FORD MOTOR CO
Form 10-Q
May 09, 2007

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 March 31, 2007

o 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)

1-3950	38-0549190
(Commission File Number)	(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
x Yes o No

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

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

As of May 1, 2007, the registrant had outstanding 1,809,295,575 shares of Common Stock and 70,852,076 shares of Class B Stock.

Exhibit index located on page number 39.

PART I. FINANCIAL INFORMATION

ITEM 1. *Financial Statements.*

FORD MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
For the Periods Ended March 31, 2007 and 2006
(in millions, except per share amounts)

	First Quarter 2007	First Quarter 2006
	(unaudited)	
Sales and revenues		
Automotive sales	$ 38,630	$ 36,961
Financial Services revenues	4,389	3,828
Total sales and revenues	43,019	40,789
Costs and expenses		
Automotive cost of sales	34,715	36,655
Selling, administrative and other expenses	5,972	4,594
Interest expense	2,718	2,135
Financial Services provision for credit and insurance losses	59	46
Total costs and expenses	43,464	43,430
Automotive interest income and other non-operating income/(expense), net	329	214
Automotive equity in net income/(loss) of affiliated companies	72	79
Income/(loss) before income taxes	(44)	(2,348)
Provision for/(benefit from) income taxes	182	(982)
Income/(loss) before minority interests	(226)	(1,366)
Minority interests in net income/(loss) of subsidiaries	58	59
Income/(loss) from continuing operations	(284)	(1,425)
Income/(loss) from discontinued operations (Note 7)	2	2
Net income/(loss)	$ (282)	$ (1,423)
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 8)		
Basic income/(loss)		
Income/(loss) from continuing operations	$ (0.15)	$ (0.76)
Income/(loss) from discontinued operations	—	—
Net income/(loss)	$ (0.15)	$ (0.76)
Diluted income/(loss)		
Income/(loss) from continuing operations	$ (0.15)	$ (0.76)
Income/(loss) from discontinued operations	—	—
Net income/(loss)	$ (0.15)	$ (0.76)
Cash dividends	$ —	$ 0.10

The accompanying notes are part of the financial statements

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

SECTOR STATEMENT OF INCOME
For the Periods Ended March 31, 2007 and 2006
(in millions, except per share amounts)

	First Quarter 2007	First Quarter 2006
	(unaudited)	
AUTOMOTIVE		
Sales	$ 38,630	$ 36,961
Costs and expenses		
Cost of sales	34,715	36,655
Selling, administrative and other expenses	4,074	2,976
Total costs and expenses	38,789	39,631
Operating income/(loss)	(159)	(2,670)
Interest expense	580	346
Interest income and other non-operating income/(expense), net	329	214
Equity in net income/(loss) of affiliated companies	72	79
Income/(loss) before income taxes — Automotive	(338)	(2,723)
FINANCIAL SERVICES		
Revenues	4,389	3,828
Costs and expenses		
Interest expense	2,138	1,789
Depreciation	1,500	1,208
Operating and other expenses	398	410
Provision for credit and insurance losses	59	46
Total costs and expenses	4,095	3,453
Income/(loss) before income taxes — Financial Services	294	375
TOTAL COMPANY		
Income/(loss) before income taxes	(44)	(2,348)
Provision for/(benefit from) income taxes	182	(982)
Income/(loss) before minority interests	(226)	(1,366)
Minority interests in net income/(loss) of subsidiaries	58	59
Income/(loss) from continuing operations	(284)	(1,425)
Income/(loss) from discontinued operations (Note 7)	2	2
Net income/(loss)	$ (282)	$ (1,423)
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 8)		
Basic income/(loss)		
Income/(loss) from continuing operations	$ (0.15)	$ (0.76)
Income/(loss) from discontinued operations	—	—
Net income/(loss)	$ (0.15)	$ (0.76)
Diluted income/(loss)		

Income/(loss) from continuing operations	$	(0.15)	$	(0.76)
Income/(loss) from discontinued operations		—		—
Net income/(loss)	$	(0.15)	$	(0.76)
Cash dividends	$	—	$	0.10

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)

	March 31, 2007 (unaudited)	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 26,867	$ 28,896
Marketable securities	22,485	21,472
Loaned securities	668	5,256
Finance receivables, net	106,048	106,863
Other receivables, net	10,727	7,682
Net investment in operating leases	30,404	29,834
Retained interest in sold receivables	936	990
Inventories (Note 2)	12,525	11,482
Equity in net assets of affiliated companies	2,817	2,787
Net property	37,638	38,238
Deferred income taxes	3,942	4,920
Goodwill and other net intangible assets (Note 3)	6,308	6,821
Assets of discontinued/held-for-sale operations (Note 7)	1,107	616
Other assets	9,738	12,697
Total assets	$ 272,210	$ 278,554
LIABILITIES AND STOCKHOLDERS' EQUITY		
Payables	$ 24,480	$ 23,427
Accrued liabilities and deferred revenue	79,618	82,394
Debt	167,179	172,049
Deferred income taxes	3,261	2,743
Liabilities of discontinued/held-for-sale operations (Note 7)	249	247
Total liabilities	274,787	280,860
Minority interests	1,133	1,159
Stockholders' equity		
Capital stock		
Common Stock, par value $0.01 per share (1,840 million shares issued)	18	18
Class B Stock, par value $0.01 per share (71 million shares issued)	1	1
Capital in excess of par value of stock	4,596	4,562
Accumulated other comprehensive income/(loss)	(9,106)	(7,846)
Treasury stock	(175)	(183)
Retained earnings/(Accumulated deficit)	956	(17)
Total stockholders' equity	(3,710)	(3,465)
Total liabilities and stockholders' equity	$ 272,210	$ 278,554

The accompanying notes are part of the financial statements

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

SECTOR BALANCE SHEET
(in millions)

	March 31, 2007 (unaudited)	December 31, 2006
ASSETS		
Automotive		
Cash and cash equivalents	$ 15,692	$ 16,022
Marketable securities	16,807	11,310
Loaned securities	668	5,256
Total cash, marketable and loaned securities	33,167	32,588
Receivables, net	5,634	3,778
Inventories (Note 2)	12,525	11,482
Deferred income taxes	388	1,569
Other current assets	6,031	7,708
Current receivable from Financial Services	870	—
Total current assets	58,615	57,125
Equity in net assets of affiliated companies	2,086	2,029
Net property	37,379	37,969
Deferred income taxes	12,680	14,850
Goodwill and other net intangible assets (Note 3)	6,291	6,804
Assets of discontinued/held-for-sale operations (Note 7)	1,107	616
Other assets	2,362	3,241
Total Automotive assets	120,520	122,634
Financial Services		
Cash and cash equivalents	11,175	12,874
Marketable securities	5,678	10,162
Finance receivables, net	111,141	110,767
Net investment in operating leases	27,176	26,606
Retained interest in sold receivables	936	990
Goodwill and other net intangible assets (Note 3)	17	17
Other assets	5,718	6,167
Receivable from Automotive	—	1,467
Total Financial Services assets	161,841	169,050
Intersector elimination	(870)	(1,467)
Total assets	$ 281,491	$ 290,217
LIABILITIES AND STOCKHOLDERS' EQUITY		
Automotive		
Trade payables	$ 18,932	$ 16,947
Other payables	3,957	4,893
Accrued liabilities and deferred revenue	27,587	28,877
Deferred income taxes	3,676	3,138
Debt payable within one year	1,536	1,499
Current payable to Financial Services	—	640
Total current liabilities	55,688	55,994

Long-term debt	28,370	28,514
Other liabilities	47,530	49,392
Deferred income taxes	1,054	441
Liabilities of discontinued/held-for-sale operations (Note 7)	249	247
Non-current payable to Financial Services	830	827
Total Automotive liabilities	133,721	135,415
Financial Services		
Payables	1,591	1,587
Debt	137,273	142,036
Deferred income taxes	7,812	10,827
Other liabilities and deferred income	4,501	4,125
Payable to Automotive	40	—
Total Financial Services liabilities	151,217	158,575
Minority interests	1,133	1,159
Stockholders' equity		
Capital stock		
Common Stock, par value $0.01 per share (1,840 million shares issued)	18	18
Class B Stock, par value $0.01 per share (71 million shares issued)	1	1
Capital in excess of par value of stock	4,596	4,562
Accumulated other comprehensive income/(loss)	(9,106)	(7,846)
Treasury stock	(175)	(183)
Retained earnings/(Accumulated deficit)	956	(17)
Total stockholders' equity	(3,710)	(3,465)
Intersector elimination	(870)	(1,467)
Total liabilities and stockholders' equity	$ 281,491	$ 290,217

The accompanying notes are part of the financial statements

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the Periods Ended March 31, 2007 and 2006
(in millions)

	First Quarter 2007	2006
	(unaudited)	
Cash flows from operating activities of continuing operations		
Net cash (used in)/provided by operating activities	$ 979	$ (17)
Cash flows from investing activities of continuing operations		
Capital expenditures	(1,296)	(1,838)
Acquisitions of retail and other finance receivables and operating leases	(12,813)	(13,732)
Collections of retail and other finance receivables and operating leases	11,061	11,446
Purchases of securities	(2,229)	(6,735)
Sales and maturities of securities	6,768	4,501
Proceeds from sales of retail and other finance receivables and operating leases	697	2,540
Proceeds from sale of businesses	35	50
Cash paid for acquisitions	(2)	—
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	—	(4)
Other	257	(36)
Net cash (used in)/provided by investing activities	2,478	(3,808)
Cash flows from financing activities of continuing operations		
Cash dividends	—	(186)
Sales of Common Stock	27	153
Purchases of Common Stock	(31)	(111)
Changes in short-term debt	259	1,015
Proceeds from issuance of other debt	4,270	10,007
Principal payments on other debt	(9,861)	(14,446)
Other	(51)	126
Net cash (used in)/provided by financing activities	(5,387)	(3,442)
Effect of exchange rate changes on cash	(91)	49
Net increase/(decrease) in cash and cash equivalents from continuing operations	(2,021)	(7,218)
Cash flows from discontinued operations		
Cash flows from operating activities of discontinued operations	5	(13)
Cash flows from investing activities of discontinued operations	—	—
Cash flows from financing activities of discontinued operations	—	—
Net increase/(decrease) in cash and cash equivalents	$ (2,016)	$ (7,231)

Cash and cash equivalents at January 1	$	28,896	$	28,393
Cash and cash equivalents of discontinued/held-for-sale operations at January 1		(2)		17
Net increase/(decrease) in cash and cash equivalents		(2,016)		(7,231)
Less: cash and cash equivalents of discontinued/held-for-sale operations at March 31		(11)		—
Cash and cash equivalents at March 31	$	26,867	$	21,179

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 March 31, 2007 and 2006
(in millions)

	First Quarter 2007		First Quarter 2006	
	Automotive	Financial Services	Automotive	Financial Services
	(unaudited)		(unaudited)	
Cash flows from operating activities of continuing operations				
Net cash (used in)/provided by operating activities	$ 1,466	$ 619	$ (645)	$ 1,212
Cash flows from investing activities				
Capital expenditures	(1,286)	(10)	(1,820)	(18)
Acquisitions of retail and other finance receivables and operating leases	—	(12,813)	—	(13,732)
Collections of retail and other finance receivables and operating leases	—	11,076	—	11,276
Net (increase)/decrease of wholesale receivables	—	(1,121)	—	(414)
Purchases of securities	(480)	(1,749)	(1,739)	(4,996)
Sales and maturities of securities	463	6,305	1,271	3,230
Proceeds from sales of retail and other finance receivables and operating leases	—	697	—	2,540
Proceeds from sale of businesses	35	—	50	—
Cash paid for acquisitions	(2)	—	—	—
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	—	—	(4)	—
Investing activity from Financial Services	—	—	196	—
Investing activity to Financial Services	(4)	—	(12)	—
Other	177	80	28	(64)
Net cash (used in)/provided by investing activities	(1,097)	2,465	(2,030)	(2,178)
Cash flows from financing activities				
Cash dividends	—	—	(186)	—
Sales of Common Stock	27	—	153	—
Purchases of Common Stock	(31)	—	(111)	—
Changes in short-term debt	(118)	377	86	929
Proceeds from issuance of other debt	102	4,168	91	9,916
Principal payments on other debt	(150)	(9,711)	(271)	(14,175)
Financing activity from Automotive	—	4	—	12
Financing activity to Automotive	—	—	—	(196)
Other	(17)	(34)	131	(5)
	(187)	(5,196)	(107)	(3,519)

Net cash (used in)/provided by financing activities								
Effect of exchange rate changes on cash		15		(106)		(23)		72
Net change in intersector receivables/payables and other liabilities		(519)		519		(470)		470
Net increase/(decrease) in cash and cash equivalents from continuing operations		(322)		(1,699)		(3,275)		(3,943)
Cash flows from discontinued operations								
Cash flows from operating activities of discontinued operations		5		—		(13)		—
Cash flows from investing activities of discontinued operations		—		—		—		—
Cash flows from financing activities of discontinued operations		—		—		—		—
Net increase/(decrease) in cash and cash equivalents	$	(317)	$	(1,699)	$	(3,288)	$	(3,943)
Cash and cash equivalents at January 1	$	16,022	$	12,874	$	13,375	$	15,018
Cash and cash equivalents of discontinued/held-for-sale operations at January 1		(2)		—		17		—
Net increase/(decrease) in cash and cash equivalents		(317)		(1,699)		(3,288)		(3,943)
Less: cash and cash equivalents of discontinued/held-for-sale operations at March 31		(11)		—		—		—
Cash and cash equivalents at March 31	$	15,692	$	11,175	$	10,104	$	11,075

The accompanying notes are part of the financial statements

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("GAAP") for interim financial information, and instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, these unaudited financial statements reflect those adjustments necessary for a fair statement of the results of operations and financial condition of Ford Motor Company and its consolidated subsidiaries and consolidated variable interest entities ("VIEs") of which we are the primary beneficiary for the periods and at the dates presented. Results for interim periods should not be considered indicative of results for a 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, 2006 (the "2006 Form 10-K Report"). For purposes of this report, "Ford," the "Company," "we," "our," "us" or similar references mean Ford Motor Company and our consolidated subsidiaries and our consolidated VIEs of which we are the primary beneficiary, unless the context requires otherwise.

NOTE 2. INVENTORIES

Inventories are summarized as follows (in millions):

		March 31, 2007		December 31, 2006
Raw materials, work-in-process and supplies	$	4,554	$	4,559
Finished products		9,013		7,938
Total inventories under first-in, first-out method ("FIFO")		13,567		12,497
Less: last-in, first-out method ("LIFO") adjustment		(1,042)		(1,015)
Total inventories	$	12,525	$	11,482

During 2006, inventory quantities were reduced, resulting in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 2006 purchases, the effect of which decreased *Automotive cost of sales* by about $4 million.

NOTE 3. GOODWILL AND OTHER INTANGIBLES

Our policy is to perform annual testing of goodwill and certain other intangible assets during the fourth quarter to determine whether any impairment has occurred. Testing is conducted at the reporting unit level.

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

		Goodwill, December 31, 2006		Goodwill Acquired		Exchange Translation/Other		Goodwill, March 31, 2007
Automotive Sector								
Ford North America	$	95	$	—	$	(4)	$	91
Ford Europe		35		—		—		35
Premier Automotive Group ("PAG")		5,580		—		(496)		5,084
Total Automotive Sector		5,710		—		(500)		5,210
Financial Services Sector								

Ford Credit	17	—	—	17
Total Financial Services Sector	17	—	—	17
Total	$ 5,727	$ —	$ (500)	$ 5,227

Aston Martin Lagonda Group Limited ("Aston Martin") was owned primarily through our wholly-owned subsidiary, Jaguar Cars Limited, and has been a component of our PAG reporting unit. Its operations were integrated with our other PAG reporting entities, sharing, among other things, certain facilities and tooling, intellectual property, in-bound logistics, information technology services, and parts supply.

During the first quarter of 2007, Aston Martin was classified as held-for-sale. Accordingly, we commissioned a third-party valuation to determine an appropriate allocation of goodwill for Aston Martin based on its fair value relative to the overall fair value of PAG. The third-party valuation used discounted cash flow and market methods of determining fair value, which resulted in $434 million of goodwill being allocated to Aston Martin. We deemed the third-party valuations

Item 1. Financial Statements (Continued)

NOTE 3. GOODWILL AND OTHER INTANGIBLES *(Continued)*

to be appropriate, and we classified the goodwill allocated to Aston Martin within *Assets of discontinued/held-for-sale operations* as of March 31, 2007. The goodwill remaining in our PAG reporting unit was tested at March 31, 2007, and no goodwill impairment was necessary.

During the first quarter of 2007, our wholly-owned North American subsidiary, Automobile Protection Corporation ("APCO"), was classified as a discontinued operation. APCO was not an integrated component of our Ford North America reporting unit. Accordingly, the full amount of APCO's goodwill, $112 million, was classified within *Assets of discontinued/held-for-sale operations* at both March 31, 2007 and December 31, 2006.

In addition to the goodwill presented in the above table, included within *Automotive equity in net assets of affiliated companies* was goodwill of $246 million at March 31, 2007.

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

	March 31, 2007			December 31, 2006		
	Gross Carrying Amount	**Less: Accumulated Amortization**	**Net Intangible Assets**	**Gross Carrying Amount**	**Less: Accumulated Amortization**	**Net Intangible Assets**
Automotive Sector						
Tradename	$ 490	$ —	$ 490	$ 491	$ —	$ 491
Distribution networks	367	(99)	268	372	(98)	274
Manufacturing and production incentive rights	246	(4)	242	246	—	246
Other	238	(157)	81	240	(157)	83
Total Automotive Sector	1,341	(260)	1,081	1,349	(255)	1,094
Total Financial Services Sector	4	(4)	—	4	(4)	—
Total	$ 1,345	$ (264)	$ 1,081	$ 1,353	$ (259)	$ 1,094

Our identifiable intangible assets are comprised of a non-amortizable tradename, distribution networks with a useful life of 40 years, manufacturing and production incentive rights related to an acquisition with a useful life of 4 years, and other intangibles with various amortization periods (primarily patents, customer contracts, technology, and land rights).

Pre-tax amortization expense related to these intangible assets was as follows (in millions):

	First Quarter	
	2007	**2006**
Pre-tax amortization expense	$ 22	$ 6

Intangible asset amortization is forecasted to range from $80 million to $90 million per year for the next four years and $20 million to $30 million thereafter, excluding the impact of foreign currency translation.

NOTE 4. VARIABLE INTEREST ENTITIES

We consolidate VIEs of which we are the primary beneficiary. The liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against our general assets. Reflected in our March 31, 2007 and December 31, 2006 balance sheets are consolidated VIE assets of $5.7 billion and $5.6 billion, respectively, for the Automotive sector and $68.8 billion and $69.5 billion, respectively, for the Financial Services sector. Included in Automotive consolidated VIE assets are $565 million and $488 million of cash and cash equivalents at March 31, 2007 and December 31, 2006, respectively. For the Financial Services sector, consolidated VIE assets included $4.4 billion and $3.7 billion in cash and cash equivalents and $64.4 billion and $65.8 billion of receivables and beneficial interests in net investment in operating leases at March 31, 2007 and December 31, 2006, respectively.

We have several investments in other entities determined to be VIEs of which we are not the primary beneficiary. The risks and rewards associated with our interests in these entities are based primarily on ownership percentages. Our maximum exposure was $322 million and $294 million for the Automotive sector and $188 million and $182 million for the Financial Services sector at March 31, 2007 and December 31, 2006, respectively. Any potential losses associated with these VIEs, should they occur, is limited to the value of our invested capital or equity rights and, where applicable, receivables due from the VIEs.

Item 1. Financial Statements (Continued)

NOTE 4. VARIABLE INTEREST ENTITIES *(Continued)*

Ford Motor Credit Company LLC ("Ford Credit") uses special purpose entities ("SPEs") that are considered VIEs for most of our on-balance sheet securitizations.* Ford Credit also sells finance receivables to bank-sponsored asset-backed commercial paper issuers that are SPEs of the sponsor bank; these SPEs are not consolidated by us. The outstanding balance of finance receivables that have been sold by Ford Credit to the SPEs of the sponsored banks was approximately $5.2 billion at both March 31, 2007 and December 31, 2006.

NOTE 5. EMPLOYEE SEPARATION ACTIONS

Automotive Sector

General

In 2006, we announced a major business improvement plan for our North American Automotive operations, which we refer to as the Way Forward plan. As part of this plan, we began implementing a number of different employment separation actions during 2006, our accounting for which is dependent on the design of the individual benefit action.

Jobs Bank Benefits Reserve

We expense Jobs Bank Benefits (see Note 17 of the Notes to the Financial Statements in our 2006 Form 10-K Report) expected to be provided to our hourly employees in accordance with our International Union, United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") and National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW") collective bargaining agreements at facilities that will be idled when it becomes probable that the employees will be permanently idled. The following table summarizes the activity in the Jobs Bank Benefits reserve:

	Reserve (in millions)		Number of employees	
	First Quarter 2007	Full-year 2006	First Quarter 2007	Full-year 2006
Beginning balance	$ 1,036	$ —	10,728	—
Additions to Jobs Bank/transfers from voluntary separation program (i.e., rescissions)	84	2,583	810	25,849
Voluntary separations and relocations	(149)	(1,445)	(2,555)	(15,121)
Benefit payments and other adjustments	(85)	(102)	—	—
Ending balance	$ 886	$ 1,036	8,983	10,728

Separation Actions

The cost of both hourly and salaried voluntary employee separation actions are recorded at the time of the employee's acceptance, unless the acceptance needs explicit approval by the Company. Conditional voluntary separations are accrued when all of the conditions are satisfied. Involuntary separation programs are accrued for when management has approved the program and the affected employees are identified.

UAW Voluntary Separations. During 2006, we offered voluntary separation packages to our entire UAW hourly workforce. The following table summarizes the activity in this separation reserve:

	Reserve (in millions)		Number of employees	
	First Quarter 2007	Full-year 2006	First Quarter 2007	Full-year 2006
Beginning balance	$ 2,435	$ —	26,351	—
Voluntary acceptances, including transfers from Jobs Bank	—	3,240	—	36,623
Payments/terminations	(1,094)	(788)	(13,208)	(10,084)
Rescissions	(174)	(17)	(1,809)	(188)
Ending balance	$ 1,167	$ 2,435	11,334	26,351

*Other Employee Separation Action*s. Most salaried reductions within the United States were completed by the end of the first quarter of 2007, and were achieved through early retirements, voluntary separations, and involuntary separations where necessary. These actions resulted in a pre-tax charge of $153 million and $3 million in the first quarter of 2007 and 2006, respectively, in *Automotive cost of sales* and *Selling, administrative and other expenses*.

* Effective May 1, 2007, Ford Motor Credit Company converted its form of organization from a Delaware corporation to a Delaware limited liability company ("LLC") and changed its name to "Ford Motor Credit Company LLC."

Item 1. Financial Statements (Continued)

NOTE 5. EMPLOYEE SEPARATION ACTIONS *(Continued)*

The following table shows the pre-tax charges of other hourly and salaried employee separation actions for the first quarter of 2007 and 2006 (in millions):

	First Quarter	
	2007	2006
Ford Canada	$ 168	$ 14
Ford Europe	6	28
PAG	7	2
Ford Asia Pacific and Africa	2	—

The above charges exclude costs for pension and other postretirement employee benefits ("OPEB"). For further information, see Note 10 for employee separation costs related to pension, postretirement health care and life insurance benefits. For further discussion of the Way Forward plan, see Note 17 of the Notes to the Financial Statements in our 2006 Form 10-K Report.

Financial Services Sector

Employee Separation Actions

In the first quarter of 2007, we recognized pre-tax charges of $43 million in *Selling, administrative and other expenses* for employee separation actions announced in 2006 in the United States and in the first quarter of 2007 in Canada associated with Ford Credit's North American business transformation initiative (i.e., the consolidation of its North American branches into its seven existing business centers). These charges excluded costs for pension and OPEB. For further information, see Note 10 for employee separation costs related to pension, postretirement health care and life insurance benefits.

NOTE 6. INCOME TAXES

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

In June 2006, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods, and thus requires increased disclosures.

We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recorded an increase of $1.3 billion to *Retained earnings*. The favorable impact to *Retained earnings* is primarily the result of recognizing a receivable of approximately $1.5 billion associated with refund claims and related interest for prior years that meet the "more-likely-than-not" recognition threshold of FIN 48. These prior year refund claims and related interest were not recognized as of December 31, 2006 because they were considered gain contingencies under Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies* and could not be recognized until the contingency lapsed. The amount of gross unrecognized tax benefits at January 1, 2007 is $1.7 billion, of which $471 million would affect our effective tax rate, if recognized.

Item 1. Financial Statements (Continued)

NOTE 6. INCOME TAXES *(Continued)*

Examinations by tax authorities have been completed through 1998 in the United Kingdom, 1999 in Germany, and 2000 in Canada, Sweden, and the United States.

Effective with the adoption of FIN 48, we have elected to recognize accrued interest related to unrecognized tax benefits and tax-related penalties in the *Provision for/(benefit from) income taxes* on our consolidated statement of income. As of January 1, 2007, we had recorded a liability of about $221 million for the payment of interest.

We anticipate settlement of tax matters related to the acquisition of Land Rover with the U.K. tax authorities within the next twelve months. The final resolution remains uncertain, but could have an unfavorable impact to the financial statements of up to $200 million as a result of an increase to the valuation allowance related to incremental deferred tax assets at the acquisition date.

NOTE 7. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, AND OTHER DISPOSITIONS

Discontinued Operations. On April 2, 2007, we completed the sale of APCO, our wholly-owned subsidiary, to a global private equity fund. This transaction is the result of the ongoing strategic review of our operations. As a result of the transaction, we expect to realize a pre-tax gain of about $50 million in the second quarter of 2007.

The assets and liabilities of APCO classified as a discontinued operation are summarized as follows (in millions):

	March 31, 2007	December 31, 2006
Assets		
Cash and cash equivalents	$ 5	$ —
Receivables	14	20
Net property	8	8
Goodwill	112	112
Other assets	11	16
Total assets of the discontinued operations	$ 150	$ 156
Liabilities		
Payables	$ 2	$ 16
Other liabilities	21	22
Total liabilities of the discontinued operations	$ 23	$ 38

The results of this discontinued operation are as follows (in millions):

	First Quarter	
	2007	2006
Sales and revenues	$ 14	$ 12
Operating income/(loss) from discontinued operations	$ 3	$ 3
Gain/(loss) on discontinued operations	—	—
(Provision for)/benefit from income taxes	(1)	(1)
Income/(loss) from discontinued operations	$ 2	$ 2

Held-for-Sale Operations. On March 31, 2007, Automotive Components Holdings, LLC ("ACH") completed a sale agreement with Cooper-Standard Automotive Inc. for its El Jarudo Plant (which produces fuel rails, fuel charging assemblies, and spring lock connectors); as a result of the sale, we recognized a *de minimis* pre-tax loss in the first quarter of 2007.

In March 2007, management committed to sell Aston Martin, a wholly-owned subsidiary, in order to restructure our core Automotive operations and build liquidity. On March 12, 2007, we announced that we had entered into a definitive agreement with an investor group pursuant to which we have agreed to sell Aston Martin and other specific assets. Under the terms of the transaction, which is expected to close during the second quarter of 2007, we will receive a combination of cash and preferred stock in the new entity. Accordingly, we have reported Aston Martin as held-for-sale and have ceased depreciating its long-lived assets.

Item 1. Financial Statements (Continued)

NOTE 7. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, AND OTHER DISPOSITIONS *(Continued)*

The assets and liabilities of Aston Martin classified as a held-for-sale operation are summarized as follows (in millions):

	March 31, 2007		December 31, 2006	
Assets				
Cash and cash equivalents	$	6	$	(2)
Receivables		102		80
Inventories		110		93
Net property		261		251
Goodwill and other net intangible assets*		437		4
Other assets		41		22
Total assets of the held-for-sale operations	$	957	$	448
Liabilities				
Payables	$	107	$	106
Other liabilities		119		102
Total liabilities of the held-for-sale operations	$	226	$	208

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* For further discussion of goodwill allocated to Aston Martin, see Note 3.

Other Dispositions. In support of the acceleration of our Way Forward plan announced on September 15, 2006, ACH entered into non-binding agreements for the sale of five of its businesses. The following table lists the businesses with their corresponding products and the quarter in which the agreement was entered into:

Fourth Quarter 2006	
Sheldon Road plant	Produces heating, ventilating and cooling assemblies; heat exchangers; and manual control panel components
Milan plant	Produces fuel tanks and bumper fascias
First Quarter 2007	
Monroe plant	Produces catalytic converters, driveshafts, and springs (driveshaft business only included in agreement - not the plant itself)
April 2007	
Nashvillle, Tulsa, and VidrioCar (Mexico) plants	Produces automotive and architectural glass products
Converca I (Mexico) plant	Produces transmission parts

The sale of the U.S. businesses is conditional on a successful negotiation of labor terms with the UAW. Therefore, the sale of these facilities has not yet reached the level of probability required to be classified on our balance sheet as held-for-sale.

Item 1. Financial Statements (Continued)

NOTE 8. AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK

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

	First Quarter 2007	2006
Basic and Diluted Income/(Loss)		
Basic income/(loss) from continuing operations	$ (284)	$ (1,425)
Effect of dilutive senior convertible notes (a)	—	—
Effect of dilutive convertible preferred securities (b)	—	—
Diluted income/(loss) from continuing operations	$ (284)	$ (1,425)
Basic and Diluted Shares		
Average shares outstanding	1,894	1,865
Restricted and uncommitted-ESOP shares	(2)	(2)
Basic shares	1,892	1,863
Net dilutive options and restricted and uncommitted-ESOP shares (c)	—	—
Dilutive senior convertible notes (a)	—	—
Dilutive convertible preferred securities (b)	—	—
Diluted shares	1,892	1,863

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

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

(b) 282 million shares and the related income effect for convertible preferred securities.

(c) 9 million and 8 million contingently-issuable shares for first quarter 2007 and 2006, respectively.

Item 1. Financial Statements (Continued)

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Our operations are exposed to global market risks, including the effect of changes in foreign currency exchange rates, certain commodity prices and interest rates. We enter into various derivatives, including interest rate, foreign currency and commodity forwards, options and swaps to manage the financial and operational exposure arising from these risks. We have elected to apply hedge accounting to certain of these derivative financial instruments. Refer to Note 22 of the Notes to the Financial Statements in our 2006 Form 10-K Report for a more detailed description of our derivative financial instruments and hedge accounting designations.

Income Statement Effect of Derivative Instruments

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

	First Quarter		
	2007	**2006**	**Income Statement Classification**
Automotive Sector			
Cash flow hedges:			
Ineffectiveness and impact of discontinued hedges	$ 10	$ 1	*Automotive cost of sales*
Net investment hedges:			
Ineffectiveness	(1)	15	*Automotive cost of sales*
Derivatives not designated as hedging instruments:			
Commodities	32	180	*Automotive cost of sales*
Foreign currency forward contracts (a)	8	—	*Automotive cost of sales*
Other	(54)	1	*Automotive cost of sales/ Automotive interest income and other non-operating income/(expense), net*
Financial Services Sector			
Fair value hedges:			
Ineffectiveness	$ —	$ 8	*Financial Services revenues*
Net interest settlements and accruals excluded from the assessment of hedge effectiveness	—	8	*Interest expense*
Foreign exchange revaluation adjustments excluded from the assessment of hedge effectiveness (a) (b)	—	24	*Financial Services revenues*
Derivatives not designated as hedging instruments:			
Interest rate swaps	30	(258)	*Financial Services revenues*
Foreign currency swaps and forward contracts (a)	(7)	74	*Financial Services revenues*
Other	—	—	*Financial Services* revenues

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

(b) Amount represents the portion of the derivative's fair value attributable to the change in foreign currency exchange rates.

Item 1. Financial Statements (Continued)

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(Continued)*

Balance Sheet Effect of Derivative Instruments

The fair value of derivatives reflects the price that a third party would be willing to pay or receive in arm's length transactions and includes mark-to-market adjustments to reflect the effects of changes in the related index. The following table summarizes the estimated fair value of our derivative financial instruments (in millions):

	March 31, 2007		December 31, 2006	
	Fair Value Assets	Fair Value Liabilities	Fair Value Assets	Fair Value Liabilities
Automotive Sector				
Cash flow hedges	$ 1,184	$ 588	$ 1,736	$ 860
Net investment hedges	—	—	6	—
Derivatives not designated as hedging instruments	981	197	977	256
Total derivative financial instruments	$ 2,165	$ 785	$ 2,719	$ 1,116
Financial Services Sector				
Fair value hedges	$ —	$ —	$ 111	$ 1
Derivatives not designated as hedging instruments	2,368	829	2,334	891
Impact of netting agreements	(547)	(547)	(641)	(641)
Total derivative financial instruments	$ 1,821	$ 282	$ 1,804	$ 251

NOTE 10. RETIREMENT BENEFITS

Pension, postretirement health care and life insurance benefit expense is summarized as follows (in millions):

	First Quarter					
	Pension Benefits				Health Care and Life Insurance	
	U.S. Plans		Non-U.S. Plans			
	2007	2006	2007	2006	2007	2006
Service cost	$ 121	$ 178	$ 160	$ 171	$ 94	$ 179
Interest cost	647	594	395	337	446	547
Expected return on assets	(870)	(835)	(463)	(399)	(67)	(129)
Amortization of:						
Prior service costs/(credits)	68	118	26	30	(268)	(160)
(Gains)/losses and other	13	24	111	131	190	229
Separation programs	832	15	77	16	22	—
(Gain)/loss from curtailment	176	414	(14)	—	(960)	—
Costs allocated to Visteon	—	—	—	—	1	1
Net expense/(income)	$ 987	$ 508	$ 292	$ 286	$ (542)	$ 667

In the first quarter of 2007, we recorded a $176 million curtailment loss for the U.S. salaried pension plan (a $189 million loss for the Automotive sector offset by a $13 million gain for the Financial Services sector), a $14 million curtailment adjustment for the Canadian hourly pension plan, and a $960 million curtailment gain for the U.S. hourly retiree health care plan. These amounts are associated with employee separations related to the Way Forward plan, and are recorded in *Automotive cost of sales* and *Selling, administrative and other expenses*.

The weighted average discount rate assumption used at March 31, 2007 to determine the U.S. pension obligation was 5.86%. The weighted average discount rate assumption used at March 31, 2007 to determine the U.S. OPEB obligation was 5.98%. The weighted average initial health care cost trend rate was 6% for the 2007 calendar year.

Plan Contributions and Drawdowns

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

Pension. In the first quarter of 2007, we contributed about $1 billion to our worldwide pension plans, including benefit payments paid directly by the Company for unfunded plans. We expect to contribute from Automotive cash and cash equivalents an additional $1.2 billion in 2007, for a total of $2.2 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 2007.

Health Care and Life Insurance. During 2007, we expect to withdraw $900 million from our Voluntary Employee Beneficiary Association trust ("VEBA") as reimbursement for U.S. hourly retiree benefit payments.

Item 1. Financial Statements (Continued)

NOTE 11. SEGMENT INFORMATION

(In millions)

	Automotive Sector								
	Ford North America	**Ford South America**	**Total Americas**	**Ford Europe**	**PAG**	**Total Ford Europe & PAG**	**Ford Asia Pacific & Africa/Mazda**	**Other**	**Total**
FIRST QUARTER 2007									
Sales/Revenues									
External customer	$ 18,223	$ 1,283	$ 19,506	$ 8,632	$ 8,387	$ 17,019	$ 2,105	$ —	$ 38,630
Intersegment	252	—	252	187	63	250	—	—	502
Income									
Income/(loss) before income taxes	(703)	113	(590)	208	391	599	(6)	(341)	(338)
Total assets at March 31									120,520
FIRST QUARTER 2006									
Sales/Revenues									
External customer	$ 19,757	$ 1,162	$ 20,919	$ 6,774	$ 7,125	$ 13,899	$ 2,143	$ —	$ 36,961
Intersegment	252	—	252	290	68	358	60	—	670
Income									
Income/(loss) before income taxes	(2,961)	148	(2,813)	56	149	205	47	(162)	(2,723)
Total assets at March 31									116,553

	Financial Services Sector (a)				Total Company	
	Ford Credit	**Other**	**Elims**	**Total**	**Elims (b)**	**Total**
FIRST QUARTER 2007						
Sales/Revenues						
External customer	$ 4,319	$ 70	$ —	$ 4,389	$ —	$ 43,019
Intersegment	218	6	(2)	222	(724)	—
Income						
Income/(loss) before income taxes	294	—	—	294	—	(44)
Total assets at March 31	161,644	10,719	(10,522)	161,841	(870)	281,491
FIRST QUARTER 2006						
Sales/Revenues						
External customer	$ 3,765	$ 63	$ —	$ 3,828	$ —	$ 40,789
Intersegment	157	8	(2)	163	(833)	—
Income						
	382	(7)	—	375	—	(2,348)

Income/(loss) before income taxes						
Total assets at March 31	159,226	10,486	(10,693)	159,019	(324)	275,248

(a) Financial Services sector's interest income is recorded as *Financial Services revenues.*
(b) Includes intersector transactions occurring in the ordinary course of business.

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Item 1. Financial Statements (Continued)

NOTE 12. GUARANTEES

At March 31, 2007, the following guarantees were issued and outstanding:

Guarantees related to affiliates and third parties. We guarantee debt and lease obligations of certain joint ventures, as well as certain financial obligations of outside third parties to support business and economic growth. Expiration dates vary, and guarantees will terminate on payment and/or cancellation of the obligation. A payment by us would be triggered by failure of the guaranteed party to fulfill its obligation covered by the guarantee. In some circumstances, we are entitled to recover from the third party amounts paid by us under the guarantee. However, our ability to enforce these rights is sometimes stayed until the guaranteed party is paid in full, and may be limited in the event of insolvency of the third party or other circumstances. The maximum potential payments under these guarantees total $92.6 million.

On December 15, 2006 we entered into an agreement (the "Credit Agreement") which provides for a seven-year $7 billion term-loan facility and a five-year revolving credit facility of $11.5 billion. We and certain of our domestic subsidiaries that constitute a substantial portion of our domestic Automotive assets (excluding cash) are guarantors under the Credit Agreement, and future material domestic subsidiaries will become guarantors when formed or acquired. For further discussion of this Credit Agreement, see Note 15 of the Notes to the Financial Statements in our 2006 Form 10-K Report.

On December 21, 2005, we completed the sale of The Hertz Corporation ("Hertz"). As part of this transaction, we provided cash-collateralized letters of credit in an aggregate amount of $200 million to support the asset-backed portion of the buyer's financing for the transaction. As of March 31, 2007, the carrying value of our deferred gain related to the letters of credit was $21 million, which represents the estimated fair value of our guarantee. For further discussion of these letters of credit, see Note 27 of the Notes to the Financial Statements in our 2006 Form 10-K Report.

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

We also have guarantees outstanding associated with a subsidiary trust, Ford Motor Company Capital Trust II ("Trust II"). For further discussion of Trust II, see Notes 15 and 20 of the Notes to the Financial Statements in our 2006 Form 10-K Report.

No losses have been recorded for these guarantees.

Indemnifications. We regularly evaluate the probability of having to incur costs associated with indemnifications contained in contracts to which we are a party, and have accrued for expected losses that are probable and for which a loss can be estimated. During the first quarter of 2007, there were no significant changes to our indemnifications.

Product Performance

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

	First Quarter 2007	First Quarter 2006
Beginning balance	$ 6,032	$ 6,243
Payments made during the period	(1,002)	(1,001)
Changes in accrual related to warranties issued during the period	885	907
Changes in accrual related to pre-existing warranties	(77)	84
Foreign currency translation and other	23	22
Ending balance	$ 5,861	$ 6,255

Extended Service Plans. Fees or premiums for the issuance of extended service plans are recognized in income over the contract period in proportion to the costs expected to be incurred in performing services under the contract.

Item 1. Financial Statements (Continued)

NOTE 13. COMPREHENSIVE INCOME/(LOSS)

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

	First Quarter	
	2007	**2006**
Net income/(loss)	$ (282)	$ (1,423)
Other comprehensive income/(loss)		
Foreign currency translation	28	178
Employee benefit related	(922)	(34)
Gain/(loss) on derivative instruments	(329)	254
Net holding gain/(loss)	(37)	(12)
Total other comprehensive income/(loss)	(1,260)	386
Total comprehensive income/(loss)	$ (1,542)	$ (1,037)

NOTE 14. SUBSEQUENT EVENTS

During the second quarter of 2007, we identified our Cleveland Casting Plant as one of the facilities to be idled as part of our Way Forward plan. We plan to idle this facility in 2009. In addition, we decided to cease production at Cleveland Engine Plant #1, beginning in May 2007, for approximately 12 months. About 1,800 employees will be affected by these actions. We estimate the additional Jobs Bank Benefits and personnel-reduction program costs related to these actions to be about $180 million.

Report of Independent Registered Public Accounting Firm

To Board of Directors and Stockholders
Ford Motor Company:

We have reviewed the accompanying consolidated balance sheet of Ford Motor Company and its subsidiaries as of March 31, 2007, and the related consolidated statements of income for each of the three-month periods ended March 31, 2007 and 2006 and the condensed consolidated statement of cash flows for the three-month periods ended March 31, 2007 and 2006. These interim financial statements are the responsibility of the Company's management.

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

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

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

As discussed in Note 6 of the Notes to the Financial Statements, on January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No.109."

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Detroit, Michigan
May 9, 2007

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

FIRST QUARTER RESULTS OF OPERATIONS

Our worldwide net loss was $282 million or $0.15 per share of Common and Class B Stock in the first quarter of 2007, improved from a loss of $1.4 billion or $0.76 per share in the first quarter of 2006.

Results by business sector for the first quarter of 2007 and 2006 are shown below (in millions):

	First Quarter		
	2007	**2006**	**2007 Over/ (Under) 2006**
Income/(loss) before income taxes			
Automotive Sector	$ (338)	$ (2,723)	$ 2,385
Financial Services Sector	294	375	(81)
Total Company	(44)	(2,348)	2,304
Provision for/(benefit from) income taxes	182	(982)	1,164
Minority interests in net income/(loss) of subsidiaries *	58	59	(1)
Income/(loss) from continuing operations	(284)	(1,425)	1,141
Income/(loss) from discontinued operations	2	2	—
Net income/(loss)	$ (282)	$ (1,423)	$ 1,141

* Primarily related to Ford Europe's consolidated 41%-owned affiliate, Ford Otosan. The pre-tax results for Ford Otosan were $97 million and $108 million in the first quarter of 2007 and 2006, respectively.

Included in *Income/(loss) before income taxes* are items we do not consider indicative of our ongoing operating activities ("special items"). The following table details the first quarter 2007 and 2006 special items by segment or business unit (in millions):

	First Quarter	
	2007	**2006**
Ford North America		
Retiree health care curtailment gain	$ 960	$ —
Jobs Bank Benefits and personnel-reduction programs	(874)	(1,824)
Pension curtailment charges	(175)	(414)
U.S. plant idlings (primarily fixed-asset write-offs)	—	(281)
Total Ford North America	(89)	(2,519)
Ford South America		
Legal settlement relating to social welfare tax liability	—	11
Ford Europe		
Personnel-reduction programs	(11)	(9)
PAG		
Personnel-reduction programs/Other	(11)	(3)
Ford Asia Pacific and Africa		
Personnel-reduction programs	(2)	—
Total Automotive Sector	$ (113)	$ (2,520)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The discussion below of Automotive and Financial Services sector results of operations is on a pre-tax basis.

AUTOMOTIVE SECTOR

Details by Automotive segment or business unit of *Income/(loss) before income taxes* for the first quarter of 2007 and 2006 are shown below (in millions):

	First Quarter		
	2007	**2006**	**2007 Over/ (Under) 2006**
Americas			
Ford North America	$ (703)	$ (2,961)	$ 2,258
Ford South America	113	148	(35)
Total Americas	(590)	(2,813)	2,223
Ford Europe and PAG			
Ford Europe	208	56	152
PAG	391	149	242
Total Ford Europe and PAG	599	205	394
Ford Asia Pacific and Africa/Mazda			
Ford Asia Pacific and Africa	(28)	2	(30)
Mazda and Associated Operations	22	45	(23)
Total Ford Asia Pacific and Africa/Mazda	(6)	47	(53)
Other Automotive	(341)	(162)	(179)
Total	$ (338)	$ (2,723)	$ 2,385

Details by Automotive segment or business unit of sales and wholesale unit volumes for the first quarter of 2007 and 2006 are shown below:

	First Quarter							
	Sales (in billions)				**Wholesales (a) (in thousands)**			
	2007	**2006**	**2007 Over/(Under) 2006**		**2007**	**2006**	**2007 Over/(Under) 2006**	
Americas								
Ford North America	$ 18.2	$ 19.8	$ (1.6)	(8)%	723	867	(144)	(17)%
Ford South America	1.3	1.2	0.1	10	84	85	(1)	(1)
Total Americas	19.5	21.0	(1.5)	(7)	807	952	(145)	(15)
Ford Europe and PAG								
Ford Europe	8.6	6.8	1.8	27	500	460	40	9
PAG	8.4	7.1	1.3	18	196	184	12	7
Total Ford Europe and PAG	17.0	13.9	3.1	22	696	644	52	8

Ford Asia Pacific and Africa/Mazda								
Ford Asia Pacific and Africa (b)	1.8	1.7	0.1	2	126	135	(9)	(7)
Mazda and Associated Operations (c)	0.3	0.4	(0.1)	(19)	21	25	(4)	(16)
Total Ford Asia Pacific and Africa/Mazda	2.1	2.1	0.0	(2)	147	160	(13)	(8)
Total	$ 38.6	$ 37.0	$ 1.6	5%	1,650	1,756	(106)	(6)%

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

(b) Included in wholesale unit volumes of Ford Asia Pacific and Africa are Ford-badged vehicles sold in China and Malaysia by certain unconsolidated affiliates totaling about 38,000 and 35,000 units in 2007 and 2006, respectively. "Sales" above does not include revenue from these units.

(c) Reflects sales of Mazda6 by our consolidated subsidiary, AutoAlliance International, Inc. ("AAI").

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Details of Automotive sector market share for selected markets for the first quarter of 2007 and 2006, along with the level of dealer stocks as of March 31, 2007 and 2006, are shown below:

	Market Share				Dealer-Owned Stocks (a) (in thousands)		
Market	**2007**	**2006**	**2007 Over/(Under) 2006**		**2007**	**2006**	**2007 Over/(Under) 2006**
U.S. (b)	15.1%	17.2%	(2.1)	pts	568	782	(214)
South America (b) (c)	11.3	12.0	(0.7)		28	32	(4)
Europe (b) (d)	9.1	8.8	0.3		340	333	7
PAG -- U.S./Europe (d)	1.0/ 2.4	1.1/ 2.3	(0.1)/ 0.1		39/ 68	41/ 66	(2)/2
Asia Pacific and Africa (b) (e) (f)	2.1	2.3	(0.2)		50	51	(1)

(a) Dealer-owned stocks represent our estimate of vehicles shipped to our customers (dealers) and not yet sold by the dealers to their retail customers, including some vehicles reflected in our inventory.
(b) Includes only Ford and, in certain markets (primarily U.S.), Lincoln and Mercury brands.
(c) South America 2007 market share is based on estimated vehicle retail sales for our six major markets (Argentina, Brazil, Chile, Colombia, Ecuador and Venezuela).
(d) Europe 2007 market share is based, in part, on estimated vehicle registrations for our 19 major European markets (described in "Item 1. Business" of our 2006 Form 10-K Report).
(e) Asia Pacific and Africa 2007 market share is based on estimated vehicle retail sales for our 12 major markets (Australia, China, Japan, India, Indonesia, Malaysia, New Zealand, Philippines, South Africa, Taiwan, Thailand and Vietnam).
(f) Dealer-owned stocks for Asia Pacific and Africa include primarily Ford-brand vehicles as well as a small number of units distributed for other manufacturers.

Overall Automotive Sector

The improvement in earnings reflected a retiree health care curtailment gain related to our Ford North America hourly separation programs ($960 million), the effect of lower charges for Jobs Bank Benefits and personnel-reduction programs ($950 million), and favorable cost changes ($467 million). The increase in revenues primarily reflected favorable product mix and changes in currency exchange rates, offset partially by lower wholesale unit volumes.

The table below details our first quarter 2007 cost changes at constant volume, mix and exchange, excluding special items and discontinued operations (in billions):

	Explanation of Cost Changes	**2007 Better/(Worse) Than 2006**
Warranty-related	Primarily reflects improvements in North America (mainly reserve adjustments due to favorable trends in field service actions and basic warranty coverages), and the non-recurrence of unfavorable reserve increases.	$ 0.5

Pension and OPEB	Primarily the favorable impact associated with our retiree health care cost sharing agreement with the UAW and ongoing improvements related to curtailments.		0.4
Spending-related	Primarily lower depreciation expense due to impairment charges in the third quarter of 2006 for our long-lived assets.		0.2
Manufacturing and engineering	Primarily hourly and salaried personnel reductions and ongoing efficiencies in our plants.		0.1
Overhead	Primarily lower selling and administrative costs, offset by the non-recurrence of a one-time reserve adjustment in 2006 related to personnel costs in our operations outside of North America.		—
Advertising & sales promotions	Primarily increased advertising costs.		(0.1)
Net product costs	Primarily reflects higher costs related to regulatory requirements (e.g., diesel engine emissions) and higher commodity costs.		(0.6)
	Total	$	0.5

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Americas

Ford North America Segment. The improvement in earnings primarily reflected a retiree health care curtailment gain related to hourly separation programs, lower charges for Jobs Bank Benefits and personnel-reduction programs, favorable cost changes, the non-recurrence of costs related to U.S. plant idlings (primarily fixed-asset write-offs), and lower pension curtailment charges, offset partially by unfavorable volume and mix. The favorable cost changes primarily reflected reductions in warranty-related, pension and OPEB, and manufacturing and engineering costs, offset partially by higher net product costs.

Ford South America Segment. The decrease in earnings primarily reflected unfavorable currency exchange (more than explained by the non-recurrence of hedging gains) and the non-recurrence of a gain associated with a legal settlement relating to social welfare tax liability.

Ford Europe and PAG

Ford Europe Segment. The increase in earnings was more than explained by favorable volume and mix, offset partially by unfavorable net pricing.

PAG Segment. The increase in earnings primarily reflected favorable volume and mix, net pricing, and cost changes, offset partially by unfavorable changes in currency exchange rates. The favorable cost changes primarily reflected lower warranty-related costs.

Ford Asia Pacific and Africa/Mazda

Ford Asia Pacific and Africa/Mazda Segment. The decline in results for Ford Asia Pacific and Africa primarily reflected unfavorable changes in currency exchange rates, and unfavorable volume and mix, offset partially by favorable cost changes. The favorable cost changes primarily reflected lower manufacturing and engineering and net product costs.

The decrease in earnings for Mazda and Associated Operations primarily reflected the non-recurrence of gains on our investment in Mazda convertible bonds. By March 31, 2006, we had converted to equity all of our Mazda convertible bonds, and therefore since then have not had income effects from the mark-to-market adjustments for these bonds.

Other Automotive

The decline in earnings reflected higher interest expense and related costs associated with the higher debt levels that resulted from the financing actions taken in the fourth quarter of 2006, offset partially by increased interest income on a larger cash portfolio. For additional information regarding the financing actions, see Note 15 of the Notes to the Financial Statements in the 2006 Form 10-K Report.

FINANCIAL SERVICES SECTOR

Details of Financial Services sector *Income/(loss) before income taxes* for the first quarter of 2007 and 2006 are shown below (in millions):

	First Quarter		
	2007	**2006**	**2007 Over/(Under) 2006**

Ford Credit	$ 294	$ 382	$ (88)
Other Financial Services	—	(7)	7
Total	$ 294	$ 375	$ (81)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Ford Credit

The decrease in earnings at Ford Credit primarily reflected higher borrowing costs, higher depreciation expense for leased vehicles (primarily reflecting lower auction values for sport utility vehicles and trucks and an increase in the percentage of vehicles returned at lease termination), and costs associated with Ford Credit's North American business transformation initiative (i.e., the consolidation of its North American branches into its seven existing business centers). These were partially offset by the non-recurrence of losses related to market valuation adjustments from non-designated derivatives and reductions in other operating costs.

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

	March 31, 2007	December 31, 2006	2007 Over/(Under) 2006
On-Balance Sheet (including on-balance sheet securitizations) *	$ 136.3	$ 135.3	$ 1.0
Securitized Off-Balance Sheet	11.1	12.2	(1.1)
Managed	$ 147.4	$ 147.5	$ (0.1)
Serviced	$ 149.0	$ 149.5	$ (0.5)

* At March 31, 2007 and December 31, 2006, includes finance receivables of $56.6 billion and $56.5 billion, respectively, that have been sold for legal purposes in securitizations that do not satisfy the requirements for accounting sale treatment. In addition, at March 31, 2007 and December 31, 2006, includes net investment in operating leases of $13.9 billion and $15.2 billion, respectively, that have been included in securitizations that do not satisfy the requirements for accounting sale treatment. These underlying securitized assets are available only for payment of the debt or other obligations issued or arising in the securitization transactions; they are not available to pay Ford Credit's other obligations or the claims of Ford Credit's other creditors.

The following table shows Ford Credit's worldwide credit losses net of recoveries, which are referred to as charge-offs, and loss-to-receivables ratios, which equal charge-offs for the period on an annualized basis divided by the average amount of receivables outstanding for the period, for the first quarter of 2007 and 2006:

	First Quarter		
	2007	2006	2007 Over/(Under) 2006
Charge-offs (in millions)			
On-Balance Sheet	$ 107	$ 111	$ (4)
Managed	125	136	(11)
Loss-to-Receivables Ratios			
On-Balance Sheet	0.32%	0.34%	(0.02) pts.
Managed	0.34%	0.37%	(0.03) pts.

Charge-offs and loss-to-receivables ratios for Ford Credit's on-balance sheet and managed portfolios declined from a year ago. These improvements resulted from a higher quality retail installment and lease portfolio and enhancements to Ford Credit's collection practices.

Shown below is Ford Credit's allowance for credit losses related to its on-balance sheet portfolio of finance receivables and net investment in operating leases for the periods specified. Consistent with its normal practices and policies, Ford Credit assesses the adequacy of its allowance for credit losses quarterly, and regularly evaluates the assumptions and models used in establishing the allowance.

	March 31, 2007	December 31, 2006	2007 Over/(Under) 2006
Allowance for credit losses (in millions)	$ 1,044	$ 1,110	$ (66)
Allowance as a percentage of end-of-period receivables	0.76%	0.81%	(0.05) pts.

The decrease in Ford Credit's allowance for credit losses primarily reflected improvements in charge-off trends.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

LIQUIDITY AND CAPITAL RESOURCES

Automotive Sector

Our strategy is to ensure that we have sufficient funding available with a high degree of certainty throughout the business cycle. The key elements of this strategy include maintaining large gross cash balances, generating cash from operating-related activities, having a long-dated debt maturity profile, maintaining committed credit facilities, and funding long-term liabilities over time.

Gross Cash. Automotive gross cash includes cash and cash equivalents, net marketable securities, loaned securities and certain assets contained in a Voluntary Employee Beneficiary Association trust ("VEBA"), a trust which may be used to pre-fund certain types of company-paid benefits for U.S. employees and retirees. We include in Automotive gross cash those VEBA assets that are invested in shorter-duration fixed income investments and can be used within 18 months to pay for benefits ("short-term VEBA assets"). Gross cash as of March 31, 2007 and 2006, and December 31, 2006 and 2005 is detailed below (in billions):

	March 31, 2007	December 31, 2006	March 31, 2006	December 31, 2005
Cash and cash equivalents	$ 15.7	$ 16.0	$ 10.1	$ 13.4
Marketable securities	16.8	11.3	9.1	6.9
Loaned securities	0.7	5.3	3.1	3.4
Total cash, marketable securities and loaned securities	33.2	32.6	22.3	23.7
Securities-in-transit *	(0.2)	(0.5)	—	—
Short-term VEBA assets	2.2	1.8	1.4	1.4
Gross cash	$ 35.2	$ 33.9	$ 23.7	$ 25.1

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

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Changes in Automotive gross cash for the first quarter of 2007 and 2006 are summarized below (in billions):

	First Quarter			
		2007		2006
Gross cash at end of period	$	35.2	$	23.7
Gross cash at beginning of period		33.9		25.1
Total change in gross cash	$	1.3	$	(1.4)
Operating-related cash flows				
Automotive income/(loss) before income taxes	$	(0.3)	$	(2.7)
Special items		0.1		2.5
Capital expenditures		(1.3)		(1.8)
Depreciation and special tools amortization		1.8		1.8
Changes in receivables, inventories and trade payables (a)		0.8		(0.4)
Other		—		(0.1)
Total operating-related cash flows	$	1.1	$	(0.7)
Other changes in cash				
Cash impact of personnel-reduction programs and Jobs Bank Benefits accrual		(1.2)		(0.4)
Contributions to funded pension plans		(0.9)		(0.3)
Net effect of VEBA on cash		0.4		—
Tax refunds and tax payments from affiliates (b)		2.0		—
Acquisitions and divestitures		—		—
Capital transactions with the Financial Services sector (c)		—		0.2
Dividends to shareholders		—		(0.2)
Other (d)		(0.1)		—
Total change in gross cash	$	1.3	$	(1.4)

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(a) In 2007, working capital changes primarily reflected the effect of increased production in the first quarter of 2007 versus the fourth quarter of 2006 (which was unusually low due to the dealer stock reduction plan in the second half of 2006).

(b) Receipt of tax payments related to 1995 to 2000 audit settlements with the IRS. Of this amount, $400 million was a refund from the IRS and $1.6 billion was a payment made to us by Ford Credit pursuant to the tax sharing agreement between us and Ford Credit.

(c) Primarily dividends received from Ford Credit. Beginning in 2007, Ford Credit suspended its regular dividend payments.

(d) Primarily reflects cash flow associated with changes in Automotive sector debt.

Shown in the table below is a reconciliation between financial statement *Cash flows from operating activities of continuing operations* and operating-related cash flows (calculated as shown in the table above) for the first quarter of 2007 and 2006 (in billions):

	First Quarter			
		2007		2006
Cash flows from operating activities of continuing operations	$	1.5	$	(0.6)
Items included in operating-related cash flows				
Capital expenditures		(1.3)		(1.8)
Net transactions between Automotive and Financial Services sector*		(0.5)		(0.2)

Items not included in operating-related cash flows				
Cash impact of personnel-reduction programs and Jobs Bank Benefits accrual		1.2		0.4
Net (sales)/purchases of trading securities		0.8		1.3
Pension contributions		0.9		0.3
VEBA cash flows - (net reimbursement for benefits paid)/contributions to VEBA		—		—
Tax refunds and tax payments from affiliates		(2.0)		—
Other		0.5		(0.1)
Operating-related cash flows	$	1.1	$	(0.7)

* Primarily payables and receivables between the sectors in the normal course of business.

Debt and Net Cash. At March 31, 2007, our Automotive sector had total debt of $29.9 billion, compared with $30 billion at December 31, 2006. At March 31, 2007, our Automotive sector had net cash (defined as gross cash less total debt) of $5.3 billion, compared with $3.9 billion at the end of 2006.

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*Credit Facilities.** At March 31, 2007, we had $13 billion of contractually-committed credit facilities with financial institutions, including $11.5 billion pursuant to a senior secured credit facility established in December 2006, $1.1 billion of global Automotive unsecured credit facilities, and $400 million of local credit facilities available to foreign Automotive affiliates. At March 31, 2007, $12 billion of these facilities were available for use. Of the lines available for use, 92% (or $11 billion) are committed through December 15, 2011, and the remainder are committed for a shorter period of time. For further discussion of our committed credit facilities, see Note 15 of the Notes to the Financial Statements of the 2006 Form 10-K Report.

Financial Services Sector

Ford Credit

Debt. Ford Credit's total debt plus securitized off-balance sheet funding was $145.1 billion at March 31, 2007, down $5.8 billion compared with year-end 2006, primarily reflecting repayment of maturing debt and amortization of previous securitizations, offset partially by new issuances.

Funding Strategy. As a result of lower credit ratings over the past few years, Ford Credit's unsecured funding costs have increased over time. While Ford Credit continues to access the unsecured debt market, Ford Credit has increased its use of securitization funding as it is presently more cost effective than unsecured funding and allows access to a broad investor base. Ford Credit plans to meet a significant portion of its 2007 funding requirements through securitizations and will continue to expand and diversify its asset-backed funding by asset class and region. In addition, Ford Credit has various alternative business arrangements for select products and markets that reduce its funding requirements while allowing it to support us (e.g., its partnering in Brazil for retail financing, and partnerships by its subsidiary, FCE Bank plc ("FCE"), with various financial institutions in Europe for full-service leasing). Ford Credit is continuing to pursue such alternative business arrangements. Over time, Ford Credit may need to reduce further the amount of receivables and operating leases it purchases or originates. A significant reduction in Ford Credit's managed receivables would reduce its ongoing profits, and could adversely affect its ability to support the sale of Ford vehicles.

Term Funding Plan. Through March 31, 2007, Ford Credit completed about $3 billion of public term funding transactions. Ford Credit expects its full-year 2007 public term funding to be between $10 billion and $17 billion.

Through March 31, 2007, Ford Credit completed about $2 billion of private term funding transactions (excluding its on-balance sheet asset-backed commercial paper programs and proceeds from revolving transactions) in several markets. In addition, Ford Credit completed about $4 billion of private term funding transactions in Europe and Canada in the month of April. These $6 billion of transactions included lease, retail and wholesale securitizations and unsecured term debt executed in private transactions. Ford Credit expects its full-year 2007 private term funding transactions to be between $22 billion and $30 billion.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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

	March 31, 2007	December 31, 2006
Cash, cash equivalents and marketable securities (a)	$ 15.6	$ 21.8
Committed liquidity programs	36.0	35.1 (b)
Asset-backed commercial paper (FCAR) (c)	18.2	18.6
Asset-backed commercial paper (Motown Notes[SM]) (c)	6.0	6.0
Credit facilities	3.3	3.8
Capacity and cash	$ 79.1	$ 85.3 (b)
Less: Capacity in excess of eligible receivables	(14.3)	(15.2)