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STATE OF MICHIGAN
IN THE CIRCUIT COURT FOR THE COUNTY OF OAKLAND

FORD MOTOR COMPANY

vs.

NAVISTAR INTERNATIONAL
TRANSPORTATION CORPORATION and
INTERNATIONAL TRUCK AND ENGINE
CORPORATION

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Case No. 07-080067-CK

STATE OF MICHIGAN §
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COUNTY OF WAYNE §

AFFIDAVIT OF BOB FASCETTI

BEFORE ME, the undersigned authority, personally appeared Bob Fascetti, who, being duly sworn, stated as follows:

- 1. My name is Bob Fascetti, and I am currently employed as the Director of V-Engine and Diesel Engineering for the North American Engine organization of Ford Motor Company ("Ford" or the "Company"). I have direct, first-hand knowledge of the facts described herein, and I am competent to testify as a witness if called upon to do so in this matter.
- 2. In my position, I oversee Ford's diesel engine products. As such, I am familiar with Navistar's performance under the Next Generation Diesel Engine Supply Agreement (the "Contract"), and with Ford's manufacturing activities for diesel pickup trucks.
- 3. Ford has a long-standing relationship with Navistar. In the 1990s, Navistar supplied Ford with a 7.3L diesel engines used in all Ford F-Series ("Super Duty") trucks and E-Series ("Econoline") vans. In October 1997, Ford entered into the Contract with Navistar because of the need to develop replacement diesel engines for the 7.3L.
- 4. The diesel engine offers important and unique features for Ford's customers. As compared to a gas engine, a diesel engine provides superior hauling and towing capacity and also generally offers superior fuel economy and a longer life. Diesel-powered pickup trucks are, therefore, an attractive choice for individuals desiring these characteristics and also for "fleet" customers, such as homebuilders, who require a number of trucks capable of hauling supplies and towing loads. Fleet customers purchase a significant number of Super Duty diesel pickup trucks.
- 5. Ford is a leader in the diesel-powered truck market. Ford sold approximately 275,000 F-Series diesel-powered trucks in 2006.

Irreparable Injury to Due Disruption of 6.4L Engine Deliveries

6. On February 23, 2007, Navistar stopped shipment of its 6.4L diesel engine (the "6.4L"), which is the diesel engine now used in all Super Duty pickup trucks. This interruption in the delivery of the 6.4Ls to Ford is already having a severe effect on the Company. The diesel Super Duty line has performed well in the market and is one of Ford's signature vehicle lines. The vehicle is consistently profitable for the Company.

7. All diesel Super Duty trucks are manufactured at Ford's Kentucky Truck Plant. As of 7:00 a.m. on Thursday, March 1, 2007, the plant will not have a sufficient number of engines to continue diesel Super Duty production. As a result, diesel engine vehicle production will shut down completely. The shut-down is entirely due to the interruption in the supply of the 6.4Ls. The process of designing an engine and fitting it into a particular vehicle takes years of advance planning and coordination. As a result, Ford has no alternative to the 6.4Ls. Next week, the plant will re-open with only one shift, rather than the normal three, and will engage only in the limited production of gasoline-powered pickup trucks.

8. The cessation in the production of diesel Super Duty trucks will result in lost sales as Ford is already having difficulty meeting the volume of dealer orders for diesel Super Duty trucks.

9. The inability to supply its dealers will damage both Ford's business reputation and cause a loss of customer goodwill. Ford's customers, including its regular fleet customers, will be forced to turn to Ford's competitors for their current needs. As a result, Ford will lose not just Super Duty sales, but also an unknown number of adjacency sales, which are sales of non-diesel vehicles to fleet customers who come to Ford to buy diesel trucks and then also use Ford for their non-diesel vehicle needs. Having abandoned Ford due to its inability to supply them, some of these customers will likely turn to Ford's competitors for their future needs as well.

10. What is more, Navistar's decision to stop shipment of 6.4L engines will affect not only the Company, it will also affect Ford's suppliers, its employees, and dealers. For example, 4,535 employees who are devoted to the assembly of Ford's Super Duty trucks at the Kentucky Truck Plant will be largely idle.

6.0L Engine Quality Issues

11. Prior to the introduction of the 6.4L engine, Navistar supplied its 6.0L diesel engine (the "6.0L") to Ford for use in all Ford diesel vehicles, including Super Duty trucks and Econoline vans. The 6.0L was sold to Ford beginning in 2002.

12. Ford has experienced unprecedented repair rates with the 6.0L engines. The 6.0L has had the largest R/1000 (repairs per thousand) rate ever experienced by Ford for an engine in widespread production. In fact, the 6.0L, which represents only 10% of Ford's total engine volume, accounts for approximately 80% of all of Ford's warranty spending on engines. Additionally, warranty spending on the 6.0L accounts for approximately 25% of Ford's overall warranty spending.

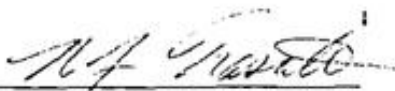
13. Because of the magnitude of the 6.0L's quality concerns, Ford assembled a team of approximately 70 engineers to assist Navistar full-time in identifying and resolving problems with the 6.0L.

6.4L Engine Pricing Issues

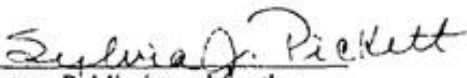
14. Ford and Navistar have been unable to resolve the pricing for the 6.4L. In late 2006, Ford conducted numerous reviews of 6.4L pricing, and it is my understanding that \$6,167 is the highest justifiable price for the 6.4L engine. Based on Navistar's conduct, however, Ford was left with the understanding that its view was irrelevant and that it had one of two options: (1) accept the 6.4L at the price demanded by Navistar—\$7,673—or (2) be left without a diesel engine for the F-Series.

15. Because Ford had no other available source of supply, Ford was forced to pay the \$7,673 price demanded by Navistar, but Ford did so under a written reservation of rights.

FURTHER AFFIANT SAYETH NOT.


Bob Fascetti

SUBSCRIBED AND SWORN TO BEFORE me the undersigned authority on this 28 day of February, 2007.


Notary Public in and for the
State of Michigan

