

FORD MOTOR CO
Form 10-Q
August 07, 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 June 30, 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

(Commission File Number)

38-0549190

(IRS Employer Identification No.)

One American Road, Dearborn, Michigan

(Address of principal executive offices)

48126

(Zip Code)

(313) 322-3000

(Registrant's telephone number, including area code)

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).

o Yes x No

Edgar Filing: FORD MOTOR CO - Form 10-Q

As of August 3, 2007, the registrant had outstanding 2,028,742,402 shares of Common Stock and 70,852,076 shares of Class B Stock.

Exhibit index located on page number 45.

PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements.****FORD MOTOR COMPANY AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF INCOME****For the Periods Ended June 30, 2007 and 2006****(in millions, except per share amounts)**

	Second Quarter		First Half	
	2007	2006	2007	2006
	(unaudited)		(unaudited)	
Sales and revenues				
Automotive sales	\$ 40,106	\$ 37,811	\$ 78,736	\$ 74,772
Financial Services revenues	4,136	4,067	8,525	7,895
Total sales and revenues	44,242	41,878	87,261	82,667
Costs and expenses				
Automotive cost of sales	36,182	36,131	70,897	72,786
Selling, administrative and other expenses	4,952	4,623	10,924	9,217
Interest expense	2,759	2,258	5,477	4,393
Financial Services provision for credit and insurance losses	121	50	180	96
Total costs and expenses	44,014	43,062	87,478	86,492
Automotive interest income and other non-operating income/(expense), net				
	559	311	888	525
Automotive equity in net income/(loss) of affiliated companies				
	139	205	211	284
Income/(loss) before income taxes	926	(668)	882	(3,016)
Provision for/(benefit from) income taxes	123	(364)	305	(1,346)
Income/(loss) before minority interests	803	(304)	577	(1,670)
Minority interests in net income/(loss) of subsidiaries	85	19	143	78
Income/(loss) from continuing operations	718	(323)	434	(1,748)
Income/(loss) from discontinued operations (Note 7)	32	6	34	8
Net income/(loss)	\$ 750	\$ (317)	\$ 468	\$ (1,740)
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 8)				
Basic income/(loss)				
Income/(loss) from continuing operations	\$ 0.38	\$ (0.17)	\$ 0.23	\$ (0.94)
Income/(loss) from discontinued operations	0.02	—	0.02	0.01
Net income/(loss)	\$ 0.40	\$ (0.17)	\$ 0.25	\$ (0.93)
Diluted income/(loss)				
Income/(loss) from continuing operations	\$ 0.30	\$ (0.17)	\$ 0.21	\$ (0.94)
Income/(loss) from discontinued operations	0.01	—	0.01	0.01
Net income/(loss)	\$ 0.31	\$ (0.17)	\$ 0.22	\$ (0.93)
Cash dividends				
	\$ —	\$ 0.10	\$ —	\$ 0.20

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 June 30, 2007 and 2006
(in millions, except per share amounts)

	Second Quarter		First Half					
	2007	2006	2007	2006				
	(unaudited)		(unaudited)					
AUTOMOTIVE								
Sales	\$	40,106	\$	37,811	\$	78,736	\$	74,772
Costs and expenses								
Cost of sales		36,182		36,131		70,897		72,786
Selling, administrative and other expenses		3,224		2,942		7,298		5,918
Total costs and expenses		39,406		39,073		78,195		78,704
Operating income/(loss)		700		(1,262)		541		(3,932)
Interest expense		577		347		1,157		693
Interest income and other non-operating income/(expense), net		559		311		888		525
Equity in net income/(loss) of affiliated companies		139		205		211		284
Income/(loss) before income taxes — Automotive		821		(1,093)		483		(3,816)
FINANCIAL SERVICES								
Revenues		4,136		4,067		8,525		7,895
Costs and expenses								
Interest expense		2,182		1,911		4,320		3,700
Depreciation		1,479		1,291		2,979		2,499
Operating and other expenses		249		390		647		800
Provision for credit and insurance losses		121		50		180		96
Total costs and expenses		4,031		3,642		8,126		7,095
Income/(loss) before income taxes — Financial Services		105		425		399		800
TOTAL COMPANY								
Income/(loss) before income taxes		926		(668)		882		(3,016)
Provision for/(benefit from) income taxes		123		(364)		305		(1,346)
Income/(loss) before minority interests		803		(304)		577		(1,670)
Minority interests in net income/(loss) of subsidiaries		85		19		143		78
Income/(loss) from continuing operations		718		(323)		434		(1,748)
Income/(loss) from discontinued operations (Note 7)		32		6		34		8
Net income/(loss)	\$	750	\$	(317)	\$	468	\$	(1,740)
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 8)								
Basic income/(loss)								
Income/(loss) from continuing operations	\$	0.38	\$	(0.17)	\$	0.23	\$	(0.94)
Income/(loss) from discontinued operations		0.02		—		0.02		0.01

Edgar Filing: FORD MOTOR CO - Form 10-Q

Net income/(loss)	\$	0.40	\$	(0.17)	\$	0.25	\$	(0.93)
Diluted income/(loss)								
Income/(loss) from continuing operations	\$	0.30	\$	(0.17)	\$	0.21	\$	(0.94)
Income/(loss) from discontinued operations		0.01		—		0.01		0.01
Net income/(loss)	\$	0.31	\$	(0.17)	\$	0.22	\$	(0.93)
Cash dividends								
	\$	—	\$	0.10	\$	—	\$	0.20

The accompanying notes are part of the financial statements

Item 1. Financial Statements (Continued)

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

	June 30, 2007	December 31, 2006
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 32,000	\$ 28,896
Marketable securities	16,553	21,472
Loaned securities	4,641	5,256
Finance receivables, net	108,179	106,863
Other receivables, net	11,395	7,657
Net investment in operating leases	32,949	29,834
Retained interest in sold receivables	868	990
Inventories (Note 2)	12,614	11,421
Equity in net assets of affiliated companies	2,875	2,787
Net property	37,303	38,174
Deferred income taxes	4,253	4,920
Goodwill and other net intangible assets (Note 3)	6,344	6,821
Assets of discontinued/held-for-sale operations (Note 7)	166	767
Other assets	9,078	12,696
Total assets	\$ 279,218	\$ 278,554
LIABILITIES AND STOCKHOLDERS' EQUITY		
Payables	\$ 25,495	\$ 23,417
Accrued liabilities and deferred revenue	80,971	82,388
Debt	170,036	172,049
Deferred income taxes	3,397	2,743
Liabilities of discontinued/held-for-sale operations (Note 7)	14	263
Total liabilities	279,913	280,860
Minority interests	1,251	1,159
Stockholders' equity		
Capital stock		
Common Stock, par value \$0.01 per share (1,843 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	4,663	4,562
Accumulated other comprehensive income/(loss)	(8,146)	(7,846)
Treasury stock	(189)	(183)
Retained earnings/(Accumulated deficit)	1,707	(17)
Total stockholders' equity	(1,946)	(3,465)
Total liabilities and stockholders' equity	\$ 279,218	\$ 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)

	June 30, 2007	December 31, 2006
	(unaudited)	
ASSETS		
Automotive		
Cash and cash equivalents	\$ 17,069	\$ 16,022
Marketable securities	13,674	11,310
Loaned securities	4,641	5,256
Total cash, marketable and loaned securities	35,384	32,588
Receivables, net	6,389	3,753
Inventories (Note 2)	12,614	11,421
Deferred income taxes	445	1,569
Other current assets	7,027	7,707
Current receivable from Financial Services	727	—
Total current assets	62,586	57,038
Equity in net assets of affiliated companies	2,132	2,029
Net property	37,050	37,905
Deferred income taxes	12,386	14,850
Goodwill and other net intangible assets (Note 3)	6,327	6,804
Assets of discontinued/held-for-sale operations (Note 7)	166	767
Other assets	2,545	3,241
Total Automotive assets	123,192	122,634
Financial Services		
Cash and cash equivalents	14,931	12,874
Marketable securities	2,879	10,162
Finance receivables, net	113,185	110,767
Net investment in operating leases	28,732	26,606
Retained interest in sold receivables	868	990
Goodwill and other net intangible assets (Note 3)	17	17
Other assets	4,862	6,167
Receivable from Automotive	—	1,467
Total Financial Services assets	165,474	169,050
Intersector elimination	(727)	(1,467)
Total assets	\$ 287,939	\$ 290,217
LIABILITIES AND STOCKHOLDERS' EQUITY		
Automotive		
Trade payables	\$ 19,297	\$ 16,937
Other payables	4,372	4,893
Accrued liabilities and deferred revenue	29,406	28,877
Deferred income taxes	3,366	3,138
Debt payable within one year	1,598	1,499
Current payable to Financial Services	—	640

Edgar Filing: FORD MOTOR CO - Form 10-Q

Total current liabilities	58,039	55,984
Long-term debt	28,380	28,514
Other liabilities	47,100	49,386
Deferred income taxes	1,028	441
Liabilities of discontinued/held-for-sale operations (Note 7)	14	263
Non-current payable to Financial Services	359	827
Total Automotive liabilities	134,920	135,415
Financial Services		
Payables	1,826	1,587
Debt	140,058	142,036
Deferred income taxes	7,724	10,827
Other liabilities and deferred income	4,465	4,125
Payable to Automotive	368	—
Total Financial Services liabilities	154,441	158,575
Minority interests	1,251	1,159
Stockholders' equity		
Capital stock		
Common Stock, par value \$0.01 per share (1,843 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	4,663	4,562
Accumulated other comprehensive income/(loss)	(8,146)	(7,846)
Treasury stock	(189)	(183)
Retained earnings/(Accumulated deficit)	1,707	(17)
Total stockholders' equity	(1,946)	(3,465)
Intersector elimination	(727)	(1,467)
Total liabilities and stockholders' equity	\$ 287,939	\$ 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 June 30, 2007 and 2006

(in millions)

	First Half	
	2007	2006
	(unaudited)	
Cash flows from operating activities of continuing operations		
Net cash (used in)/provided by operating activities	\$ 5,227	\$ 9,713
Cash flows from investing activities of continuing operations		
Capital expenditures	(2,637)	(3,403)
Acquisitions of retail and other finance receivables and operating leases	(26,280)	(29,407)
Collections of retail and other finance receivables and operating leases	20,591	21,021
Purchases of securities	(4,720)	(11,170)
Sales and maturities of securities	12,088	11,247
Proceeds from sales of retail and other finance receivables and operating leases	702	2,947
Proceeds from sale of businesses	1,001	51
Cash paid for acquisitions	(10)	(37)
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	(83)	(4)
Other	1,178	777
Net cash (used in)/provided by investing activities	1,830	(7,978)
Cash flows from financing activities of continuing operations		
Cash dividends	—	(374)
Sales of Common Stock	51	234
Purchases of Common Stock	(31)	(97)
Changes in short-term debt	(1,396)	280
Proceeds from issuance of other debt	17,165	23,900
Principal payments on other debt	(19,768)	(26,433)
Other	(51)	89
Net cash (used in)/provided by financing activities	(4,030)	(2,401)
Effect of exchange rate changes on cash	71	241
Net increase/(decrease) in cash and cash equivalents from continuing operations	3,098	(425)
Cash flows from discontinued operations		
Cash flows from operating activities of discontinued operations	16	—
Cash flows from investing activities of discontinued operations	—	—
Cash flows from financing activities of discontinued operations	—	—
Net increase/(decrease) in cash and cash equivalents	\$ 3,114	\$ (425)
Cash and cash equivalents at January 1	\$ 28,896	\$ 28,391

Edgar Filing: FORD MOTOR CO - Form 10-Q

Cash and cash equivalents of discontinued/held-for-sale operations at January 1	(2)	19
Net increase/(decrease) in cash and cash equivalents	3,114	(425)
Less: cash and cash equivalents of discontinued/held-for-sale operations at June 30	(8)	(40)
Cash and cash equivalents at June 30	\$ 32,000	\$ 27,945

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, 2007 and 2006

(in millions)

	First Half 2007		First Half 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	\$ 2,810	\$ 3,358	\$ 5,280	\$ 3,663
Cash flows from investing activities				
Capital expenditures	(2,616)	(21)	(3,381)	(22)
Acquisitions of retail and other finance receivables and operating leases	—	(26,280)	—	(29,407)
Collections of retail and other finance receivables and operating leases	—	20,427	—	20,923
Net (increase)/decrease of wholesale receivables	—	(777)	—	868
Purchases of securities	(924)	(3,796)	(2,478)	(8,692)
Sales and maturities of securities	917	11,171	2,300	8,947
Proceeds from sales of retail and other finance receivables and operating leases	—	702	—	2,947
Proceeds from sale of businesses	1,001	—	51	—
Cash paid for acquisitions	(10)	—	(37)	—
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	(83)	—	(4)	—
Investing activity from Financial Services	—	—	552	—
Investing activity to Financial Services	(6)	—	(1,400)	—
Other	498	680	31	746
Net cash (used in)/provided by investing activities	(1,223)	2,106	(4,366)	(3,690)
Cash flows from financing activities				
Cash dividends	—	—	(374)	—
Sales of Common Stock	51	—	234	—
Purchases of Common Stock	(31)	—	(97)	—
Changes in short-term debt	6	(1,402)	239	41
Proceeds from issuance of other debt	158	17,007	175	23,725
Principal payments on other debt	(363)	(19,405)	(550)	(25,883)
Financing activity from Automotive	—	6	—	1,400
Financing activity to Automotive	—	—	—	(552)
Other	6	(57)	150	(61)
Net cash (used in)/provided by financing activities	(173)	(3,851)	(223)	(1,330)
Effect of exchange rate changes on cash	62	9	4	237
	(435)	435	613	(613)

Net change in intersector receivables/payables and other liabilities

Net increase/(decrease) in cash and cash equivalents from continuing operations	1,041	2,057	1,308	(1,733)
--	-------	-------	-------	---------

Cash flows from discontinued operations

Cash flows from operating activities of discontinued operations	16	—	—	—
---	----	---	---	---

Cash flows from investing activities of discontinued operations	—	—	—	—
---	---	---	---	---

Cash flows from financing activities of discontinued operations	—	—	—	—
---	---	---	---	---

Net increase/(decrease) in cash and cash equivalents	\$ 1,057	\$ 2,057	\$ 1,308	\$ (1,733)
---	----------	----------	----------	------------

Cash and cash equivalents at January 1	\$ 16,022	\$ 12,874	\$ 13,373	\$ 15,018
---	-----------	-----------	-----------	-----------

Cash and cash equivalents of discontinued/held-for-sale operations at January 1	(2)	—	19	—
---	-----	---	----	---

Net increase/(decrease) in cash and cash equivalents	1,057	2,057	1,308	(1,733)
--	-------	-------	-------	---------

Less: cash and cash equivalents of discontinued/held-for-sale operations at June 30	(8)	—	(40)	—
---	-----	---	------	---

Cash and cash equivalents at June 30	\$ 17,069	\$ 14,931	\$ 14,660	\$ 13,285
---	-----------	-----------	-----------	-----------

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 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 ("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):

	June 30, 2007	December 31, 2006
Raw materials, work-in-process and supplies	\$ 4,360	\$ 4,545
Finished products	9,314	7,891
Total inventories under first-in, first-out method ("FIFO")	13,674	12,436
Less: last-in, first-out method ("LIFO") adjustment	(1,060)	(1,015)
Total inventories	\$ 12,614	\$ 11,421

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**Goodwill**

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,	Goodwill Acquired	Exchange Translation/ Other	Goodwill, June 30, 2007
---------------------------------------	------------------------------	--	--

2006**Automotive Sector**

Ford North America	\$	95	\$	—	\$	(9)	\$	86
Ford Europe		35		—		—		35
Premier Automotive Group ("PAG")		5,574		—		(486)		5,088
Ford Asia Pacific and Africa		6		—		—		6
Total Automotive sector		5,710		—		(495)		5,215

Financial Services Sector

Ford Credit		17		—		—		17
Total Financial Services sector		17		—		—		17
Total	\$	5,727	\$	—	\$	(495)	\$	5,232

*Item 1. Financial Statements (Continued)***NOTE 3. GOODWILL AND OTHER INTANGIBLES (Continued)**

Automobile Protection Corporation ("APCO"). During the second quarter of 2007, our wholly-owned North American subsidiary, APCO, was sold. 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 December 31, 2006.

Aston Martin Lagonda Group Limited ("Aston Martin"). 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 second quarter of 2007, we sold Aston Martin. 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 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.

Land Rover Deferred Tax. During the second quarter of 2007, we settled a tax matter related to the acquisition of Land Rover which resulted in a reduction of PAG goodwill of \$108 million. See Note 6 for additional information.

Exchange Translation. The net foreign currency translation adjustment for the first half of 2007 resulted in an increase in PAG goodwill of \$56 million.

In addition to the goodwill presented in the above table, included within *Automotive equity in net assets of affiliated companies* was goodwill of \$249 million at June 30, 2007.

Other Intangibles

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

	June 30, 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	\$ 502	\$ —	\$ 502	\$ 491	\$ —	\$ 491
Distribution networks	372	(103)	269	372	(98)	274
Manufacturing and production incentive rights	273	(34)	239	246	—	246
Other	273	(171)	102	240	(157)	83
Total Automotive Sector	1,420	(308)	1,112	1,349	(255)	1,094
Total Financial Services Sector						
	4	(4)	—	4	(4)	—
Total	\$ 1,424	\$ (312)	\$ 1,112	\$ 1,353	\$ (259)	\$ 1,094

Edgar Filing: FORD MOTOR CO - Form 10-Q

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 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 Half	
	2007	2006
Pre-tax amortization expense	\$ 47	\$ 12

Excluding the impact of foreign currency translation, 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.

Item 1. Financial Statements (Continued)

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 June 30, 2007 and December 31, 2006 balance sheets are consolidated VIE assets of \$5.9 billion and \$5.6 billion, respectively, for our Automotive sector and \$77.8 billion and \$69.5 billion, respectively, for our Financial Services sector. Included in Automotive consolidated VIE assets are \$592 million and \$488 million of cash and cash equivalents at June 30, 2007 and December 31, 2006, respectively. For our Financial Services sector, consolidated VIE assets included \$7.5 billion and \$3.7 billion in cash and cash equivalents and \$70.3 billion and \$65.8 billion of receivables and beneficial interests in net investment in operating leases at June 30, 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 \$187 million and \$294 million for our Automotive sector and \$219 million and \$182 million for our Financial Services sector at June 30, 2007 and December 31, 2006, respectively. Any potential losses associated with these VIEs would be limited to the value of our invested capital or equity rights and, where applicable, receivables due from the VIEs.

Our Financial Services sector consists primarily of Ford Motor Credit Company LLC ("Ford Credit"). 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 \$4.5 billion and \$5.2 billion at June 30, 2007 and December 31, 2006, respectively.

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 employee 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 permanently idled. We recorded an expense in *Automotive cost of sales*, and the following table summarizes the activity in the related Jobs Bank Benefits reserve:

	Reserve (in millions)		Number of employees	
	First Half	Full Year	First Half	Full Year
	2007	2006	2007	2006
Beginning balance	\$ 1,036	\$ —	10,728	—
Additions to Jobs Bank/transfers from voluntary separation program (i.e., rescissions)	194	2,583	1,910	25,849
Voluntary separations and relocations	(224)	(1,445)	(3,775)	(15,121)
Benefit payments and other adjustments	(126)	(102)	—	—
Ending balance	\$ 880	\$ 1,036	8,863	10,728

*Item 1. Financial Statements (Continued)***NOTE 5. EMPLOYEE SEPARATION ACTIONS (Continued)****Separation Actions**

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

UAW Voluntary Separations. During 2006, we offered voluntary separation packages to our entire UAW hourly workforce and established a reserve for the costs associated with this action. We recorded an expense in *Automotive cost of sales* and the following table summarizes the activity in the related separation reserve:

	Reserve (in millions)		Number of employees	
	First Half	Full Year	First Half	Full Year
	2007	2006	2007	2006
Beginning balance	\$ 2,435	\$ —	26,351	—
Voluntary acceptances, including transfers from Jobs Bank	—	3,240	—	36,623
Payments/terminations	(1,464)	(788)	(17,097)	(10,084)
Rescissions	(253)	(17)	(2,759)	(188)
Ending balance	\$ 718	\$ 2,435	6,495	26,351

Other Employee Separation Actions. Most salaried employee separations 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 pre-tax charges of \$1 million and \$7 million in the second quarter of 2007 and 2006 and \$154 million and \$10 million during the first half of 2007 and 2006, respectively, reported in *Automotive cost of sales* and *Selling, administrative and other expenses*.

The following table shows pre-tax charges for other hourly and salaried employee separation actions for the second quarter and first half of 2007 and 2006 (in millions). These charges are reported in *Automotive cost of sales* and *Selling, administrative and other expenses*.

	Second Quarter		First Half	
	2007	2006	2007	2006
Ford Canada	\$ 26	\$ —	\$ 194	\$ 14
Ford Europe	21	12	27	40
PAG	21	15	28	17
Ford Asia Pacific and Africa	1	—	3	—

The charges above 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.

Financial Services Sector**Separation Actions**

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

Item 1. Financial Statements (Continued)

NOTE 6. INCOME TAXES

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

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 was \$1.7 billion, of which \$471 million would affect our effective tax rate, if recognized.

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 \$221 million for the payment of interest. During the second quarter of 2007, we recorded an additional liability of \$127 million in interest and inflationary adjustments related to interest refunds in dispute for tax refunds received in prior periods.

During the second quarter of 2007, we settled tax matters related to the acquisition of Land Rover with the U.K. tax authorities. The final resolution resulted in an increase in deferred tax assets and a corresponding decrease in goodwill. The increase in deferred tax assets resulted in an increase in the valuation allowance of \$108 million.

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

Discontinued Operations

APCO. On April 2, 2007, the management team of APCO, together with Trident IV, L.P., a private equity fund managed by Stone Point Capital LLC, purchased APCO from us. This transaction was the result of the ongoing

strategic review of our operations. As a result of the transaction, we received \$180 million as gross proceeds on the sale. In the second quarter of 2007, we realized a pre-tax gain of \$51 million (net of transaction costs and working capital adjustments), reported in *Income/(loss) from discontinued operations*.

*Item 1. Financial Statements (Continued)***NOTE 7. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, AND OTHER DISPOSITIONS (Continued)**

The assets and liabilities of APCO that were classified as a discontinued operation at April 2, 2007 and December 31, 2006 are summarized as follows (in millions):

	April 2, 2007	December 31, 2006
Assets		
Cash and cash equivalents	\$ 16	\$ —
Receivables	18	20
Net property	8	8
Goodwill	112	112
Other assets	13	16
Total assets of the discontinued operations	\$ 167	\$ 156
Liabilities		
Payables	\$ 22	\$ 16
Other liabilities	21	22
Total liabilities of the discontinued operations	\$ 43	\$ 38

At June 30, 2007, there were no assets or liabilities on our balance sheet related to APCO.

The results of discontinued operations for the Automotive sector are as follows (in millions):

	Second Quarter		First Half	
	2007	2006	2007	2006
Sales and revenues	\$ 1	\$ 16	\$ 13	\$ 28
Operating income/(loss) from discontinued operations	\$ (1)	\$ 7	\$ 2	\$ 10
Gain/(loss) on discontinued operations	51	3	51	3
(Provision for)/benefit from income taxes	(18)	(4)	(19)	(5)
Income/(loss) from discontinued operations	\$ 32	\$ 6	\$ 34	\$ 8

Held-for-Sale Operations

Aston Martin. 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 to sell Aston Martin. On May 31, 2007, Ford Motor Company and its subsidiary Jaguar Cars Limited completed the sale of our 100% interest in Aston Martin. Under the terms of the transaction, we received \$931 million (£474 million) in gross proceeds through a combination of cash and preferred stock in Primrose Cove, Ltd., the holding company of the acquirer. As a result of the sale, we recognized a pre-tax gain of \$187 million (net of transaction costs and working capital adjustments) reported in *Automotive interest income and other non-operating income/(expense), net*.

The assets and liabilities of Aston Martin that were classified as a held-for-sale operation at May 31, 2007 and December 31, 2006 are summarized as follows (in millions):

	May 31, 2007	December 31, 2006
Assets		
Cash and cash equivalents	\$ 67	\$ (2)
Receivables	62	80
Inventories	123	93
Net property	266	251
Goodwill and other net intangible assets*	438	4
Other assets	3	22
Total assets of the held-for-sale operations	\$ 959	\$ 448
Liabilities		
Payables	\$ 111	\$ 106
Other liabilities	109	102
Total liabilities of the held-for-sale operations	\$ 220	\$ 208

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

At June 30, 2007, there were no assets or liabilities on our balance sheet related to Aston Martin.

*Item 1. Financial Statements (Continued)***NOTE 7. DISCONTINUED OPERATIONS, HELD-FOR-SALE OPERATIONS, AND OTHER DISPOSITIONS (Continued)**

Automotive Components Holdings, LLC ("ACH"). In April 2007, ACH committed to sell its Converca I plant in Mexico, which produces power transfer units, to Linamar Corporation. We expect to complete the sale during the third quarter of 2007. Accordingly, we have reported Converca I as held-for-sale. As a result of the transaction, we expect to receive an amount approximately equal to the book value of the plant during the third quarter of 2007.

The assets of Converca I classified as a held-for-sale operation are summarized as follows (in millions):

	June 30, 2007	December 31, 2006
Assets		
Inventories	\$ 14	\$ 15
Net property	51	50
Total assets of the held-for-sale operations	\$ 65	\$ 65

European dealerships. In April 2007, we committed to sell three European dealership operations. As a result of the transaction, we recorded a pre-tax loss of \$17 million in *Automotive interest income and other non-operating income/(expense), net*.

The assets and liabilities of the three dealerships classified as held-for-sale operations at June 30, 2007 and December 31, 2006 are summarized as follows (in millions):

	June 30, 2007	December 31, 2006
Assets		
Cash and cash equivalents	\$ 8	\$ —
Receivables	27	25
Inventories	50	46
Net property	15	14
Other assets	1	1
Total assets of the held-for-sale operations	\$ 101	\$ 86
Liabilities		
Payables	\$ 12	\$ 11
Other liabilities	2	6
Total liabilities of the held-for-sale operations	\$ 14	\$ 17

Other Dispositions

ACH has entered into non-binding agreements for the sale of five of its businesses. The following table lists the businesses with their corresponding products:

Sheldon Road plant	Produces heating, ventilating and cooling assemblies; heat exchangers; and manual control panel components
Milan plant	Produces fuel tanks and bumper fascias

Monroe plant	Produces catalytic converters, driveshafts, and springs (driveshaft business only included in agreement – not the plant itself)
Nashville, Tulsa, and VidrioCar (Mexico) plants	Produces automotive and architectural glass products
Sandusky plant	Produces lighting components

Each of these sales is conditional on a successful negotiation by the buyer of labor terms with the UAW, which has not been completed. Therefore, none has yet reached held-for-sale status.

*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):

	Second Quarter		First Half	
	2007	2006	2007	2006
Basic and Diluted Income/(Loss)				
Basic income/(loss) from continuing operations	\$ 718	\$ (323)	\$ 434	\$ (1,748)
Effect of dilutive senior convertible notes	34	— (a)	69	— (a)
Effect of dilutive convertible trust preferred securities	54	— (b)	— (b)	— (b)
Diluted income/(loss) from continuing operations	\$ 806	\$ (323)	\$ 503	\$ (1,748)
Basic and Diluted Shares				
Average shares outstanding	1,896	1,876	1,895	1,870
Restricted and uncommitted-ESOP shares	(1)	(1)	(2)	(2)
Basic shares	1,895	1,875	1,893	1,868
Net dilutive options and restricted and uncommitted-ESOP shares	11	— (c)	10	— (c)
Dilutive senior convertible notes	538	— (a)	538	— (a)
Dilutive convertible trust preferred securities	282	— (b)	— (b)	— (b)
Diluted shares	2,726	1,875	2,441	1,868

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 (issued December 15, 2006).

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

(c) 4 million contingently-issuable shares for the second quarter of 2006 and first half of 2006.

Item 1. Financial Statements (Continued)

NOTE 9. DERIVATIVE 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 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 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):

	Second Quarter		First Half		Income Statement Classification
	2007	2006	2007	2006	
Automotive Sector					
Cash flow hedges:					
Ineffectiveness and impact of discontinued hedges (a)	\$ 177	\$ (2)	\$ 187	\$ (3)	Automotive cost of sales
Net investment hedges:					
Ineffectiveness	—	3	(1)	19	Automotive cost of sales
Derivatives not designated as hedging instruments:					
Commodities	9	91	41	271	Automotive cost of sales
Foreign currency forward contracts (b)	13	27	21	40	Automotive cost of sales
Other	(4)	52	(58)	53	Automotive cost of sales/Automotive interest income and other non-operating income/(expense), net
Financial Services Sector					
Fair value hedges:					
Ineffectiveness	\$ —	\$ 1	\$ —	\$ 9	Financial Services revenues
Net interest settlements and accruals excluded from the assessment of hedge effectiveness	—	4	—	12	Interest expense
Foreign exchange revaluation adjustments excluded from the assessment of hedge effectiveness (b) (c)	—	41	—	65	Financial Services revenues
Derivatives not designated as hedging instruments:					

Interest rate swaps	(268)	(184)	(238)	(442)	<i>Financial Services</i>
Foreign currency swaps and forward contracts (b)	(454)	(125)	(461)	(50)	<i>Financial Services</i>
Other	—	—	—	—	<i>revenues</i>

- (a) Includes reclassifications from Other comprehensive income/(loss) in the amount of \$182 million attributable to Jaguar and Land Rover forecasted derivative transactions probable to not occur.
- (b) 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).
- (c) Amount represents the portion of the derivative's fair value attributable to the change in foreign currency exchange rates.

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 instruments (in millions):

	June 30, 2007		December 31, 2006	
	Fair Value Assets	Fair Value Liabilities	Fair Value Assets	Fair Value Liabilities
Automotive Sector				
Cash flow hedges	\$ 862	\$ 385	\$ 1,736	\$ 860
Net investment hedges	—	—	6	—
Derivatives not designated as hedging instruments	747	299	977	256
Total derivative instruments	\$ 1,609	\$ 684	\$ 2,719	\$ 1,116
Financial Services Sector				
Fair value hedges	\$ —	\$ —	\$ 111	\$ 1
Derivatives not designated as hedging instruments	1,626	1,321	2,334	891
Impact of netting agreements	(595)	(595)	(641)	(641)
Total derivative instruments	\$ 1,031	\$ 726	\$ 1,804	\$ 251

Item 1. Financial Statements (Continued)

NOTE 10. RETIREMENT BENEFITS

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

	Second Quarter					
	Pension Benefits				Health Care and Life Insurance	
	U.S. Plans		Non-U.S. Plans			
	2007	2006	2007	2006	2007	2006
Service cost	\$ 105	\$ 176	\$ 161	\$ 171	\$ 95	\$ 198
Interest cost	658	595	399	341	449	548
Expected return on assets	(870)	(841)	(467)	(396)	(66)	(129)
Amortization of:						
Prior service costs/(credits)	66	115	27	30	(246)	(160)
(Gains)/losses and other	13	35	110	138	181	229
Separation programs	(11)	5	49	18	(7)	—
(Gain)/loss from curtailment	—	489	—	—	(148)	2
Costs allocated to Visteon	—	—	—	—	1	1
Net expense/(income)	\$ (39)	\$ 574	\$ 279	\$ 302	\$ 259	\$ 689

	First Half					
	Pension Benefits				Health Care and Life Insurance	
	U.S. Plans		Non-U.S. Plans			
	2007	2006	2007	2006	2007	2006
Service cost	\$ 226	\$ 354	\$ 321	\$ 342	\$ 189	\$ 377
Interest cost	1,305	1,189	794	678	895	1,095
Expected return on assets	(1,740)	(1,676)	(930)	(795)	(133)	(258)
Amortization of:						
Prior service costs/(credits)	134	233	53	60	(514)	(320)
(Gains)/losses and other	26	59	221	269	371	458
Separation programs	821	20	126	34	15	—
(Gain)/loss from curtailment	176	903	(14)	—	(1,108)	2
Costs allocated to Visteon	—	—	—	—	2	2
Net expense/(income)	\$ 948	\$ 1,082	\$ 571	\$ 588	\$ (283)	\$ 1,356

In the first quarter of 2007, we recorded a \$176 million curtailment loss for the U.S. salaried pension plan, a \$14 million curtailment gain for the Canadian hourly pension plan, and a \$960 million curtailment gain for the U.S. hourly retiree health care plan. In the second quarter of 2007, we recorded an additional \$148 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 June 30, 2007 to determine the U.S. OPEB obligation was 6.18%. 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 half of 2007, we contributed about \$1.5 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 \$700 million 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 the first half of 2007, we withdrew \$300 million from our Voluntary Employee Beneficiary Association trust ("VEBA") as reimbursement for U.S. hourly retiree benefit payments.

Item 1. Financial Statements (Continued)

NOTE 10. RETIREMENT BENEFITS (Continued)**Pension Asset Investment**

Target pension asset allocations disclosed in our 2006 Form 10-K Report were about 70% equity investment and 30% fixed income investment, with less than one percent in alternative investments (such as private equity). In July 2007, in order to reduce the volatility of the value of our U.S. pension assets relative to U.S. pension liabilities, we changed our investment strategy to reduce the proportion of equity investments and increase the proportion of assets in fixed income and alternative investments. We expect our asset allocation for our U.S. plans at year-end 2007 to be about 50% equity investments, 45% fixed income investments, and up to 5% alternative investments.

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
SECOND QUARTER 2007									
Sales/Revenues									
External customer	\$ 18,791	\$ 1,827	\$ 20,618	\$ 9,203	\$ 8,388	\$ 17,591	\$ 1,897	\$ —	\$ 40,106
Intersegment	65	—	65	238	75	313	—	—	378
Income									
Income/(loss) before income taxes	(76)	255	179	184	466	650	99	(107)	821
SECOND QUARTER 2006									
Sales/Revenues									
External customer	\$ 19,155	\$ 1,289	\$ 20,444	\$ 7,526	\$ 7,768	\$ 15,294	\$ 2,073	\$ —	\$ 37,811
Intersegment	159	—	159	234	46	280	(56)	—	383
Income									
Income/(loss) before income taxes	(1,271)	99	(1,172)	171	(180)	(9)	173	(85)	(1,093)

	Financial Services Sector (a)				Total Company	
	Ford Credit	Other	Elims	Total	Elims (b)	Total
SECOND QUARTER 2007						
Sales/Revenues						
External customer	\$ 4,075	\$ 61	\$ —	\$ 4,136	\$ —	\$ 44,242

Edgar Filing: FORD MOTOR CO - Form 10-Q

Intersegment	223	8	(4)	227	(605)	—
Income						
Income/(loss) before income taxes	112	(7)	—	105	—	926
SECOND QUARTER 2006						
Sales/Revenues						
External customer	\$ 3,998	\$ 69	\$ —	\$ 4,067	\$ —	\$ 41,878
Intersegment	155	8	(1)	162	(545)	—
Income						
Income/(loss) before income taxes	435	(10)	—	425	—	(668)

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

Item 1. Financial Statements (Continued)

NOTE 11. SEGMENT INFORMATION (Continued)

(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 HALF 2007									
Sales/Revenues									
External customer	\$ 37,014	\$ 3,110	\$ 40,124	\$ 17,835	\$ 16,775	\$ 34,610	\$ 4,002	\$ —	\$ 78,736
Intersegment	317	—	317	425	138	563	—	—	880
Income									
Income/(loss) before income taxes	(779)	368	(411)	392	857	1,249	93	(448)	483
Total assets at June 30									123,192
FIRST HALF 2006									
Sales/Revenues									
External customer	\$ 38,912	\$ 2,451	\$ 41,363	\$ 14,300	\$ 14,893	\$ 29,193	\$ 4,216	\$ —	\$ 74,772
Intersegment	411	—	411	524	114	638	4	—	1,053
Income									
Income/(loss) before income taxes	(4,232)	247	(3,985)	227	(31)	196	220	(247)	(3,816)
Total assets at June 30									120,570

	Financial Services Sector (a)				Total Company	
	Ford Credit	Other	Elims	Total	Elims (b)	Total
FIRST HALF 2007						
Sales/Revenues						
External customer	\$ 8,394	\$ 131	\$ —	\$ 8,525	\$ —	\$ 87,261
Intersegment	441	14	(6)	449	(1,329)	—
Income						
Income/(loss) before income taxes	406	(7)	—	399	—	882
Total assets at June 30	165,461	10,647	(10,634)	165,474	(727)	287,939

FIRST HALF 2006

Sales/Revenues

External customer	\$	7,763	\$	132	\$	—	\$	7,895	\$	—	\$	82,667
Intersegment		312		16		(3)		325		(1,378)		—

Income

Income/(loss) before income

taxes		817		(17)		—		800		—		(3,016)
-------	--	-----	--	------	--	---	--	-----	--	---	--	---------

Total assets at June 30		162,266		10,343		(9,416)		163,193		(759)		283,004
-------------------------	--	---------	--	--------	--	---------	--	---------	--	-------	--	---------

(a) Financial Services sector's interest income is recorded as *Financial Services revenues*.

(b) Includes intersector transactions occurring in the ordinary course of business.

Item 1. Financial Statements (Continued)

NOTE 12. GUARANTEES

The fair values of guarantees and indemnifications during 2007 and 2006 are recorded in the financial statements and are *de minimis*.

At June 30, 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 our business and objectives. 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 primary obligor 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 \$9.9 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 and deferred a portion of the gain recognized on the sale in an amount equal to the fair value of the guarantee. As of June 30, 2007, the deferred gain related to the letters of credit was \$20 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 our wholly-owned 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.

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 second 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 Half	
	2007	2006
Beginning balance	\$ 5,995	\$ 6,243
Payments made during the period	(1,949)	(2,060)
Changes in accrual related to warranties issued during the period	1,860	1,947
Changes in accrual related to pre-existing warranties	(186)	132
Foreign currency translation and other	121	121
Ending balance	\$ 5,841	\$ 6,383

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):

	Second Quarter		First Half	
	2007	2006	2007	2006
Net income/(loss)	\$ 750	\$ (317)	\$ 468	\$ (1,740)
Other comprehensive income/(loss)				
Foreign currency translation	658	1,289	686	1,467
Employee benefit related	375	1,180	(547)	1,146
Gain/(loss) on derivative instruments	(78)	426	(407)	681
Net holding gain/(loss)	5	(4)	(32)	(17)
Total other comprehensive income/(loss)	960	2,891	(300)	3,277
Total comprehensive income/(loss)	\$ 1,710	\$ 2,574	\$ 168	\$ 1,537

NOTE 14. SUBSEQUENT EVENTS

On August 3, 2007, we completed a conversion offer related to the outstanding 6.50% Cumulative Convertible Trust Preferred Securities, with an aggregate liquidation preference of \$5.0 billion (the "Trust Preferred Securities") of Ford Motor Company Capital Trust II. Each Trust Preferred Security is convertible into 2.8249 shares of Ford Common Stock pursuant to the conversion terms applicable to Trust Preferred Securities. In July 2007, we offered to holders of Trust Preferred Securities a conversion premium in the form of 1.7468 additional shares of Ford Common Stock per Trust Preferred Security converted pursuant to this offer. As a result of this offer, which expired on July 31, 2007, 42,543,071 Trust Preferred Securities with an aggregate liquidation preference of \$2.1 billion were converted into an aggregate 194,494,157 shares of Ford Common Stock. We will record a one-time pre-tax expense in the third quarter of 2007 equal to \$632 million (i.e., 74,314,236 premium shares issued multiplied by \$8.51, which was the closing trading price per share of Ford Common Stock on July 31, 2007 on the New York Stock Exchange). The after-tax impact on net income of this conversion is estimated to be \$258 million. As a result of this conversion offer, we will no longer incur annual pre-tax interest expense of \$138 million related to the Trust Preferred Securities that were converted, and our total stockholders' equity will increase by \$2.1 billion.

Report of Independent Registered Public Accounting Firm

To Board of Directors and Stockholders
Ford Motor Company:

We have reviewed the accompanying consolidated balance sheet of Ford Motor Company and its subsidiaries as of June 30, 2007, and the related consolidated statements of income for each of the three-month and six-month periods ended June 30, 2007 and 2006 and the condensed consolidated statement of cash flows for the six-month periods ended June 30, 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 the method of accounting for defined benefit pension and other postretirement plans, the timing of the annual goodwill and other intangible assets impairment testing, and the amortization method for special tools in 2006) on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information which reflects the reclassification of the assets and liabilities of various operations as discontinued/held-for-sale as described in Note 7 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
August 7, 2007

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**SECOND QUARTER RESULTS OF OPERATIONS**

Our worldwide net profit was \$750 million or \$0.31 per share of Common and Class B Stock in the second quarter of 2007, improved from a loss of \$317 million or \$0.17 per share in the second quarter of 2006.

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

	Second Quarter		2007 Over/ (Under) 2006
	2007	2006	
Income/(loss) before income taxes			
Automotive sector	\$ 821	\$ (1,093)	\$ 1,914
Financial Services sector	105	425	(320)
Total Company	926	(668)	1,594
Provision for/(benefit from) income taxes	123	(364)	487
Minority interests in net income/(loss) of subsidiaries *	85	19	66
Income/(loss) from continuing operations	718	(323)	1,041
Income/(loss) from discontinued operations	32	6	26
Net income/(loss)	\$ 750	\$ (317)	\$ 1,067

*Primarily related to Ford Europe's consolidated 41%-owned affiliate, Ford Otosan. The increase in *Minority interests in net income/(loss) of subsidiaries* primarily reflected higher tax expense in 2006 related to tax law changes in the country of Turkey. The pre-tax results for Ford Otosan were \$139 million and \$153 million in the second 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 second quarter 2007 and 2006 special items by segment or business unit (in millions):

	Second Quarter – Income/(Loss)	
	2007	2006
Ford North America		
Retiree health care curtailment gain	\$ 148	\$ —
Jobs Bank Benefits and personnel-reduction programs	55	7
Pension curtailment charges	—	(489)
Total Ford North America	203	(482)
Ford Europe		
Personnel-reduction programs/Other	(78)	(14)
PAG		
Sale of Aston Martin (primarily the gain on sale)	206	—
Recognition of previously deferred hedging gains (relating to Jaguar and Land Rover)	182	—
Personnel-reduction programs/Other	(62)	(18)
Ford Asia Pacific and Africa/Mazda		
Mazda pension transfer	—	137
Personnel-reduction programs	(8)	—

Total Automotive sector	\$	443	\$	(377)
-------------------------	----	-----	----	-------

23

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 second quarter of 2007 and 2006 are shown below (in millions):

	Second Quarter		
	2007	2006	2007 Over/ (Under) 2006
Americas			
Ford North America	\$ (76)	\$ (1,271)	\$ 1,195
Ford South America	255	99	156
Total Americas	179	(1,172)	1,351
Ford Europe and PAG			
Ford Europe	184	171	13
PAG	466	(180)	646
Total Ford Europe and PAG	650	(9)	659
Ford Asia Pacific and Africa/Mazda			
Ford Asia Pacific and Africa	18	4	14
Mazda and Associated Operations	81	169	(88)
Total Ford Asia Pacific and Africa/Mazda	99	173	(74)
Other Automotive	(107)	(85)	(22)
Total	\$ 821	\$ (1,093)	\$ 1,914

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

	Second Quarter				Wholesales (a)			
	Sales (in billions)		2007 Over/(Under) 2006		(in thousands)		2007 Over/(Under) 2006	
	2007	2006	2007	2006	2007	2006	2007	2006
Americas								
Ford North America	\$ 18.8	\$ 19.1	\$ (0.3)	(2)%	807	907	(100)	(11)%
Ford South America	1.8	1.3	0.5	42	110	89	21	24
Total Americas	20.6	20.4	0.2	1	917	996	(79)	(8)
Ford Europe and PAG								
Ford Europe	9.2	7.5	1.7	22	509	466	43	9
PAG	8.4	7.8	0.6	8	203	195	8	4
	17.6	15.3	2.3	15	712	661	51	8

Total Ford Europe and
PAG

**Ford Asia Pacific and
Africa/Mazda**

Ford Asia Pacific and Africa (b)	1.7	1.8	(0.1)	(4)	135	133	2	2
Mazda and Associated Operations (c)	0.2	0.3	(0.1)	(38)	9	16	(7)	(44)
Total Ford Asia Pacific and Africa/Mazda	1.9	2.1	(0.2)	(8)	144	149	(5)	(3)
Total	\$ 40.1	\$ 37.8	\$ 2.3	6	1,773	1,806	(33)	(2)

- (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 54,000 and 37,000 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 second quarter of 2007 and 2006, along with the level of dealer stocks as of June 30, 2007 and 2006, are shown below:

Market	Market Share			Dealer-Owned Stocks (a) (in thousands)		
	2007	2006	2007 Over/(Under) 2006	2007	2006	2007 Over/(Under) 2006
U.S. (b)	15.6%	16.7%	(1.1) pts.	557	796	(239)
South America (b) (c)	10.9	11.1	(0.2)	29	37	(8)
Europe (b) (d)	8.3	8.3	—	338	303	35
PAG – U.S./Europe (d)	1.0/ 2.2	1.0/ 2.1	—/ 0.1	40/70	42/60	(2)/10
Asia Pacific and Africa (b) (e) (f)						