made based on management judgment.

Non-Consumer Receivables

Ford Credit estimates the allowance for credit losses for non-consumer receivables based on historical LTR ratios, expected future cash flows, and the fair value of collateral.

Collective Allowance for Credit Losses. Ford Credit estimates an allowance for non-consumer receivables that are not specifically identified as impaired using a LTR model for each financing product based on historical experience. This LTR is a weighted average of the most recent historical experience and is calculated consistent with the consumer receivables LTR approach. All accounts that are specifically identified as impaired are excluded from the calculation of the non-specific or collective allowance.

Specific Allowance for Impaired Receivables. The wholesale and dealer loan portfolio is evaluated by grouping individual loans into risk pools determined by the risk characteristics of the loan (such as the amount of the loan, the nature of the collateral, and the financial status of the debtor). The risk pools are analyzed to determine whether individual loans are impaired, and a specific allowance is estimated based on the present value of the expected future cash flows of the receivable discounted at the loan's effective interest rate or the fair value of any collateral adjusted for estimated costs to sell.

After establishment of the collective and the specific allowance for credit losses, if management believes the allowance does not reflect all losses inherent in the portfolio due to changes in recent economic trends and conditions or other relevant factors, an adjustment is made based on management judgment.

Item 1. Financial Statements (Continued)

NOTE 6. ALLOWANCE FOR CREDIT LOSSES (Continued)

Following is an analysis of the allowance for credit losses related to finance receivables and investment in operating leases for the period ended June 30, 2011 (in millions):

	Second Quarter 2011				
	Finance Receivables			Net Investment in Operating Leases	Total Allowance
	Consumer	Non-consumer	Total		
Allowance for credit losses:					
Beginning balance	$628	$50	$678	$75	$753
Charge-offs	(93)	(9)	(102)	(26)	(128)
Recoveries	53	1	54	25	79
Provision for credit losses	(21)	5	(16)	(10)	(26)
Other (a)	3	2	5	—	5
Ending balance	$570	$49	$619	$64	$683

	First Half 2011				
	Finance Receivables			Net Investment in Operating Leases	Total Allowance
	Consumer	Non-consumer	Total		
Allowance for credit losses:					
Beginning balance	$707	$70	$777	$87	$864
Charge-offs	(206)	(7)	(213)	(55)	(268)
Recoveries	110	2	112	50	162
Provision for credit losses	(51)	(18)	(69)	(19)	(88)
Other (a)	10	2	12	1	13
Ending balance	$570	$49	$619	$64	$683
Analysis of ending balance of allowance for credit losses:					
Collective impairment allowance	$570	$39	$609	$64	$673
Specific impairment allowance	—	10	10	—	10
Ending balance	$570	$49	$619	$64	$683
Analysis of ending balance of finance receivables and net investment in operating leases:					
Collectively evaluated for impairment	$49,337	$27,076	$76,413	$10,648	
Specifically evaluated for impairment	—	108	108	—	
Recorded investment (b)	$49,337	$27,184	$76,521	$10,648	
Ending balance, net of allowance for credit losses	$48,767	$27,135	$75,902	$10,584	

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(a) Represents principally amounts related to translation adjustments.

(b)

Finance receivables and net investment in operating leases before allowance for credit losses.

Item 1. Financial Statements (Continued)

NOTE 7. INVENTORIES

All inventories are stated at the lower of cost or market. Cost for a substantial portion of U.S. inventories is determined on a last-in, first-out ("LIFO") basis. LIFO was used for approximately 32% of total inventories at June 30, 2011 and December 31, 2010. Cost of other inventories is determined on a first-in, first-out ("FIFO") basis.

Inventories are summarized as follows (in millions):

	June 30, 2011	December 31, 2010
Raw materials, work-in-process and supplies	$3,156	$2,812
Finished products	4,769	3,970
Total inventories under FIFO	7,925	6,782
Less: LIFO adjustment	(889)	(865)
Total inventories	$7,036	$5,917

NOTE 8. VARIABLE INTEREST ENTITIES

A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary. The primary beneficiary has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE.

If we determine that we have operating power and the obligation to absorb losses or receive benefits, we consolidate the VIE as the primary beneficiary. Within our Automotive sector, we have operating power when our management has the ability to make key operating decisions, such as decisions regarding product investment or manufacturing production schedules. For our Financial Services sector, we have operating power when we have the ability to exercise discretion in the servicing of financial assets, issue additional debt, exercise a unilateral call option, add assets to revolving structures, or control investment decisions.

Assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against our general assets. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs.

Automotive Sector

VIEs of which we are the primary beneficiary:

At December 31, 2010, we had one VIE of which we were the primary beneficiary - Cologne Precision Forge GmbH ("CPF"), formerly Tekfor Cologne GmbH. CPF was a 50/50 joint venture with Neumayer Tekfor GmbH ("Neumayer") to which Ford transferred the operations of its Cologne forge plant in 2003. CPF produces forged components, primarily for transmissions and chassis, for use in Ford vehicles and for sale to third parties. On December 21, 2010, Ford and Neumayer signed an agreement pursuant to which Neumayer would withdraw from the joint venture and sell its shares in the joint venture to Ford. The agreement became effective in March 2011 and CPF is now a wholly-owned subsidiary of Ford.

Item 1. Financial Statements (Continued)

NOTE 8. VARIABLE INTEREST ENTITIES (Continued)

The total consolidated VIE assets and liabilities reflected on our balance sheet are as follows (in millions):

Assets	December 31, 2010
Cash and cash equivalents	$9
Other receivables, net	13
Inventories	19
Net property	31
Other assets	2
Total assets	$74
Liabilities	
Payables	$16
Total liabilities	$16

The financial performance of the consolidated VIEs reflected on our statement of operations at June 30, 2011 and 2010 includes consolidated sales of $10 million and $31 million, respectively, and consolidated cost of sales, selling, administrative, and interest expense of $9 million and $38 million, respectively.

VIEs of which we are not the primary beneficiary:

Getrag Ford Transmissions GmbH ("GFT") is a joint venture that constitutes a significant VIE of which we are not the primary beneficiary, and which was not consolidated as of June 30, 2011 and December 31, 2010. GFT is a 50/50 joint venture with Getrag Deutsche Venture GmbH and Co. KG. Ford and its related parties purchase substantially all of the joint venture's output. We do not, however, have the power to direct economically significant activities of the joint venture.

Zeledyne, LLC ("Zeledyne") is a VIE (that is not a joint venture) of which we are not the primary beneficiary as of June 30, 2011 and December 31, 2010. Zeledyne manufactures and sells glass products for automotive glass markets. Ford provides certain guarantees to Zeledyne. On April 1, 2011, Zeledyne sold a portion of its glass business to Central Glass. As the guarantees are still in place, Zeledyne remains a VIE of which Ford is not the primary beneficiary. The carrying value of our obligation relating to the guarantees to Zeledyne's shareholders was $10 million at June 30, 2011.

Ford Motor Company Capital Trust II ("Trust II") was a VIE of which we were not the primary beneficiary as of December 31, 2010. On March 15, 2011, Ford redeemed the Subordinated Convertible Debentures due to Trust II and, as a result, Trust II was liquidated. For additional discussion of Trust II, see Note 11.

Our maximum exposure to loss from VIEs of which we are not the primary beneficiary at June 30, 2011 and December 31, 2010 is detailed as follows (in millions):

	June 30, 2011	December 31, 2010	Change in Maximum Exposure
Investments	$255	$417	$(162)
Guarantees	10	10	—
Total maximum exposure	$265	$427	$(162)

Financial Services Sector

VIEs of which we are the primary beneficiary:

Our Financial Services sector uses special purpose entities to issue asset-backed securities in transactions to public and private investors, bank conduits, and government-sponsored entities or others who obtain funding from government programs. We have deemed most of these special purpose entities to be VIEs. The asset-backed securities are secured by finance receivables and interests in net investments in operating leases. The assets continue to be consolidated by our Financial Services sector. We retain interests in the securitization VIEs, including senior and subordinated securities issued by VIEs and rights to cash held for the benefit of the securitization investors.

Item 1. Financial Statements (Continued)

NOTE 8. VARIABLE INTEREST ENTITIES (Continued)

The transactions create and pass along risks to the variable interest holders, depending on the assets securing the debt and the specific terms of the transactions. Our Financial Services sector aggregates and analyzes its transactions based on the risk profile of the product and the type of funding structure, including:

- Retail transactions - consumer credit risk and prepayment risk
- Wholesale transactions - dealer credit risk
- Net investments in operating lease transactions - vehicle residual value risk, consumer credit risk, and prepayment risk

As residual interest holder, we are exposed to underlying residual and credit risk of the collateral, and exposed to interest rate risk in certain transactions. The amount of risk absorbed by our residual interests generally is represented by and limited to the amount of overcollaterization of the assets securing the debt and any cash reserves.

We have no obligation to repurchase or replace any securitized asset that subsequently becomes delinquent in payment or otherwise is in default, except under standard representations or warranties such as good and marketable title to the assets, or when certain changes are made to the underlying asset contracts. Securitization investors have no recourse to our Financial Services sector or its other assets for credit losses on the securitized assets, and have no right to require us to repurchase the investments. We generally have no obligation to provide liquidity or contribute cash or additional assets to the VIEs and do not guarantee any asset-backed securities, although Ford Credit is the co-obligor of the debt of a consolidated VIE up to $250 million for two of our securitization transactions. Ford Credit may be required to support the performance of certain securitization transactions, however, by increasing cash reserves.

Although not contractually required, Ford Credit regularly supports its wholesale securitization programs by repurchasing receivables of a dealer from the VIEs when the dealer's performance is at risk, which transfers the corresponding risk of loss from the VIE to Ford Credit. In order to continue to fund the wholesale receivables, Ford Credit also may contribute additional cash or wholesale receivables if the collateral falls below the required level. The balances of cash related to these contributions were de minimis and $0 at June 30, 2011 and December 31, 2010, respectively, and ranged from $0 to $490 million during the first half of 2011. In addition, while not contractually required, Ford Credit may purchase the commercial paper issued by Ford Credit's asset-backed commercial paper program ("FCAR").

VIEs that are exposed to interest rate or currency risk have reduced their risks by entering into derivative transactions. In certain instances, Ford Credit has entered into offsetting derivative transactions with the VIE to protect the VIE from the risks that are not mitigated through the derivative transactions between the VIE and its external counterparty. In other instances, Ford Credit has entered into derivative transactions with the counterparty to protect the counterparty from risks absorbed through derivative transactions with the VIEs. See Note 16 for additional information regarding derivatives.

Item 1. Financial Statements (Continued)

NOTE 8. VARIABLE INTEREST ENTITIES (Continued)

The following table includes assets to be used to settle the liabilities of the consolidated VIEs. We may retain debt issued by consolidated VIEs and this debt is excluded from the table below. We hold the right to the excess cash flows from the assets that are not needed to pay liabilities of the consolidated VIEs. The assets and debt reflected on our consolidated balance sheet are as follows (in billions):

	June 30, 2011		
	Cash and Cash Equivalents	Finance Receivables, Net and Net Investment in Operating Leases	Debt
Finance receivables			
Retail	$3.1	$35.5	$29.1
Wholesale	0.4	17.6	9.0
Total finance receivables	3.5	53.1	38.1
Net investment in operating leases	0.4	3.7	1.9
Total *	$3.9	$56.8	$40.0

* Certain notes issued by the VIEs to affiliated companies served as collateral for accessing the European Central Bank ("ECB") open market operations program. This external funding of $347 million at June 30, 2011 was not reflected as debt of the VIEs and is excluded from the table above, but was included in our consolidated debt. The finance receivables backing this external funding are included in the table above.

	December 31, 2010		
	Cash and Cash Equivalents	Finance Receivables, Net and Net Investment in Operating Leases	Debt
Finance receivables			
Retail	$2.9	$33.9	$27.1
Wholesale	0.4	16.6	10.1
Total finance receivables	3.3	50.5	37.2
Net investment in operating leases	0.8	6.1	3.0
Total *	$4.1	$56.6	$40.2

* Certain notes issued by the VIEs to affiliated companies served as collateral for accessing the ECB open market operations program. This external funding of $334 million at December 31, 2010 was not reflected as debt of the VIEs and is excluded from the table above, but was included in our consolidated debt. The finance receivables backing this external funding are included in the table above.

Ford Credit's exposure based on the fair value of derivative instruments related to consolidated VIEs that support its securitization transactions is as follows (in millions):

	June 30, 2011		December 31, 2010	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
VIE – Securitization entities	$93	$103	$26	$222
Ford Credit related to VIE	54	51	134	37

Total including Ford Credit related to VIE *	$147	$154	$160	$259

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* Ford Credit derivative assets and liabilities are included in Other assets and accrued liabilities and Deferred revenue, respectively, on our consolidated balance sheet.

Item 1. Financial Statements (Continued)

NOTE 8. VARIABLE INTEREST ENTITIES (Continued)

The financial performance of the consolidated VIEs that support Ford Credit's securitization transactions reflected in our statement of operations is as follows (in millions):

	Second Quarter 2011		Second Quarter 2010	
	Derivative Expense	Interest Expense	Derivative Expense	Interest Expense
VIEs financial performance	$88	$261	$2	$342

	First Half 2011		First Half 2010	
	Derivative Expense	Interest Expense	Derivative Expense	Interest Expense
VIEs financial performance	$33	$515	$147	$674

VIEs of which we are not the primary beneficiary:

Ford Credit has an investment in Forso Nordic AB, a joint venture determined to be a VIE of which Ford Credit is not the primary beneficiary. The joint venture provides consumer and dealer financing in its local markets and is financed by external debt and additional subordinated interest provided by the joint venture partner. The operating agreement indicates that the power to direct economically significant activities is shared between Ford Credit and its joint venture partner, and the obligation to absorb losses or right to receive benefits resides primarily with the joint venture partner. Ford Credit's investment in the joint venture is accounted for as an equity method investment and is included in Equity in net assets of affiliated companies. Ford Credit's maximum exposure to any potential losses associated with this VIE is limited to its equity investment, and amounted to $81 million and $71 million at June 30, 2011 and December 31, 2010, respectively.

NOTE 9. NET INTANGIBLE ASSETS

Our intangible assets are comprised primarily of license and advertising agreements, land rights, patents, customer contracts, and technology, and each is amortized over its determinable life.

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

	June 30, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Automotive Sector						
License and advertising agreements	118	(43)	75	111	(39)	72
Land rights	23	(7)	16	23	(7)	16
Patents	25	(17)	8	25	(16)	9
Other	29	(25)	4	28	(23)	5
Total Automotive sector	$195	$(92)	$103	$187	$(85)	$102

Our license and advertising agreements have amortization periods primarily of 5 years to 25 years, our land rights have amortization periods of 40 years to 50 years, our patents have amortization periods primarily of 7 years to 17 years, and our other intangibles (primarily customer contracts and technology) have various amortization periods.

Pre-tax amortization expense for the periods ending June 30 was as follows (in millions):

	Second Quarter		First Half	
	2011	2010	2011	2010
Pre-tax amortization expense	$3	$30	$6	$53

Amortization for current intangible assets is forecasted to be approximately $12 million in 2011 and each year thereafter.

Item 1. Financial Statements (Continued)

NOTE 10. RETIREMENT BENEFITS

We provide pension benefits and other postretirement employee benefits ("OPEB"), such as health care and life insurance, to employees in many of our operations around the world.

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

	Second Quarter					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		OPEB	
	2011	2010	2011	2010	2011	2010
Service cost	$117	$94	$84	$82	$16	$14
Interest cost	594	631	314	314	83	85
Expected return on assets	(757)	(791)	(358)	(336)	—	—
Amortization of:						
Prior service costs/(credits)	85	93	18	18	(151)	(156)
(Gains)/Losses and Other	46	2	86	62	28	25
Separation programs	2	—	39	6	1	—
(Gains)/Losses from curtailments and settlements	—	—	104	—	—	—
Net expense/(income)	$87	$29	$287	$146	$(23)	$(32)

	First Half					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		OPEB	
	2011	2010	2011	2010	2011	2010
Service cost	$234	$188	$164	$167	$31	$28
Interest cost	1,188	1,262	617	639	165	169
Expected return on assets	(1,514)	(1,582)	(706)	(683)	—	—
Amortization of:						
Prior service costs/(credits)	171	186	36	37	(303)	(310)
(Gains)/Losses and Other	92	4	169	127	57	49
Separation programs	3	3	44	10	1	—
(Gains)/Losses from curtailments and settlements	—	—	104	—	—	—
Net expense/(income)	$174	$61	$428	$297	$(49)	$(64)

In the second quarter of 2011, we recorded a $104 million settlement loss in Automotive cost of sales associated with the partial settlement of a Belgium pension plan.

Plan Contributions

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

Pension. In the first half of 2011, we contributed about $800 million to our worldwide funded pension plans, and made about $200 million of benefit payments directly by the Company for unfunded plans. We expect to contribute from Automotive cash and cash equivalents an additional $400 million to our funded plans in 2011, and to make $200 million of benefit payments directly by the Company for unfunded plans, for a total of $1.6 billion this year. Based on current assumptions and regulations, we do not expect to have a legal requirement to fund our major U.S. pension plans in 2011.

Item 1. Financial Statements (Continued)

NOTE 11. DEBT AND COMMITMENTS

Debt outstanding is shown below (in millions):

Automotive Sector	June 30, 2011	December 31, 2010
Debt payable within one year		
Short-term with non-affiliates	$388	$478
Short-term with unconsolidated affiliates	260	382
Long-term payable within one year		
Secured term loan	77	140
Secured revolving loan	—	838
Other debt	330	211
Total debt payable within one year	1,055	2,049
Long-term debt payable after one year		
Public unsecured debt securities	5,260	5,260
Unamortized discount	(79)	(81)
Convertible notes	908	908
Unamortized discount	(186)	(199)
Subordinated convertible debentures	—	2,985
Secured term loan	1,703	3,946
U.S. Department of Energy ("DOE") loans	3,825	2,752
EIB loan	721	699
Other debt	795	758
Total long-term debt payable after one year	12,947	17,028
Total Automotive sector	$14,002	$19,077
Fair value of debt	$13,924	$19,260
Financial Services Sector		
Short-term debt		
Asset-backed commercial paper	$6,619	$6,634
Other asset-backed short-term debt	1,274	1,447
Ford Interest Advantage (a)	5,067	4,525
Other short-term debt	1,458	801
Total short-term debt	14,418	13,407
Long-term debt		
Unsecured debt		
Notes payable within one year	9,383	9,524
Notes payable after one year	24,817	26,390
Asset-backed debt		
Notes payable within one year	14,197	16,684
Notes payable after one year	21,833	19,208
Unamortized discount	(246)	(403)
Fair value adjustment (b)	347	302
Total long-term debt	70,331	71,705
Total Financial Services sector	$84,749	$85,112
Fair value of debt	$87,709	$88,569
Total Automotive and Financial Services sectors	$98,751	$104,189
Intersector elimination	(201)	(201)
Total Company	$98,550	$103,988

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(a) The Ford Interest Advantage program consists of Ford Credit's floating rate demand notes.
(b) Adjustments related to designated fair value hedges of unsecured debt.

The fair value of debt presented above reflects interest accrued but not yet paid. Interest accrued on Automotive debt is reported in Automotive accrued liabilities and deferred revenue and was $225 million and $275 million at June 30, 2011 and December 31, 2010, respectively. Interest accrued on Financial Services debt is reported in Financial Services other liabilities and deferred income and was $804 million and about $1 billion at June 30, 2011 and December 31, 2010, respectively.

Item 1. Financial Statements (Continued)

NOTE 11. DEBT AND COMMITMENTS (Continued)

Maturities

Debt maturities at June 30, 2011 were as follows (in millions):

	2011	2012	2013	2014	2015	Thereafter	Total Debt Maturities
Automotive Sector							
Public unsecured debt securities	$—	$—	$—	$—	$—	$5,260	$5,260
Unamortized discount (a)	—	—	—	—	—	(79)	(79)
Convertible notes	—	—	—	—	—	908	908
Unamortized discount (a)	—	—	—	—	—	(186)	(186)
Secured term loan	39	77	1,664	—	—	—	1,780
Secured revolving loan	—	—	—	—	—	—	—
U.S. DOE loans	—	192	383	383	383	2,484	3,825
Short-term and other debt (b)	749	298	333	55	781	278	2,494
Total Automotive debt	788	567	2,380	438	1,164	8,665	14,002
Financial Services Sector							
Unsecured debt	10,192	7,887	5,317	3,760	5,982	7,587	40,725
Asset-backed debt	15,843	14,055	6,029	3,493	1,985	2,518	43,923
Unamortized (discount)/premium (a)	7	(55)	(26)	(124)	(9)	(39)	(246)
Fair value adjustments (a) (c)	13	54	78	49	80	73	347
Total Financial Services debt	26,055	21,941	11,398	7,178	8,038	10,139	84,749
Intersector elimination	—	(201)	—	—	—	—	(201)
Total Company	$26,843	$22,307	$13,778	$7,616	$9,202	$18,804	$98,550

(a) Unamortized discount and fair value adjustments are presented based on contractual payment date of related debt.
(b) Primarily non-U.S. affiliate debt and includes the EIB secured loan.
(c) Adjustments related to designated fair value hedges of unsecured debt.

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Item 1. Financial Statements (Continued)

NOTE 11. DEBT AND COMMITMENTS (Continued)

Automotive Sector

Public Unsecured Debt Securities

Our public unsecured debt securities outstanding were as follows (in millions):

	Aggregate Principal Amount Outstanding	
Title of Security	June 30, 2011	December 31, 2010
6 1/2% Debentures due August 1, 2018	$361	$361
8 7/8% Debentures due January 15, 2022	86	86
6.55% Debentures due October 3, 2022 (a)	15	15
7 1/8% Debentures due November 15, 2025	209	209
7 1/2% Debentures due August 1, 2026	193	193
6 5/8% Debentures due February 15, 2028	104	104
6 5/8% Debentures due October 1, 2028 (b)	638	638
6 3/8% Debentures due February 1, 2029 (b)	260	260
5.95% Debentures due September 3, 2029 (a)	8	8
6.15% Debentures due June 3, 2030 (a)	10	10
7.45% GLOBLS due July 16, 2031 (b)	1,794	1,794
8.900% Debentures due January 15, 2032	151	151
9.95% Debentures due February 15, 2032	4	4
5.75% Debentures due April 2, 2035 (a)	40	40
7.50% Debentures due June 10, 2043 (c)	593	593
7.75% Debentures due June 15, 2043	73	73
7.40% Debentures due November 1, 2046	398	398
9.980% Debentures due February 15, 2047	181	181
7.70% Debentures due May 15, 2097	142	142
Total public unsecured debt securities (d)	$5,260	$5,260

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(a) Unregistered industrial revenue bonds.
(b) Listed on the Luxembourg Exchange and on the Singapore Exchange.
(c) Listed on the New York Stock Exchange.
(d) Excludes 9 1/2% Debentures due September 15, 2011 and 9.215% Debentures due September 15, 2021 with outstanding balances at
June 30, 2011 of $165 million and $180 million, respectively. The proceeds from these securities were on-lent by Ford to Ford Holdings to fund Financial Services activity and are reported as Financial Services debt.

Convertible Notes

At June 30, 2011, we had outstanding $883 million and $25 million principal of 4.25% Senior Convertible Notes due December 15, 2016 ("2016 Convertible Notes") and December 15, 2036 ("2036 Convertible Notes"), respectively. The 2016 Convertible Notes are convertible into shares of Ford Common Stock, based on a conversion rate (subject to adjustment) of 107.5269 shares per $1,000 principal amount of 2016 Convertible Notes (which is equal to a conversion price of $9.30 per share, representing a 25% conversion premium based on the closing price of $7.44 per share on November 3, 2009). The 2036 Convertible Notes are convertible into shares of Ford Common Stock, based on a conversion rate (subject to adjustment) of 108.6957 shares per $1,000 principal amount of 2036 Convertible

Notes (which is equal to a conversion price of $9.20 per share, representing a 25% conversion premium based on the closing price of $7.36 per share on December 6, 2006).

Upon conversion, we have the right to deliver, in lieu of shares of Ford Common Stock, either cash or a combination of cash and Ford Common Stock. Holders may require us to purchase all or a portion of the Convertible Notes upon a change in control of the Company, or for shares of Ford Common Stock upon a designated event that is not a change in control, in each case for a price equal to 100% of the principal amount of the Convertible Notes being repurchased plus any accrued and unpaid interest to, but not including, the date of repurchase. Additionally, holders of the 2036 Convertible Notes may require us to purchase all or a portion for cash on December 20, 2016 and December 15, 2026.

Item 1. Financial Statements (Continued)

NOTE 11. DEBT AND COMMITMENTS (Continued)

We may terminate the conversion rights related to the 2016 Convertible Notes at any time on or after November 20, 2014 if the closing price of Ford Common Stock exceeds 130% of the then-applicable conversion price for 20 trading days during any consecutive 30-trading day period. Also, we may redeem for cash all or a portion of the 2036 Convertible Notes at our option at any time or from time to time on or after December 20, 2016 at a price equal to 100% of the principal amount of the 2036 Convertible Notes to be redeemed, plus accrued and unpaid interest to, but not including, the redemption date. We may terminate the conversion rights related to the 2036 Convertible Notes at any time on or after December 20, 2013 if the closing price of Ford Common Stock exceeds 140% of the then-applicable conversion price for 20 trading days during any consecutive 30-trading day period.

Liability, equity, and if-converted components of our Convertible Notes are summarized as follows (in millions):

			Total Effective Interest Rate	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Liability component				
4.25% Debentures due December 15, 2016	$768	$768	9.2%	9.2%
4.25% Debentures due December 15, 2016 (underwriter option)	115	115	8.6%	8.6%
Subtotal Convertible Debt due December 15, 2016	$883	$883		
4.25% Debentures due December 20, 2036	25	25	10.5%	10.5%
Unamortized discount	(186)	(199)		
Net carrying amount	$722	$709		
Equity component of outstanding debt (a)	$(225)	$(225)		
Share value in excess of principal value, if converted (b)	$438	$732		

(a) Recorded in Capital in excess of par value of stock.
(b) Based on share price of $13.79 and $16.79 as of June 30, 2011 and December 31, 2010, respectively.

We recognized interest cost on our Convertible Notes as follows (in millions):

	Second Quarter		First Half	
	2011	2010	2011	2010
Contractual interest coupon	$10	$37	$19	$73
Amortization of discount	7	23	13	45
Total interest cost on Convertible Notes	$17	$60	$32	$118

Subordinated Convertible Debentures

At December 31, 2010, we had outstanding $3 billion of 6.50% Junior Subordinated Convertible Debentures due 2032 ("Subordinated Convertible Debentures"), reported in Automotive long-term debt. The $3 billion of Subordinated Convertible Debentures were due to Trust II, an unconsolidated entity, and were the sole assets of Trust II (for additional discussion of Trust II, see Note 8). As of January 15, 2007, the Subordinated Convertible Debentures were redeemable at our option.

At December 31, 2010, Trust II had outstanding 6.50% Cumulative Convertible Trust Preferred Securities with an aggregate liquidation preference of $2.8 billion ("Trust Preferred Securities"). The Trust Preferred Securities were convertible into shares of Ford Common Stock, based on a conversion rate (subject to adjustment) of 2.8769 shares per $50 liquidation preference amount of Trust Preferred Securities (which is equal to a conversion price of $17.38 per share). We guaranteed the payment of all distribution and other payments of the Trust Preferred Securities to the extent not paid by Trust II, but only if and to the extent we had made a payment of interest or principal on the Subordinated Convertible Debentures.

On March 15, 2011, pursuant to the redemption notice provided to the property trustee of Trust II, we redeemed in whole the Subordinated Convertible Debentures due to Trust II at a price of $100.66 per $100 principal amount of such debentures, plus accrued and unpaid interest of $1.08 per debenture. The proceeds from the redemption of the Subordinated Convertible Debentures were used by Trust II to redeem in whole the Trust Preferred Securities at a price of $50.33 per $50 liquidation preference of such securities, plus accrued and unpaid distributions of $0.54 per security. Redemption of these securities resulted in a reduction of about $3 billion in Automotive debt and lower annualized interest costs of about $190 million. It also resulted in a 2011 first quarter pre-tax charge of $60 million in Automotive interest income and other non-operating income/(expense), net.

Item 1. Financial Statements (Continued)

NOTE 11. DEBT AND COMMITMENTS (Continued)

Secured Term Loan and Revolving Loan

At June 30, 2011, we had outstanding $1.8 billion of term loans under our Secured Credit Agreement maturing on December 15, 2013. The aggregate principal amount of the term loans amortize at a rate of $77 million (1% of original loan) per annum and bears interest at LIBOR plus a margin of 2.75%.

2011 Secured Term Loan Actions. In the second quarter of 2011, we made optional prepayments of $2.2 billion to the term loan lenders. In addition, we also made a required payment of $67 million to the term lenders as a result of the completion of the true-up of the purchase price adjustments related to the sale of Volvo.

2011 Secured Revolver Actions. On May 17, 2011, we made an optional prepayment of $838 million on revolving loans under our Secured Credit Agreement that were scheduled to mature on December 15, 2011. Such amounts will remain available for borrowing through December 15, 2011 as the commitments of the revolving lenders were not reduced.

Commitments under the revolving credit facility of our secured Credit Agreement totaled $9.8 billion, with $886 million maturing on December 15, 2011 and $8.9 billion maturing on November 30, 2013. Pursuant to our Credit Agreement, at June 30, 2011, we had $9.4 billion available to be drawn under the revolving facility and had outstanding $330 million of letters of credit under the revolving facility.

Notes Due to UAW VEBA Trust

On December 31, 2009, as part of the settlement of our UAW postretirement health care obligation (as described in our 2009 Form 10-K Report) we issued two non-interest bearing notes, $6.7 billion Amortizing Guaranteed Secured Note maturing June 30, 2022 ("Note A") and $6.5 billion Amortizing Guaranteed Secured Note maturing June 30, 2022 ("Note B"), to the UAW VEBA Trust.

2010 Actions on Note A and Note B. On June 30, 2010 we made the scheduled payment due on Note A and Note B to the UAW VEBA Trust of $249 million and $610 million in cash, respectively. In addition, Ford and Ford Credit together purchased from the UAW VEBA Trust the remaining outstanding principal amount of Note A for cash of $2.9 billion, of which $1.6 billion was paid by us and $1.3 billion was paid by Ford Credit. Upon settlement, Ford Credit immediately transferred the portion of Note A it purchased to us in satisfaction of $1.3 billion of Ford Credit's tax liabilities to us. The purchase price for Note A was based on the contractual pre-payment amount less an agreed-upon discount of 2%. Immediately prior to our payments on Note A, the carrying value of the note was $3.2 billion. As a result of the purchase of Note A at a discount, we recorded a pre-tax gain of $40 million in the second quarter of 2010 in Automotive interest income and other non-operating income/(expense), net. In relation to the combined $859 million scheduled principal payments made under Note A and Note B on June 30, 2010, $333 million of discount was amortized and reported in Interest expense in the first half of 2010.

On October 29, 2010, we pre-paid the remaining outstanding principal amount of Note B, which fully satisfied our obligations to the UAW VEBA Trust.

DOE Advanced Technology Vehicles Manufacturing ("ATVM") Program

Pursuant to the Loan Arrangement and Reimbursement Agreement (the "Arrangement Agreement") with the DOE entered into on September 16, 2009, we had outstanding $3.8 billion in loans as of June 30, 2011. Under the terms of the Arrangement Agreement, 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 the Federal Financing Bank ("FFB") to enter into the Note Purchase Agreement (the "Note Purchase Agreement") for the purchase of notes to be issued by us evidencing such loans under the Arrangement Agreement. Loans under the ATVM are made by and through the FFB, an instrumentality of the U.S. government that is under the general supervision of the U.S. Secretary of the Treasury.

Item 1. Financial Statements (Continued)

NOTE 11. DEBT AND COMMITMENTS (Continued)

The proceeds of advances under the Facility will be used to finance certain costs eligible for financing under the ATVM Program ("Eligible Project Costs") that are incurred through the end of 2012 in the implementation of 12 advanced technology vehicle programs approved for funding by the DOE (each, a "Project"). The Arrangement Agreement limits the amount of advances that may be used to fund Eligible Project Costs for each Project, and our ability to finance Eligible Project Costs with respect to a Project is conditioned on us meeting agreed timing milestones and fuel economy targets for that Project. Each advance bears 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.

EIB Credit Facility

On July 12, 2010, Ford Motor Company Limited, our operating subsidiary in the United Kingdom ("Ford of Britain"), entered into a credit facility for an aggregate amount of £450 million with the EIB. Proceeds of loans drawn under the facility are being used for research and development of fuel-efficient engines and commercial vehicles with lower emissions, and related upgrades to an engine manufacturing plant. The facility was fully drawn in the third quarter of 2010, and Ford of Britain had outstanding $721 million of loans at June 30, 2011. The loans are five-year, non-amortizing loans secured by a guarantee from the U.K. government for 80% of the outstanding principal amount and cash collateral from Ford of Britain equal to 20% of the outstanding principal amount, and bear interest at a fixed rate of approximately 3.6% per annum (excluding a commitment fee of 0.30% to the U.K. government). Ford of Britain has pledged substantially all of its fixed assets, receivables and inventory to the U.K. government as collateral, and we have guaranteed Ford of Britain's obligations to the U.K. government related to the government's guarantee.

Financial Services Sector

Debt Repurchases and Calls

From time to time and based on market conditions, our Financial Services sector may repurchase or call some of its outstanding debt. If our Financial Services sector has excess liquidity, and it is an economically favorable use of its available cash, it may repurchase or call debt at a price lower or higher than its carrying value, resulting in a gain or loss on extinguishment.

In the second quarter and first half of 2011, through private market transactions, our Financial Services sector repurchased and called an aggregate principal amount of $820 million (including $152 million maturing in 2011) and $1.5 billion, respectively, of its unsecured debt. There were no repurchase or call transactions for asset-backed debt during 2011. As a result, our Financial Services sector recorded a pre-tax loss of $28 million and a pre-tax loss of $36 million, net of unamortized premiums, discounts and fees in Financial Services other income/(loss), net in the second quarter and first half of 2011, respectively.

In the second quarter and first half of 2010, through private market transactions, our Financial Services sector repurchased and called an aggregate principal amount of $2.0 billion and $2.4 billion, respectively, of its unsecured debt and asset-backed debt. As a result, our Financial Services sector recorded a pre-tax loss of $53 million and a pre-tax loss of $60 million, net of unamortized premiums, discounts and fees in Financial Services other income/(loss), net, in the second quarter and first half of 2010, respectively.

Asset-Backed Debt

Ford Credit engages in securitization transactions to fund operations and to maintain liquidity. Ford Credit's securitization transactions are recorded as asset-backed debt and the associated assets are not derecognized and continue to be included in our financial statements.

The finance receivables and net investment in operating leases that have been included in securitization transactions are only available 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 does, however, hold the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of the securitization transactions. The debt is the obligation of our consolidated securitization entities and not Ford Credit's legal obligation or the legal obligation of its other subsidiaries.

Item 1. Financial Statements (Continued)

NOTE 11. DEBT AND COMMITMENTS (Continued)

The following table shows the assets and liabilities related to our Financial Services sector's asset-backed debt arrangements that are included in our financial statements (in billions):

	June 30, 2011		
	Cash and Cash Equivalents	Finance Receivables, Net and Net Investment in Operating Leases	Related Debt
VIEs (a)			
Finance receivables	$3.5	$53.1	$38.1
Net investment in operating leases	0.4	3.7	1.9
Total	$3.9	$56.8	$40.0
Non-VIE			
Finance receivables (b)	$0.1	$4.4	$3.9
Total securitization transactions			
Finance receivables	$3.6	$57.5	$42.0
Net investment in operating leases	0.4	3.7	1.9
Total	$4.0	$61.2	$43.9

	December 31, 2010		
	Cash and Cash Equivalents	Finance Receivables, Net and Net Investment in Operating Leases	Related Debt
VIEs (a)			
Finance receivables	$3.3	$50.5	$37.2
Net investment in operating leases	0.8	6.1	3.0
Total	$4.1	$56.6	$40.2
Non-VIE			
Finance receivables (b)	$0.2	$4.1	$3.7
Total securitization transactions			
Finance receivables	$3.5	$54.6	$40.9
Net investment in operating leases	0.8	6.1	3.0
Total	$4.3	$60.7	$43.9

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(a) Includes assets to be used to settle liabilities of the consolidated VIEs. See Note 8 for additional information on Financial Services sector VIEs.

(b) Certain debt issued by the VIEs to affiliated companies served as collateral for accessing the ECB open market operations program. This external funding of $347 million and $334 million at June 30, 2011 and December 31, 2010, respectively was not reflected as a liability of the VIEs and is reflected as a non-VIE liability above. The finance receivables backing this external funding are reflected in VIE finance receivables.

Financial Services sector asset-backed debt also included $81 million and $87 million at June 30, 2011 and December 31, 2010, respectively, that is secured by property.

Automotive Acquisition of Financial Services Debt. During 2008 and 2009 we issued 159,913,115 shares of Ford Common Stock through an equity distribution agreement and used the proceeds of $1 billion to purchase $1,048 million of Ford Credit debt and related interest of $20 million. During the second quarter of 2010, we utilized cash of $192 million to purchase $200 million of Ford Credit debt and related interest of about $1 million. We recognized a gain on extinguishment of debt of $9 million on the transaction, in Automotive interest income and other non-operating income/(expense), net. As of June 30, 2011, approximately $780 million of the debt purchased has matured, and $267 million was repurchased from us by Ford Credit.

On our consolidated balance sheet, we net the remaining debt purchased by Ford with the outstanding debt of Ford Credit, reducing our consolidated marketable securities and debt balances by $201 million at June 30, 2011 and December 31, 2010, respectively. On our sector balance sheet, the debt is reported separately as Automotive marketable securities and Financial Services debt as it has not been retired or cancelled by Ford Credit.

Item 1. Financial Statements (Continued)

NOTE 12. OTHER INCOME/(LOSS)

Automotive Sector

The following table summarizes amounts included in Automotive interest income and other non-operating income/(expense), net for the periods ending June 30 (in millions):

	Second Quarter		First Half	
	2011	2010	2011	2010
Interest income	$105	$60	$190	$107
Realized and unrealized gains/(losses) on cash equivalents and marketable securities	50	(86)	6	33
Gains/(Losses) on the sale of held-for-sale operations, equity and cost investments, and other dispositions	8	14	33	18
Gains/(Losses) on extinguishment of debt *	—	49	(60)	49
Other	36	22	70	41
Total	$199	$59	$239	$248

* See Note 11 for descriptions of the debt transactions.

Financial Services Sector

The following table summarizes the amounts included in Financial Services other income/(loss), net for the periods ending June 30 (in millions):

	Second Quarter		First Half	
	2011	2010	2011	2010
Interest income (investment-related)	$13	$22	$37	$38
Realized and unrealized gains/(losses) on cash equivalents and marketable securities	21	19	25	21
Gains/(Losses) on the sale of held-for-sale operations, equity and cost investments, and other dispositions	—	1	—	2
Gains/(Losses) on extinguishment of debt *	(28)	(53)	(36)	(60)
Investment and other income related to sales of receivables	—	1	—	1
Insurance premiums earned, net	23	24	46	50
Other	24	53	66	141
Total	$53	$67	$138	$193

* See Note 11 for description of the debt transactions.

NOTE 13. INCOME TAXES

Generally, for interim tax reporting we estimate one single tax rate for tax jurisdictions not subject to a valuation allowance, which is applied to the year-to-date ordinary income/(loss). We manage our operations by multi-jurisdictional business units, however, and thus are unable to reasonably compute one overall effective tax rate. Accordingly, our worldwide tax provision is calculated pursuant to GAAP, which provides that tax (or benefit) in each foreign jurisdiction not subject to valuation allowance be separately computed as ordinary income/(loss) occurs within the jurisdiction.

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Item 1. Financial Statements (Continued)

NOTE 14. HELD-FOR-SALE OPERATIONS, DISPOSITIONS AND ACQUISITIONS

Automotive Sector

Held-for-Sale Operations

Russia. During the second quarter of 2011, we signed an agreement with Sollers OJSC establishing a new 50-50 joint venture in Russia. We will contribute our operations in Russia consisting primarily of a manufacturing plant in Vsevolozhsk, near St. Petersburg, and access to our Russian dealership network. Sollers will contribute two production facilities and will support the joint venture through its manufacturing capabilities, knowledge of the Russian market, experience in distribution and work with the Russian supply base. The joint venture will be named Ford Sollers and will be primarily engaged in manufacturing a range of Ford passenger cars and light commercial vehicles. The joint application by Ford and Sollers to the Russian government for participation in the new industrial assembly regime, which will reduce import duties for parts imported into Russia, was approved by the Ministry of Economic Development and Trade on
June 1, 2011. The transaction is expected to finalize and operations are anticipated to commence during the fourth quarter of 2011.

Upon closing of the transaction, we plan to deconsolidate our operations in Russia and account for Ford Sollers as an equity method investee.

At June 30, 2011, we classified the assets and liabilities of our operations in Russia as held for sale on our balance sheet and suspended depreciation and amortization on those assets. The assets and liabilities of our operations in Russia that are classified as held for sale are summarized as follows (in millions):

	June 30, 2011
Assets	
Cash and cash equivalents	$9
Receivables	48
Inventories	106
Net property	240
Other assets	16
Total assets of held-for-sale operations	$419
Liabilities	
Trade payables	$98
Other payables	6
Accrued liabilities	25
Total liabilities of held-for-sale operations	$129

Dispositions

ACH. On June 1, 2011, ACH completed the legal sale of its blow-molded fuel tank business presently located at its Milan plant to Inergy Automotive Systems. As a result of the terms of the arrangement, the value of the property remains on our balance sheet and is being amortized over the term of the new supply agreement.

Volvo. On August 2, 2010, we completed the sale of Volvo and related assets. As agreed, Volvo will retain or acquire certain assets presently used by Volvo, consisting principally of ownership of, or licenses to use, certain intellectual property. During the first quarter of 2011, the final true-up of the purchase price was adjusted upward by $9 million, lowering our pre-tax loss on the sale to $14 million. This favorable adjustment increased our previously-recorded receivable of $126 million to $135 million, which was received in April 2011.

Acquisitions

CPF. On March 15, 2011, we acquired the remaining interest in CPF, formerly Tekfor Cologne GmbH. CPF was a 50/50 joint venture with Neumayer Tekfor GmbH, which was previously consolidated as a variable interest entity. For additional discussion on the CPF acquisition, see Note 8.

Item 1. Financial Statements (Continued)

NOTE 15. AMOUNTS PER SHARE ATTRIBUTABLE TO FORD MOTOR COMPANY COMMON AND CLASS B STOCK

We present both basic and diluted earnings per share ("EPS") amounts in our financial reporting. EPS is computed independently each quarter for income from continuing operations, income/(loss) from discontinued operations, and net income; as a result, the sum of per-share amounts from continuing operations and discontinued operations may not equal the total per-share amount for net earnings. Basic EPS excludes dilution and is computed by dividing income available to Common and Class B Stock holders by the weighted-average number of Common and Class B Stock and equivalents outstanding for the period. Diluted EPS, on the other hand, reflects the maximum potential dilution that could occur if all securities and other share-based contracts, including stock options, warrants, and rights under our convertible notes were exercised. Potential dilutive shares are excluded from the calculation if they have an anti-dilutive effect in the period.

Warrants

In conjunction with the transfer of assets to the UAW VEBA Trust on December 31, 2009, we issued warrants to purchase 362,391,305 shares of Ford Common Stock at an exercise price of $9.20 per share. On April 6, 2010, the UAW VEBA Trust sold all such warrants to parties unrelated to us. In connection with the sale, the terms of the warrants were modified to provide for, among other things, net share settlement as the only permitted settlement method thereby eliminating full physical settlement as an option, and elimination of certain of the transfer restrictions applicable to the underlying stock. We received no proceeds from the offering. All warrants are fully exercisable and expire January 1, 2013. The net dilutive effect for warrants, shown below, includes approximately 134 million and 145 million dilutive shares for second quarter 2011 and first half 2011, respectively, representing the net share settlement methodology for the 362 million warrants outstanding as of June 30, 2011.

Amounts Per Share Attributable to Ford Motor Company Common and Class B Stock

Basic and diluted income/(loss) per share were calculated using the following (in millions):

	Second Quarter		First Half	
	2011	2010	2011	2010
Basic and Diluted Income/(Loss) Attributable to Ford Motor Company				
Basic income/(loss) from continuing operations	$2,398	$2,599	$4,949	$4,684
Effect of dilutive 2016 Convertible Notes (a)	14	47	28	93
Effect of dilutive 2036 Convertible Notes (a)	—	10	1	20
Effect of dilutive UAW VEBA Note B (a) (b)	—	91	—	182
Effect of dilutive Trust Preferred Securities (a) (c)	—	46	36	91
Diluted income/(loss) from continuing operations	$2,412	$2,793	$5,014	$5,070
Basic and Diluted Shares				
Average shares outstanding	3,799	3,412	3,785	3,389
Restricted and uncommitted-ESOP shares	—	(1)	—	(1)
Basic shares	3,799	3,411	3,785	3,388
Net dilutive options, warrants, and restricted and uncommitted-ESOP shares	205	198	234	202
Dilutive 2016 Convertible Notes	95	309	95	309
Dilutive 2036 Convertible Notes	3	63	3	63
Dilutive UAW VEBA Note B (b)	—	466	—	465
Dilutive Trust Preferred Securities (c)	—	163	66	163

Diluted shares	4,102	4,610	4,183	4,590

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(a) As applicable, includes interest expense, amortization of discount, amortization of fees, and other changes in income or loss that would result from the assumed conversion.

(b) On October 29, 2010 we prepaid the full amount of our Note B obligation to the UAW VEBA Trust in cash.

(c) On March 15, 2011, the Trust Preferred Securities, which were convertible into Ford Common Stock, were fully redeemed and, as a result, for purposes of dilution effect, the year-to-date average shares outstanding will reflect the Common Stock underlying the Trust Preferred Securities only through March 15. However, the quarterly dilution calculation for the remaining quarters of 2011 will not include the underlying Common Stock as the Trust Preferred Securities have been redeemed.

Item 1. Financial Statements (Continued)

NOTE 16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

In the normal course of business, our operations are exposed to global market risks, including the effect of changes in foreign currency exchange rates, certain commodity prices, and interest rates. To manage these risks, we enter into various derivatives contracts:

- Foreign currency exchange contracts, including forwards and options, that are used to manage foreign exchange exposure;
- Commodity contracts, including forwards and options, that are used to manage commodity price risk;
- Interest rate contracts including swaps, caps, and floors that are used to manage the effects of interest rate fluctuations; and
- Cross-currency interest rate swap contracts that are used to manage foreign currency and interest rate exposures on foreign-denominated debt.

Our derivatives are over-the-counter customized derivative transactions and are not exchange-traded. We review our hedging program, derivative positions, and overall risk management strategy on a regular basis.

Overall Derivative Financial Instruments and Hedge Accounting. All derivatives are recognized on the balance sheet at fair value. To ensure consistency in our treatment of derivative and non-derivative exposures with regard to our master agreements, we do not net our derivative position by counterparty for purposes of balance sheet presentation and disclosure. We do, however, consider our net position for determining fair value.

We have elected to apply hedge accounting to certain derivatives. Derivatives that are designated are documented and the relationships are evaluated for effectiveness using regression analysis at the time they are designated and throughout the hedge period. Cash flows and profit impact associated with designated hedges are reported in the same category as the underlying hedged item.

Some derivatives do not qualify for hedge accounting; for others, we elect not to apply hedge accounting. Regardless of hedge accounting treatment, we only enter into transactions that we believe will be highly effective at offsetting the underlying economic risk. We report changes in the fair value of derivatives not designated as hedging instruments through Automotive cost of sales, Automotive interest income and other non-operating income/(expense), net, or Financial Services other income/(loss), net depending on the sector and underlying exposure. Cash flows associated with non-designated or de-designated derivatives are reported in Net cash (used in)/provided by investing activities in our statements of cash flows.

Cash Flow Hedges. Our Automotive sector has designated certain forward contracts as cash flow hedges of forecasted transactions with exposure to foreign currency exchange risk.

The effective portion of changes in the fair value of cash flow hedges is deferred in Accumulated other comprehensive income/(loss) and is recognized in Automotive cost of sales when the hedged item affects earnings. The ineffective portion is reported currently in Automotive cost of sales. Our policy is to de-designate cash flow hedges prior to the time forecasted transactions are recognized as assets or liabilities on the balance sheet and report subsequent changes in fair value through Automotive cost of sales. If it becomes probable that the originally-forecasted transaction will not occur, the related amount also is reclassified from Accumulated other comprehensive income/(loss) and recognized in earnings. Our cash flow hedges mature in two years or less.

Fair Value Hedges. Our Financial Services sector uses derivatives to reduce the risk of changes in the fair value of liabilities. We have designated certain receive-fixed, pay-float interest rate swaps as fair value hedges of fixed-rate debt. The risk being hedged is the risk of changes in the fair value of the hedged debt attributable to changes in the benchmark interest rate. If the hedge relationship is deemed to be highly effective, we record the changes in the fair value of the hedged debt related to the risk being hedged in Financial Services debt with the offset in Financial Services other income/(loss), net. The change in fair value of the related derivative (excluding accrued interest) also is recorded in Financial Services other income/(loss), net. Hedge ineffectiveness, recorded directly in earnings, is the difference between the change in fair value of the derivative and the change in the fair value of the hedged debt that is attributable to the changes in the benchmark interest rate.

When a derivative is de-designated from a fair value hedge relationship, or when the derivative in a fair value hedge relationship is terminated before maturity, the fair value adjustment to the hedged debt continues to be reported as part of the carrying value of the debt and is amortized over its remaining life.

Item 1. Financial Statements (Continued)

NOTE 16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

Net Investment Hedges. We have used foreign currency exchange derivatives to hedge the net assets of certain foreign entities to offset the translation and economic exposures related to our investment in these entities. The effective portion of changes in the value of these derivative instruments is included in Accumulated other comprehensive income/(loss) as a foreign currency translation adjustment until the hedged investment is sold or liquidated. When the investment is sold or liquidated, the hedge gains and losses previously reported in Accumulated other comprehensive income/(loss) are recognized in Automotive interest income and other non-operating income/(expense), net as part of the gain or loss on sale. We have had no derivative instruments in an active net investment hedging relationship since the first quarter of 2007.

Normal Purchases and Normal Sales Classification. We have elected to apply the normal purchases and normal sales classification for physical supply contracts that are entered into for the purpose of procuring commodities to be used in production over a reasonable period in the normal course of our business.

Income Effect of Derivative Instruments

The following tables summarize by hedge designation the pre-tax gains/(losses) recorded in Other comprehensive income/(loss) ("OCI"), reclassified from Accumulated other comprehensive income/(loss) ("AOCI") to income and/or recognized directly in income (in millions):

	Second Quarter 2011			First Half 2011		
	Gain/(Loss) Recorded in OCI	Gain/(Loss) Reclassified from AOCI to Income	Gain/(Loss) Recognized in Income	Gain/(Loss) Recorded in OCI	Gain/(Loss) Reclassified from AOCI to Income	Gain/(Loss) Recognized in Income
Automotive Sector						
Cash flow hedges:						
Foreign currency exchange contracts	$69	$42	$2	$194	$36	$2
Derivatives not designated as hedging instruments:						
Foreign currency exchange contracts - operating exposures			$4			$13
Commodity contracts			(27)			(12)
Other – warrants			1			1
Total			$(22)			$2
Financial Services Sector						
Fair value hedges:						
Interest rate contracts						
Net interest settlements and accruals excluded from the assessment of hedge effectiveness			$67			$133
Ineffectiveness (a)			2			(16)
Total			$69			$117
Derivatives not designated as hedging instruments:						

Interest rate contracts	$4	$(4)
Foreign currency exchange contracts	(74)	(62)
Cross-currency interest rate swap contracts	(17)	(31)
Other (b)	2	2
Total	$(85)	$(95)

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(a) For the second quarter and first half of 2011, hedge ineffectiveness reflects change in fair value on derivatives of $134 million gain and $46 million gain, respectively, and change in fair value on hedged debt of $132 million loss and $62 million loss, respectively.
(b) Reflects gains/(losses) for derivative features included in the FUEL notes (see Note 3).

Item 1. Financial Statements (Continued)

NOTE 16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

	Second Quarter 2010			First Half 2010		
	Gain/(Loss) Recorded in OCI	Gain/(Loss) Reclassified from AOCI to Income	Gain/(Loss) Recognized in Income	Gain/(Loss) Recorded in OCI	Gain/(Loss) Reclassified from AOCI to Income	Gain/(Loss) Recognized in Income
Automotive Sector						
Cash flow hedges:						
Foreign currency exchange contracts	$(46)	$(10)	$—	$(51)	$(13)	$—
Derivatives not designated as hedging instruments:						
Foreign currency exchange contracts - operating exposures			$(45)			$(200)
Commodity contracts			(12)			(15)
Other – warrants			—			1
Total			$(57)			$(214)
Financial Services Sector						
Fair value hedges:						
Interest rate contracts						
Net interest settlements and accruals excluded from the assessment of hedge effectiveness			$52			$105
Ineffectiveness *						