FORD MOTOR CO
Form 10-Q
November 14, 2006

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 September 30, 2006

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

As of November 6, 2006, the registrant had outstanding 1,818,041,779 shares of Common Stock and 70,852,076 shares of Class B Stock.

Exhibit index located on page number 58.

EXPLANATORY NOTE

In October 2006, Ford Motor Company (generally, "Ford," "we," "us" or "our") reviewed our application of paragraph 68 of Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, and its use at our indirect wholly-owned subsidiary, Ford Motor Credit Company ("Ford Credit"). One of the general requirements of SFAS No. 133 is that hedge accounting is appropriate only for those hedging relationships that a company expects will be highly effective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged. To determine whether transactions satisfy this requirement, companies must periodically assess the effectiveness of hedging relationships both prospectively and retrospectively. Paragraph 68 of SFAS No. 133 ("Paragraph 68") contains an exception from these periodic assessment requirements in the form of an "assumption of no ineffectiveness" for certain hedges of interest rate risk that involve interest rate swaps and recognized interest-bearing assets or liabilities. The exception identifies the specific requirements for the derivative and hedged items that must be met, such as a derivative fair value of zero at inception of the hedging relationship, matching maturity dates, and contemporaneous formal documentation.

Based on our review, we concluded that all of our interest rate swaps were and continue to be highly effective economic hedges; nearly all of these transactions, however, failed to meet the requirements set forth in Paragraph 68, primarily because:

- Transactions that we designated as fair value hedges involved interest rate swaps hedging the back-end of debt instruments or involved longer-than-normal settlement periods.
- We paid or received fees when entering into a derivative contract or upon changing counterparties.
- Interest rate swaps included terms that did not exactly match the terms of the debt, including prepayment optionality.

Although we now have determined that the hedging relationships at issue in this restatement did not meet the specific criteria for an assumption of no ineffectiveness pursuant to Paragraph 68, we are precluded by SFAS No. 133 from retroactively performing full effectiveness testing in order to apply hedge accounting. Accordingly, the restated results in our Annual Report on Form 10-K/A for the year ended December 31, 2005 ("2005 Form 10-K/A Report") reflect the changes in fair value of these instruments as derivative gains and losses during the affected periods, without recording any offsetting change in the value of the debt they were economically hedging.

As a result, we have filed our 2005 Form 10-K/A Report restating certain financial information therein including: historical balance sheets as of December 31, 2005 and 2004; statements of income, cash flows and stockholders' equity for the years ending 2005, 2004, and 2003; and selected financial data as of and for the years ended December 31, 2005, 2004, 2003, 2002 and 2001.

Changes in the fair value of interest rate swaps are driven primarily by changes in interest rates. We have long-term interest rate swaps with large notional balances, many of which are "receive-fixed, pay-float" interest rate swaps. Such swaps increase in value when interest rates decline, and decline in value when interest rates rise. As a result, changes in interest rates cause substantial volatility in the fair values that must be recognized in earnings. For 2001 and 2002, when interest rates were trending lower, we have recognized large derivative gains in our restated financial data. The upward trend in interest rates from 2003 through 2005 caused our interest rate swaps to decline in value, resulting in the recognition of derivative losses for these periods.

See Note 28 of the Notes to the Financial Statements in our 2005 Form 10-K/A Report for additional information and amounts related to our restatement. In addition, this Quarterly Report on Form 10-Q for the period ended September 30, 2006 includes, in Note 2 of the Notes to the Financial Statements, restated consolidated and sector statements of income for the three- and nine-month periods ended September 30, 2005, restated consolidated and sector balance sheets as of December 31, 2005, and restated condensed consolidated and sector statements of cash flows for the nine-month period ended September 30, 2005.

The following table sets forth a reconciliation of previously reported and restated net income/(loss) for the periods shown (in millions):

	2005 Net Income/(Loss)	
	Third Quarter	First Nine Months
Previously reported	$ (284)	$ 1,874
Pre-tax adjustments:		
Fair value interest rate swaps	(435)	(624)
Other out-of-period adjustments	(31)	63
Total pre-tax adjustments	(466)	(561)
Related tax effects - provision for/(benefit from)	(174)	(201)
Net after-tax adjustments	(292)	(360)
Restated	$ (576)	$ 1,514

Subsequent to the completion of our originally-filed financial statements for each period being restated, we identified adjustments that should have been recorded in these earlier periods. Upon identification, we determined these adjustments to be immaterial, individually and in the aggregate, to our originally-filed financial statements, and generally recognized these adjustments ("out-of-period" adjustments) in the period in which they were identified. Because the Ford Credit interest rate swap adjustment has required a restatement, we also are reversing these out-of-period adjustments and recording them in the proper periods.

We do not intend to amend previously-filed Quarterly Reports on Form 10-Q for periods ending prior to December 31, 2005. The reader should not rely on our previously-filed Quarterly Report on Form 10-Q for the period ended September 30, 2005, but should instead rely upon the updated financial data provided for the third quarter and nine months ended September 30, 2005 herein.

PART I. FINANCIAL INFORMATION

ITEM 1. *Financial Statements.*

FORD MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
For the Periods Ended September 30, 2006 and 2005
(in millions, except per share amounts)

	Third Quarter		First Nine Months	
		Restated - See Note 2		Restated - See Note 2
	2006	2005	2006	2005
	(unaudited)		(unaudited)	
Sales and revenues				
Automotive sales	$ 32,556	$ 34,656	$ 107,356	$ 112,778
Financial Services revenues	4,554	5,854	12,449	17,793
Total sales and revenues	37,110	40,510	119,805	130,571
Costs and expenses				
Automotive cost of sales	37,554	33,471	110,340	105,786
Selling, administrative and other expenses	4,496	5,983	13,730	18,181
Interest expense	1,936	2,157	6,330	6,287
Financial Services provision for credit and insurance losses	97	182	193	350
Total costs and expenses	44,083	41,793	130,593	130,604
Automotive interest income and other non-operating income/(expense), net	555	307	1,080	1,111
Automotive equity in net income/(loss) of affiliated companies	61	133	345	259
Income/(loss) before income taxes	(6,357)	(843)	(9,363)	1,337
Provision for/(benefit from) income taxes	(1,157)	(314)	(2,499)	(328)
Income/(loss) before minority interests	(5,200)	(529)	(6,864)	1,665
Minority interests in net income/(loss) of subsidiaries	48	54	126	196
Income/(loss) from continuing operations	(5,248)	(583)	(6,990)	1,469
Income/(loss) from discontinued operations (Note 4)	—	7	2	45
Net income/(loss)	$ (5,248)	$ (576)	$ (6,988)	$ 1,514
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 12)				
Basic income/(loss)				

Income/(loss) from continuing operations	$ (2.79)	$ (0.31)	$ (3.73)	$ 0.80
Income/(loss) from discontinued operations	—	—	—	0.02
Net income/(loss)	$ (2.79)	$ (0.31)	$ (3.73)	$ 0.82
Diluted income/(loss)				
Income/(loss) from continuing operations	$ (2.79)	$ (0.31)	$ (3.73)	$ 0.76
Income/(loss) from discontinued operations	—	—	—	0.03
Net income/(loss)	$ (2.79)	$ (0.31)	$ (3.73)	$ 0.79
Cash dividends	$ 0.05	$ 0.10	$ 0.25	$ 0.30

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 September 30, 2006 and 2005
(in millions, except per share amounts)

	Third Quarter		First Nine Months	
		Restated - See Note 2		Restated - See Note 2
	2006	2005	2006	2005
	(unaudited)		(unaudited)	
AUTOMOTIVE				
Sales	$ 32,556	$ 34,656	$ 107,356	$ 112,778
Costs and expenses				
Cost of sales	37,554	33,471	110,340	105,786
Selling, administrative and other expenses	2,798	2,811	8,733	8,977
Total costs and expenses	40,352	36,282	119,073	114,763
Operating income/(loss)	(7,796)	(1,626)	(11,717)	(1,985)
Interest expense	(73)	371	621	960
Interest income and other non-operating income/(expense), net	555	307	1,080	1,111
Equity in net income/(loss) of affiliated companies	61	133	345	259
Income/(loss) before income taxes — Automotive	(7,107)	(1,557)	(10,913)	(1,575)
FINANCIAL SERVICES				
Revenues	4,554	5,854	12,449	17,793
Costs and expenses				
Interest expense	2,009	1,786	5,709	5,327
Depreciation	1,400	1,537	3,899	4,591
Operating and other expenses	298	1,635	1,098	4,613
Provision for credit and insurance losses	97	182	193	350
Total costs and expenses	3,804	5,140	10,899	14,881
Income/(loss) before income taxes — Financial Services	750	714	1,550	2,912
TOTAL COMPANY				
Income/(loss) before income taxes	(6,357)	(843)	(9,363)	1,337
Provision for/(benefit from) income taxes	(1,157)	(314)	(2,499)	(328)
Income/(loss) before minority interests	(5,200)	(529)	(6,864)	1,665
Minority interests in net income/(loss) of subsidiaries	48	54	126	196

Income/(loss) from continuing operations	(5,248)	(583)	(6,990)	1,469
Income/(loss) from discontinued operations (Note 4)	—	7	2	45
Net income/(loss)	$ (5,248)	$ (576)	$ (6,988)	$ 1,514
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 12)				
Basic income/(loss)				
Income/(loss) from continuing operations	$ (2.79)	$ (0.31)	$ (3.73)	$ 0.80
Income/(loss) from discontinued operations	—	—	—	0.02
Net income/(loss)	$ (2.79)	$ (0.31)	$ (3.73)	$ 0.82
Diluted income/(loss)				
Income/(loss) from continuing operations	$ (2.79)	$ (0.31)	$ (3.73)	$ 0.76
Income/(loss) from discontinued operations	—	—	—	0.03
Net income/(loss)	$ (2.79)	$ (0.31)	$ (3.73)	$ 0.79
Cash dividends	$ 0.05	$ 0.10	$ 0.25	$ 0.30

The accompanying notes are part of the financial statements

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(in millions)

	September 30, 2006 (unaudited)	Restated - see Note 2 December 31, 2005
ASSETS		
Cash and cash equivalents	$ 25,511	$ 28,406
Marketable securities	14,552	10,672
Loaned securities	564	3,461
Finance receivables, net	106,685	105,975
Other receivables, net	8,004	8,536
Net investment in operating leases	30,943	27,099
Retained interest in sold receivables	1,073	1,420
Inventories (Note 6)	11,997	10,271
Equity in net assets of affiliated companies	2,828	2,579
Net property	37,844	40,676
Deferred income taxes	4,197	5,880
Goodwill and other intangible assets (Note 9)	6,396	5,945
Assets of discontinued/held-for-sale operations	—	5
Other assets	16,871	18,534
Total assets	$ 267,465	$ 269,459
LIABILITIES AND STOCKHOLDERS' EQUITY		
Payables	$ 22,738	$ 22,910
Accrued liabilities and deferred revenue	77,365	73,047
Debt	154,410	153,278
Deferred income taxes	2,774	5,660
Total liabilities	257,287	254,895
Minority interests	1,015	1,122
Stockholders' equity		
Capital stock		
Common Stock, par value $0.01 per share (1,837 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	4,579	4,872
Accumulated other comprehensive income/(loss)	(785)	(3,680)
Treasury stock	(258)	(833)
Retained earnings	5,608	13,064
Total stockholders' equity	9,163	13,442
Total liabilities and stockholders' equity	$ 267,465	$ 269,459

The accompanying notes are part of the financial statements

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Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

SECTOR BALANCE SHEET
(in millions)

	September 30, 2006 (unaudited)	Restated - See Note 2 December 31, 2005
ASSETS		
Automotive		
Cash and cash equivalents	$ 13,531	$ 13,388
Marketable securities	7,768	6,860
Loaned securities	564	3,461
Total cash, marketable and loaned securities	21,863	23,709
Receivables, net	3,551	3,075
Inventories (Note 6)	11,997	10,271
Deferred income taxes	657	1,249
Other current assets	7,891	8,177
Total current assets	45,959	46,481
Equity in net assets of affiliated companies	2,026	1,756
Net property	37,533	40,348
Deferred income taxes	13,023	10,999
Goodwill and other intangible assets (Note 9)	6,379	5,928
Assets of discontinued/held-for-sale operations	—	5
Other assets	9,006	8,308
Total Automotive assets	113,926	113,825
Financial Services		
Cash and cash equivalents	11,980	15,018
Marketable securities	6,784	3,812
Finance receivables, net	111,138	111,436
Net investment in operating leases	26,286	22,951
Retained interest in sold receivables	1,073	1,420
Goodwill and other intangible assets (Note 9)	17	17
Other assets	5,921	7,457
Receivable from Automotive	994	83
Total Financial Services assets	164,193	162,194
Intersector elimination	(994)	(83)
Total assets	$ 277,125	$ 275,936
LIABILITIES AND STOCKHOLDERS' EQUITY		
Automotive		
Trade payables	$ 17,895	$ 16,637
Other payables	3,163	4,222
Accrued liabilities and deferred revenue	29,545	28,829
Deferred income taxes	1,152	804
Debt payable within one year	1,289	978
Current payable to Financial Services	285	83

Total current liabilities	53,329	51,553
Long-term debt	16,376	16,900
Other liabilities	43,214	38,639
Deferred income taxes	466	586
Non-current payable to Financial Services	709	—
Total Automotive liabilities	114,094	107,678
Financial Services		
Payables	1,680	2,051
Debt	136,745	135,400
Deferred income taxes	10,816	10,747
Other liabilities and deferred income	4,606	5,579
Total Financial Services liabilities	153,847	153,777
Minority interests	1,015	1,122
Stockholders' equity		
Capital stock		
Common Stock, par value $0.01 per share (1,837 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	4,579	4,872
Accumulated other comprehensive income/(loss)	(785)	(3,680)
Treasury stock	(258)	(833)
Retained earnings	5,608	13,064
Total stockholders' equity	9,163	13,442
Intersector elimination	(994)	(83)
Total liabilities and stockholders' equity	$ 277,125	$ 275,936

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 September 30, 2006 and 2005
(in millions)

	First Nine Months	
	2006	Restated - See Note 2 2005
	(unaudited)	
Cash flows from operating activities of continuing operations		
Net cash (used in)/provided by operating activities	$ 16,975	$ 19,282
Cash flows from investing activities of continuing operations		
Capital expenditures	(5,242)	(5,462)
Acquisitions of retail and other finance receivables and operating leases	(47,688)	(42,026)
Collections of retail and other finance receivables and operating leases	31,741	36,492
Net acquisitions of daily rental vehicles	—	(2,183)
Purchases of securities	(17,471)	(10,100)
Sales and maturities of securities	15,196	4,197
Proceeds from sales of retail and other finance receivables and operating leases	3,956	15,144
Proceeds from sale of businesses	54	2,245
Cash paid for acquisitions	—	(1,617)
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	(4)	(4)
Other	143	2,229
Net cash (used in)/provided by investing activities	(19,315)	(1,085)
Cash flows from financing activities of continuing operations		
Cash dividends	(468)	(552)
Sales of Common Stock	355	697
Purchases of Common Stock	(139)	(447)
Changes in short-term debt	(276)	(6,234)
Proceeds from issuance of other debt	32,775	21,677
Principal payments on other debt	(33,012)	(32,516)
Other	(34)	(28)
Net cash (used in)/provided by financing activities	(799)	(17,403)
Effect of exchange rate changes on cash	238	(376)
Net increase/(decrease) in cash and cash equivalents from continuing operations	(2,901)	418
Cash flows from discontinued operations		
Cash flows from operating activities of discontinued operations	2	65
Cash flows from investing activities of discontinued operations	—	(50)

Cash flows from financing activities of discontinued operations		—		—
Net increase/(decrease) in cash and cash equivalents	$	(2,899)	$	433
Cash and cash equivalents at January 1	$	28,406	$	22,828
Cash and cash equivalents of discontinued/held-for-sale operations at January 1		4		681
Net increase/(decrease) in cash and cash equivalents		(2,899)		433
Less: cash and cash equivalents of discontinued/held-for-sale operations at September 30		—		(790)
Cash and cash equivalents at September 30	$	25,511	$	23,152

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 September 30, 2006 and 2005
(in millions)

	First Nine Months 2006		Restated - See Note 2 First Nine Months 2005	
	Automotive	Financial Services	Automotive	Financial Services
	(unaudited)		(unaudited)	
Cash flows from operating activities of continuing operations				
Net cash (used in)/provided by operating activities	$ 5,020	$ 5,471	$ 4,532	$ 5,887
Cash flows from investing activities				
Capital expenditures	(5,212)	(30)	(5,109)	(353)
Acquisitions of retail and other finance receivables and operating leases	—	(47,688)	—	(42,026)
Collections of retail and other finance receivables and operating leases	—	32,099	—	36,579
Net (increase)/decrease of wholesale receivables	—	6,126	—	5,629
Net acquisitions of daily rental vehicles	—	—	—	(2,775)
Purchases of securities	(3,641)	(13,830)	(4,343)	(5,757)
Sales and maturities of securities	4,095	11,101	3,239	958
Proceeds from sales of retail and other finance receivables and operating leases	—	3,956	—	15,144
Proceeds from sales of wholesale receivables	—	—	—	3,739
Proceeds from sale of businesses	54	—	204	2,041
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	(4)	—	1	(5)
Investing activity from Financial Services	785	—	2,486	—
Investing activity to Financial Services	(1,400)	—	—	—
Cash paid for acquisitions	—	—	(1,617)	—
Other	(61)	204	453	1,776
Net cash (used in)/provided by investing activities	(5,384)	(8,062)	(4,686)	14,950
Cash flows from financing activities				
Cash dividends	(468)	—	(552)	—
Sales of Common Stock	355	—	697	—
Purchases of Common Stock	(139)	—	(447)	—
Changes in short-term debt	251	(527)	(3)	(6,231)
Proceeds from issuance of other debt	204	32,571	253	21,424
Principal payments on other debt	(629)	(32,383)	(682)	(31,834)

Financing activity from Automotive		—		1,400		—		—
Financing activity to Automotive		—		(785)		—		(2,486)
Other		76		(110)		(4)		(24)
Net cash (used in)/provided by financing activities		(350)		166		(738)		(19,151)
Effect of exchange rate changes on cash		3		235		14		(390)
Net change in intersector receivables/payables and other liabilities		848		(848)		(168)		168
Net increase/(decrease) in cash and cash equivalents from continuing operations		137		(3,038)		(1,046)		1,464
Cash flows from discontinued operations								
Cash flows from operating activities of discontinued operations		2		—		(6)		71
Cash flows from investing activities of discontinued operations		—		—		16		(66)
Cash flows from financing activities of discontinued operations		—		—		—		—
Net increase/(decrease) in cash and cash equivalents	$	139	$	(3,038)	$	(1,036)	$	1,469
Cash and cash equivalents at January 1	$	13,388	$	15,018	$	10,139	$	12,689
Cash and cash equivalents of discontinued/held-for-sale operations at January 1		4		—		2		679
Net increase/(decrease) in cash and cash equivalents		139		(3,038)		(1,036)		1,469
Less: cash and cash equivalents of discontinued/held-for-sale operations at September 30		—		—		(13)		(777)
Cash and cash equivalents at September 30	$	13,531	$	11,980	$	9,092	$	14,060

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 accounting principles generally accepted in the United States 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/A for the year ended December 31, 2005 (the "2005 Form 10-K/A 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. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

In October 2006, we reviewed our application of paragraph 68 of Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, and its use at our indirect wholly-owned subsidiary, Ford Motor Credit Company ("Ford Credit"). One of the general requirements of SFAS No. 133 is that hedge accounting is appropriate only for those hedging relationships that a company expects will be highly effective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged. To determine whether transactions satisfy this requirement, companies must periodically assess the effectiveness of hedging relationships both prospectively and retrospectively. Paragraph 68 of SFAS No. 133 ("Paragraph 68") contains an exception from these periodic assessment requirements in the form of an "assumption of no ineffectiveness" for certain hedges of interest rate risk that involve interest rate swaps and recognized interest-bearing assets or liabilities. The exception identifies the specific requirements for the derivative and hedged items that must be met, such as a derivative fair value of zero at inception of the hedging relationship, matching maturity dates, and contemporaneous formal documentation.

Based on our review, we concluded that all of our interest rate swaps were and continue to be highly effective economic hedges; nearly all of these transactions, however, failed to meet the requirements set forth in Paragraph 68, primarily because:

- Transactions that we designated as fair value hedges involved interest rate swaps hedging the back-end of debt instruments or involved longer-than-normal settlement periods.
- We paid or received fees when entering into a derivative contract or upon changing counterparties.
- Interest rate swaps included terms that did not exactly match the terms of the debt, including prepayment optionality.

Although we now have determined that the hedging relationships at issue in this restatement did not meet the specific criteria for an assumption of no ineffectiveness pursuant to Paragraph 68, we are precluded by SFAS No. 133 from retroactively performing full effectiveness testing in order to apply hedge accounting. Accordingly, the restated results in our Annual Report on Form 10-K/A for the year ended December 31, 2005 ("2005 Form 10-K/A Report") reflect the changes in fair value of these instruments as derivative gains and losses during the affected periods, without recording any offsetting change in the value of the debt they were economically hedging.

As a result, we have filed our 2005 Form 10-K/A Report restating certain financial information therein including: historical balance sheets as of December 31, 2005 and 2004; statements of income, cash flows and stockholders' equity for the years ending 2005, 2004, and 2003; and selected financial data as of and for the years ended December 31, 2005, 2004, 2003, 2002 and 2001.

Item 1. Financial Statements (Continued)

Changes in the fair value of interest rate swaps are driven primarily by changes in interest rates. We have long-term interest rate swaps with large notional balances, many of which are "receive-fixed, pay-float" interest rate swaps. Such swaps increase in value when interest rates decline, and decline in value when interest rates rise. As a result, changes in interest rates cause substantial volatility in the fair values that must be recognized in earnings. For 2001 and 2002, when interest rates were trending lower, we have recognized large derivative gains in our restated financial data. The upward trend in interest rates from 2003 through 2005 caused our interest rate swaps to decline in value, resulting in the recognition of derivative losses for these periods.

See Note 28 of the Notes to the Financial Statements in our 2005 Form 10-K/A Report for additional information and amounts related to our restatement. In addition, this Quarterly Report on Form 10-Q for the period ended September 30, 2006 includes, in Note 2, restated consolidated and sector statements of income for the three- and nine-month periods ended September 30, 2005, restated consolidated and sector balance sheets as of December 31, 2005, and restated condensed consolidated and sector statements of cash flows for the nine-month period ended September 30, 2005.

The following table sets forth a reconciliation of previously reported and restated net income/(loss) for the periods shown (in millions):

	2005 Net Income/(Loss)	
	Third Quarter	First Nine Months
Previously reported	$ (284)	$ 1,874
Pre-tax adjustments:		
Fair value interest rate swaps	(435)	(624)
Other out-of-period adjustments	(31)	63
Total pre-tax adjustments	(466)	(561)
Related tax effects - provision for/(benefit from)	(174)	(201)
Net after-tax adjustments	(292)	(360)
Restated	$ (576)	$ 1,514

Subsequent to the completion of our originally-filed financial statements for each period being restated, we identified adjustments that should have been recorded in these earlier periods. Upon identification, we determined these adjustments to be immaterial, individually and in the aggregate, to our originally-filed financial statements, and generally recognized these adjustments ("out-of-period" adjustments) in the period in which they were identified. Because the Ford Credit interest rate swap adjustment has required a restatement, we also are reversing these out-of-period adjustments and recording them in the proper periods.

We do not intend to amend previously-filed Quarterly Reports on Form 10-Q for periods ending prior to December 31, 2005. The reader should not rely on the financial information in our previously-filed Quarterly Report on Form 10-Q for the period ended September 30, 2005, but should instead rely upon the updated financial data provided for the third quarter and nine months ended September 30, 2005 herein.

Presentation of Cash Flows

Beginning with our year ended December 31, 2005 statements of cash flows, we have revised the presentation of cash flows to separately disclose the operating, investing, and financing portions of the cash flows attributable to our discontinued operations. This revision is in response to public statements by the staff of the Securities and Exchange Commission ("SEC") concerning classification of discontinued operations within the statement of cash flows.

Item 1. Financial Statements (Continued)

NOTE 2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS *(Continued)*

The following table presents the effect of the restatement on the Consolidated Statement of Income (in millions, except per share amounts):

	Third Quarter 2005		First Nine Months 2005	
	Previously Reported	Restated	Previously Reported	Restated
	(unaudited)		(unaudited)	
Sales and revenues				
Automotive sales	$ 34,675	$ 34,656	$ 112,692	$ 112,778
Financial Services revenues	6,181	5,854	17,848	17,793
Total sales and revenues	40,856	40,510	130,540	130,571
Costs and expenses				
Automotive cost of sales	33,532	33,471	105,803	105,786
Selling, administrative and other expenses	5,983	5,983	18,200	18,181
Interest expense	1,976	2,157	5,659	6,287
Financial Services provision for credit and insurance losses	182	182	350	350
Total costs and expenses	41,673	41,793	130,012	130,604
Automotive interest income and other non-operating income/(expense), net	307	307	1,111	1,111
Automotive equity in net income/(loss) of affiliated companies	133	133	259	259
Income/(loss) before income taxes	(377)	(843)	1,898	1,337
Provision for/(benefit from) income taxes	(140)	(314)	(127)	(328)
Income/(loss) before minority interests	(237)	(529)	2,025	1,665
Minority interests in net income/(loss) of subsidiaries	54	54	196	196
Income/(loss) from continuing operations	(291)	(583)	1,829	1,469
Income/(loss) from discontinued operations (Note 4)	7	7	45	45
Net income/(loss)	$ (284)	$ (576)	$ 1,874	$ 1,514
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 12)				
Basic income/(loss)				
Income/(loss) from continuing operations	$ (0.16)	$ (0.31)	$ 0.99	$ 0.80
Income/(loss) from discontinued operations	0.01	—	0.03	0.02
Net income/(loss)	$ (0.15)	$ (0.31)	$ 1.02	$ 0.82

Diluted income/(loss)								
Income/(loss) from continuing operations	$	(0.16)	$	(0.31)	$	0.93	$	0.76
Income/(loss) from discontinued operations		0.01		—		0.02		0.03
Net income/(loss)	$	(0.15)	$	(0.31)	$	0.95	$	0.79
Cash dividends	$	0.10	$	0.10	$	0.30	$	0.30

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Item 1. Financial Statements (Continued)

NOTE 2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS *(Continued)*

The following table presents the effect of the restatement on the Sector Statement of Income (in millions, except per share amounts):

	Third Quarter 2005		First Nine Months 2005	
	Previously Reported	Restated	Previously Reported	Restated
	(unaudited)		(unaudited)	
AUTOMOTIVE				
Sales	$ 34,675	$ 34,656	$ 112,692	$ 112,778
Costs and expenses				
Cost of sales	33,532	33,471	105,803	105,786
Selling, administrative and other expenses	2,811	2,811	8,996	8,977
Total costs and expenses	36,343	36,282	114,799	114,763
Operating income/(loss)	(1,668)	(1,626)	(2,107)	(1,985)
Interest expense	371	371	960	960
Interest income and other non-operating income/(expense), net	307	307	1,111	1,111
Equity in net income/(loss) of affiliated companies	133	133	259	259
Income/(loss) before income taxes — Automotive	(1,599)	(1,557)	(1,697)	(1,575)
FINANCIAL SERVICES				
Revenues	6,181	5,854	17,848	17,793
Costs and expenses				
Interest expense	1,605	1,786	4,699	5,327
Depreciation	1,537	1,537	4,591	4,591
Operating and other expenses	1,635	1,635	4,613	4,613
Provision for credit and insurance losses	182	182	350	350
Total costs and expenses	4,959	5,140	14,253	14,881
Income/(loss) before income taxes — Financial Services	1,222	714	3,595	2,912
TOTAL COMPANY				
Income/(loss) before income taxes	(377)	(843)	1,898	1,337
Provision for/(benefit from) income taxes	(140)	(314)	(127)	(328)
Income/(loss) before minority interests	(237)	(529)	2,025	1,665
Minority interests in net income/(loss) of subsidiaries	54	54	196	196
Income/(loss) from continuing operations	(291)	(583)	1,829	1,469

Income/(loss) from discontinued operations (Note 4)	7	7	45	45
Net income/(loss)	$ (284)	$ (576)	$ 1,874	$ 1,514
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 12)				
Basic income/(loss)				
Income/(loss) from continuing operations	$ (0.16)	$ (0.31)	$ 0.99	$ 0.80
Income/(loss) from discontinued operations	0.01	—	0.03	0.02
Net income/(loss)	$ (0.15)	$ (0.31)	$ 1.02	$ 0.82
Diluted income/(loss)				
Income/(loss) from continuing operations	$ (0.16)	$ (0.31)	$ 0.93	$ 0.76
Income/(loss) from discontinued operations	0.01	—	0.02	0.03
Net income/(loss)	$ (0.15)	$ (0.31)	$ 0.95	$ 0.79
Cash dividends	$ 0.10	$ 0.10	$ 0.30	$ 0.30

Item 1. Financial Statements (Continued)

NOTE 2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS *(Continued)*

The following table presents the effect of the restatement on the Consolidated Balance Sheet at December 31, 2005 (in millions):

	Previously Reported	Restated
ASSETS		
Cash and cash equivalents	$ 28,406	$ 28,406
Marketable securities	10,672	10,672
Loaned securities	3,461	3,461
Finance receivables, net	105,975	105,975
Other receivables, net	8,522	8,536
Net investment in operating leases	27,099	27,099
Retained interest in sold receivables	1,420	1,420
Inventories (Note 6)	10,271	10,271
Equity in net assets of affiliated companies	2,579	2,579
Net property	40,706	40,676
Deferred income taxes	5,881	5,880
Goodwill and other intangible assets (Note 9)	5,945	5,945
Assets of discontinued/held-for-sale operations	5	5
Other assets	18,534	18,534
Total assets	$ 269,476	$ 269,459
LIABILITIES AND STOCKHOLDERS' EQUITY		
Payables	$ 22,813	$ 22,910
Accrued liabilities and deferred revenue	72,977	73,047
Debt	154,332	153,278
Deferred income taxes	5,275	5,660
Total liabilities	255,397	254,895
Minority interests	1,122	1,122
Stockholders' equity		
Capital stock		
Common Stock, par value $0.01 per share (1,837 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	4,872	4,872
Accumulated other comprehensive income/(loss)	(3,562)	(3,680)
Treasury stock	(833)	(833)
Retained earnings	12,461	13,064
Total stockholders' equity	12,957	13,442
Total liabilities and stockholders' equity	$ 269,476	$ 269,459

Item 1. Financial Statements (Continued)

NOTE 2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS *(Continued)*

The following table presents the effect of the restatement on the Sector Balance Sheet at December 31, 2005 (in millions):

	Previously Reported	Restated
ASSETS		
Automotive		
Cash and cash equivalents	$ 13,388	$ 13,388
Marketable securities	6,860	6,860
Loaned securities	3,461	3,461
Total cash, marketable and loaned securities	23,709	23,709
Receivables, net	3,061	3,075
Inventories (Note 6)	10,271	10,271
Deferred income taxes	1,187	1,249
Other current assets	8,177	8,177
Total current assets	46,405	46,481
Equity in net assets of affiliated companies	1,756	1,756
Net property	40,378	40,348
Deferred income taxes	11,049	10,999
Goodwill and other intangible assets (Note 9)	5,928	5,928
Assets of discontinued/held-for-sale operations	5	5
Other assets	8,308	8,308
Total Automotive assets	113,829	113,825
Financial Services		
Cash and cash equivalents	15,018	15,018
Marketable securities	3,812	3,812
Finance receivables, net	111,436	111,436
Net investment in operating leases	22,951	22,951
Retained interest in sold receivables	1,420	1,420
Goodwill and other intangible assets (Note 9)	17	17
Other assets	7,457	7,457
Receivable from Automotive	83	83
Total Financial Services assets	162,194	162,194
Intersector elimination	(83)	(83)
Total assets	$ 275,940	$ 275,936
LIABILITIES AND STOCKHOLDERS' EQUITY		
Automotive		
Trade payables	$ 16,554	$ 16,637
Other payables	4,222	4,222
Accrued liabilities and deferred revenue	28,733	28,829
Deferred income taxes	804	804
Debt payable within one year	978	978
Current payable to Financial Services	83	83
Total current liabilities	51,374	51,553
Long-term debt	16,900	16,900
Other liabilities	38,639	38,639

Deferred income taxes	586	586
Non-current payable to Financial Services	—	—
Total Automotive liabilities	107,499	107,678
Financial Services		
Payables	2,037	2,051
Debt	136,454	135,400
Deferred income taxes	10,349	10,747
Other liabilities and deferred income	5,605	5,579
Total Financial Services liabilities	154,445	153,777
Minority interests	1,122	1,122
Stockholders' equity		
Capital stock		
Common Stock, par value $0.01 per share (1,837 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	4,872	4,872
Accumulated other comprehensive income/(loss)	(3,562)	(3,680)
Treasury stock	(833)	(833)
Retained earnings	12,461	13,064
Total stockholders' equity	12,957	13,442
Intersector elimination	(83)	(83)
Total liabilities and stockholders' equity	$ 275,940	$ 275,936

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Item 1. Financial Statements (Continued)

NOTE 2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS *(Continued)*

The following table presents the effect of the restatement on the Condensed Consolidated Statement of Cash Flows for the period ended September 30, 2005 (in millions):

	First Nine Months 2005	
	Previously Reported	Restated
	(unaudited)	
Cash flows from operating activities of continuing operations		
Net cash (used in)/provided by operating activities	$ 20,103	$ 19,282
Cash flows from investing activities of continuing operations		
Capital expenditures	(5,462)	(5,462)
Acquisitions of retail and other finance receivables and operating leases	(42,026)	(42,026)
Collections of retail and other finance receivables and operating leases	37,760	36,492
Net acquisitions of daily rental vehicles	(2,775)	(2,183)
Purchases of securities	(4,743)	(10,100)
Sales and maturities of securities	3,863	4,197
Proceeds from sales of retail and other finance receivables and operating leases	15,144	15,144
Proceeds from sale of businesses	2,245	2,245
Cash paid for acquisitions	(1,617)	(1,617)
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	—	(4)
Other	576	2,229
Net cash (used in)/provided by investing activities	2,965	(1,085)
Cash flows from financing activities of continuing operations		
Cash dividends	(552)	(552)
Sales of Common Stock	697	697
Purchases of Common Stock	(447)	(447)
Changes in short-term debt	(6,177)	(6,234)
Proceeds from issuance of other debt	20,237	21,677
Principal payments on other debt	(31,076)	(32,516)
Other	(5)	(28)
Net cash (used in)/provided by financing activities	(17,323)	(17,403)
Effect of exchange rate changes on cash	(376)	(376)
Net increase/(decrease) in cash and cash equivalents from continuing operations	5,369	418
Cash flows from discontinued operations		
Cash flows from operating activities of discontinued operations	—	65
Cash flows from investing activities of discontinued operations	—	(50)
Cash flows from financing activities of discontinued operations	—	—

Net increase/(decrease) in cash and cash equivalents	$	—	$	433
Cash and cash equivalents at January 1	$	22,831	$	22,828
Cash and cash equivalents of discontinued/held-for-sale operations at January 1		—		681
Net increase/(decrease) in cash and cash equivalents		5,369		433
Less: cash and cash equivalents of discontinued/held-for-sale operations at September 30		—		(790)
Cash and cash equivalents at September 30	$	28,200	$	23,152

Item 1. Financial Statements (Continued)

NOTE 2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS *(Continued)*

The following table presents the effect of the restatement on the Condensed Sector Statement of Cash Flows for the period ended September 30, 2005 (in millions):

	Previously Reported First Nine Months 2005		Restated First Nine Months 2005	
	Automotive	Financial Services	Automotive	Financial Services
	(unaudited)		(unaudited)	
Cash flows from operating activities of continuing operations				
Net cash (used in)/provided by operating activities	$ 4,535	$ 7,757	$ 4,532	$ 5,887
Cash flows from investing activities				
Capital expenditures	(5,109)	(353)	(5,109)	(353)
Acquisitions of retail and other finance receivables and operating leases	—	(42,026)	—	(42,026)
Collections of retail and other finance receivables and operating leases	—	36,560	—	36,579
Net (increase)/decrease of wholesale receivables	—	5,272	—	5,629
Net acquisitions of daily rental vehicles	—	(2,775)	—	(2,775)
Purchases of securities	(4,343)	(400)	(4,343)	(5,757)
Sales and maturities of securities	3,239	624	3,239	958
Proceeds from sales of retail and other finance receivables and operating leases	—	15,144	—	15,144
Proceeds from sales of wholesale receivables	—	3,739	—	3,739
Proceeds from sale of businesses	204	2,041	204	2,041
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	—	—	1	(5)
Investing activity from Financial Services	2,486	—	2,486	—
Investing activity to Financial Services	—	—	—	—
Cash paid for acquisitions	(1,617)	—	(1,617)	—
Other	451	125	453	1,776
Net cash (used in)/provided by investing activities	(4,689)	17,951	(4,686)	14,950
Cash flows from financing activities				
Cash dividends	(552)	—	(552)	—
Sales of Common Stock	697	—	697	—
Purchases of Common Stock	(447)	—	(447)	—
Changes in short-term debt	(3)	(6,174)	(3)	(6,231)
Proceeds from issuance of other debt	253	19,984	253	21,424
Principal payments on other debt	(682)	(30,394)	(682)	(31,834)
Financing activity from Automotive	—	—	—	—

Financing activity to Automotive	—	(2,486)	—	(2,486)
Other	(4)	(1)	(4)	(24)
Net cash (used in)/provided by financing activities	(738)	(19,071)	(738)	(19,151)
Effect of exchange rate changes on cash	14	(390)	14	(390)
Net change in intersector receivables/payables and other liabilities	(168)	168	(168)	168
Net increase/(decrease) in cash and cash equivalents from continuing operations	(1,046)	6,415	(1,046)	1,464
Cash flows from discontinued operations				
Cash flows from operating activities of discontinued operations	—	—	(6)	71
Cash flows from investing activities of discontinued operations	—	—	16	(66)
Cash flows from financing activities of discontinued operations	—	—	—	—
Net increase/(decrease) in cash and cash equivalents	$ (1,046)	$ 6,415	$ (1,036)	$ 1,469
Cash and cash equivalents at January 1	$ 10,142	$ 12,689	$ 10,139	$ 12,689
Cash and cash equivalents of discontinued/held-for-sale operations at January 1	—	—	2	679
Net increase/(decrease) in cash and cash equivalents	(1,046)	6,415	(1,036)	1,469
Less: cash and cash equivalents of discontinued/held-for-sale operations at September 30	—	—	(13)	(777)
Cash and cash equivalents at September 30	$ 9,096	$ 19,104	$ 9,092	$ 14,060

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Item 1. Financial Statements (Continued)

NOTE 3. INCOME TAXES

For the first nine months of the year, we have used the actual effective tax rate for the year-to-date tax provision calculation because a reliable estimate of the full-year effective tax rate cannot be made. External business conditions and other factors throughout the year may contribute to significant variability of the effective tax rate due to the impact of permanent differences relative to our financial results. Effective this quarter, the balance of deferred taxes primarily at our Ford North America and Jaguar/Land Rover operations has changed from a net deferred tax liability position to a net deferred tax asset position. Due to the cumulative losses we have incurred at these operations and their near-term financial outlook, we recorded a valuation allowance of $1.8 billion against the net deferred tax asset in the third quarter of 2006. Detailed valuation allowance testing was conducted for each legal entity and tax jurisdiction in which these operations conduct business. The effective tax rates of 18.0% for the third quarter and 25.7% for the first nine months include the impact of this valuation allowance.

In the third quarter of 2006, we reflected the favorable effects related to the settlement of prior-year federal and state tax matters of about $400 million in our *Automotive interest expense*, which more than offsets the interest expense that we normally carry.

NOTE 4. DISCONTINUED OPERATIONS AND OTHER DISPOSITIONS

Total Company Discontinued Operations

The results of all discontinued operations are as follows (in millions):

	Third Quarter		First Nine Months	
	2006	**2005**	**2006**	**2005**
Sales and revenues	$ —	$ 1	$ —	$ 121
Operating income/(loss) from discontinued operations	$ —	$ —	$ —	$ 54
Gain/(loss) on discontinued operations	—	11	3	(5)
(Provision for)/benefit from income taxes	—	(4)	(1)	(4)
Income/(loss) from discontinued operations	$ —	$ 7	$ 2	$ 45

NOTE 5. EXIT AND DISPOSAL ACTIVITIES AND OTHER ACTIONS

General

The timing for recording expenses related to employee separation actions differs by type of separation program: the cost of certain benefits for hourly employees associated with facilities that are being idled through 2008 is being expensed when it is probable the employees will be permanently idled; the cost of other voluntary employee separation actions is being recorded as an expense at the time an employee accepts a separation offer.

Jobs Bank Benefits Reserve

On January 23, 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 announced that the following facilities will be idled through 2008: St. Louis Assembly Plant, Atlanta Assembly Plant, Wixom Assembly Plant, Batavia

Transmission Plant, Windsor Casting Plant, Twin Cities Assembly Plant, and Norfolk Assembly Plant. In addition, we announced that production at our St. Thomas Assembly Plant in Canada would be reduced to one shift.

Responding to changing business circumstances, on September 15, 2006, Ford announced an acceleration of this plan, pursuant to which two additional facilities would be idled through 2008: Maumee (Ohio) Stamping Plant and Essex (Ontario, Canada) Engine Plant. We also announced that the Norfolk Assembly Plant would be idled a year earlier than planned, and that a shift reduction is now planned at Norfolk and Twin Cities Assembly in advance of the idling of the facilities. In addition, we announced that all Automotive Components Holdings, LLC ("ACH") operations would be sold or closed by the end of 2008.

Hourly employees working at the U.S. plants identified above are represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW"); hourly employees working at the Canadian plants identified above are represented by the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW"). The collective bargaining agreement between us and the UAW contains

Item 1. Financial Statements (Continued)

NOTE 5. EXIT AND DISPOSAL ACTIVITIES AND OTHER ACTIONS *(Continued)*

a guaranteed employment numbers provision, pursuant to which we are required to pay idled employees who meet certain conditions substantially all of their wages and benefits for the term of the current agreement; the collective bargaining agreement between us and the CAW contains provisions pursuant to which we are required to pay idled employees a portion of their wages and certain benefits for a specified period of time based on the number of credits an employee has received. We refer to these benefits under the UAW and CAW agreements as "Jobs Bank Benefits."

The plant idlings and shift reductions described above are expected to create a population of hourly employees covered under the UAW and CAW collective bargaining agreements who will be permanently idled because we do not have the ability or intent to redeploy or absorb them in our operations. The employee-related costs associated with these actions have been expensed and include an amount for Jobs Bank Benefits expected to be provided in their present form under the current UAW and CAW collective bargaining agreements, which are scheduled to expire in September 2007 and September 2008, respectively, and an amount for Jobs Bank Benefits or similar benefits in an expected modified form under new collective bargaining agreements after expiration of the current agreements. The reserve balance is adjusted for Jobs Bank Benefits payments made to employees. In addition, the reserve is adjusted when we offer voluntary separation and/or relocation packages to employees which are accepted and whose cost can be reasonably estimated. Approximately 5,700 (of the approximately 25,000 affected employees at the announced Ford plants and ACH) have accepted voluntary separation packages or have agreed to relocate to other facilities as of September 30, 2006.

The reserve balance at September 30, 2006 was $2.0 billion, and represents our best estimate of the liability for approximately 17,200 UAW-represented employees (including ACH) and 2,200 CAW-represented employees remaining at the facilities identified above, considering several factors: the demographics of the population at each affected facility, redeployment alternatives, recent experience relative to voluntary redeployments, and recent experience with regard to the rate of voluntary separations. However, because of the complexities inherent in estimating this reserve, our actual costs could differ materially. Accordingly, we will continue to review our expected liability and make adjustments as necessary. We continue to expense costs as incurred associated with the small number of employees who are temporarily idled.

With respect to the remaining manufacturing facilities included in our Way Forward plan announcement, we have not accrued any costs for benefits that may be provided to employees working at facilities to be idled after 2008. The cost of executing the plans for these facilities is dependent on the resolution of many contingencies, including the negotiation of future labor agreements, the successful implementation of our product cycle plan, the resolution of alternative capacity actions, and changes in our market share between now and the planned idling of those facilities. Our present estimate for benefits that we anticipate may be paid to employees expected to be permanently idled at the remaining manufacturing facilities as part of our accelerated Way Forward plan is a charge of up to $750 million (on a discounted basis). Although it is probable that we will take the necessary actions to reduce our manufacturing employment, the amount of our estimated benefit obligation is highly dependent on the resolution of the previously-mentioned contingencies. No estimated value is more likely than another, and therefore, the benefit obligation is not reasonably estimable.

Other Actions

UAW Voluntary Separations: During the first nine months of 2006, we reduced our hourly workforce in U.S. plants other than those identified above by approximately 3,500 employees and recognized a $200 million pre-tax charge related to these separations. During the third quarter, we announced that we will offer early retirement and voluntary separation programs to all Ford and ACH hourly employees in the United States as part of our accelerated Way Forward plan. These programs will be offered in the fourth quarter of 2006. Hourly employees who accept an early retirement or separation offer are expected to leave the company by September 2007.

Other Employee Separation Actions: We also announced during the third quarter of 2006 our plans to reduce the North American salaried-related costs through the elimination of the equivalent of about 14,000 positions (which includes the equivalent of 4,000 positions already eliminated in the first quarter of 2006). Most salaried reductions are expected to be completed by the end of the first quarter of 2007, and will be achieved through early retirements, voluntary separations, and if necessary, involuntary separations. Most of these costs will be incurred in the fourth quarter of 2006 and the first quarter of 2007, as employees accept these offers.

During the third quarter of 2005, Premier Automotive Group ("PAG") and Ford Europe initiated hourly and salaried employee separation actions resulting in pre-tax charges of $117 million and $26 million in the first nine months of 2006 and 2005, respectively.

Item 1. Financial Statements (Continued)

NOTE 5. EXIT AND DISPOSAL ACTIVITIES AND OTHER ACTIONS *(Continued)*

All charges disclosed above exclude costs for pension and other postretirement employee benefits ("OPEB"). For further discussion regarding pension and OPEB, see Note 14 of the Notes to the Financial Statements.

NOTE 6. AUTOMOTIVE INVENTORIES

Inventories are summarized as follows (in millions):

	September 30, 2006	December 31, 2005
Raw materials, work-in-process and supplies	$ 4,683	$ 4,057
Finished products	8,343	7,223
Total inventories at FIFO	13,026	11,280
Less: LIFO adjustment	(1,029)	(1,009)
Total inventories	$ 11,997	$ 10,271

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 cost of goods sold by approximately $4 million.

NOTE 7. NET PROPERTY

Beginning January 1, 2006, we changed our method of amortization for special tools from an activity-based method (units-of-production) to a time-based method. The time-based method amortizes the cost of special tools over their expected useful lives using a straight-line method or, if the production volumes for major product programs associated with the tool are expected to materially decline over the life of the tool, an accelerated method reflecting the rate of decline. For the third quarter of 2006, this change increased *Cost of sales* by $1 million, and decreased *Income/(loss) from continuing operations* and *Net income* by $1 million, with no impact on earnings per share. For the first nine months of 2006, the change decreased *Cost of sales* by $133 million, and increased *Income/(loss) from continuing operations* and *Net income* by $133 million or $0.07 per diluted share.

NOTE 8. IMPAIRMENT OF LONG-LIVED ASSETS

Based on the assumptions underlying our accelerated Way Forward plan, we project a decline in net cash flows for the Ford North America segment, primarily reflecting lower market share assumptions, lower production, and other aspects of our accelerated plan. As a result, in the third quarter of 2006 we tested the long-lived assets of this segment for recoverability and recorded a pre-tax impairment charge of $2.2 billion in *Cost of sales*, representing the amount by which the carrying value of these assets exceeded the fair value.

During the third quarter of 2006, we also reviewed our business plan for the Jaguar/Land Rover operating unit within our PAG segment and, consistent with 2006 operating results, are projecting lower sales, a decline in net cash flows for this operating unit based on cost performance shortfalls and currency exchange deterioration. As a result, we tested the long-lived assets of this operating unit for recoverability and recorded a pre-tax impairment charge of $1.6 billion in *Cost of sales*, representing the amount by which the carrying value of these assets exceeded the fair value.

The fair value of the asset groups were measured using the discounted cash flow projections approved by our Board of Directors. We also compared various market multiples (e.g., revenue and EBITDA) within the same industry as useful comparative data points.

NOTE 9. GOODWILL AND OTHER INTANGIBLES

Beginning in 2006, 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. Testing is also performed following a triggering event for the long-lived asset impairment test. As a result of the impairment of Ford North America and Jaguar/Land Rover operating units, we tested goodwill at our Ford North America and PAG reporting units. No goodwill impairment was necessary.

Item 1. Financial Statements (Continued)

NOTE 9. GOODWILL AND OTHER INTANGIBLES *(Continued)*

To test for impairment, the carrying value of each reporting unit is compared with its fair value. Fair value is estimated using the present value of free cash flows method. Prior to 2006, our policy was to test in the second quarter; in 2005, we tested in both the second and fourth quarters. Fourth quarter testing is considered preferable because it allows us to use more current financial information and matches our business plan timing. This change in accounting principle does not delay, accelerate or avoid an impairment charge or affect our financial statements.

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

	Goodwill, December 31, 2005	Goodwill Acquired	Goodwill Impaired	Exchange Translation/ Other	Goodwill, September 30, 2006
Automotive Sector:					
Ford North America	$ 202	$ 2	$ —	$ —	$ 204
Ford South America	—	—	—	—	—
Ford Europe	31	—	—	2	33
PAG	4,875	—	—	406	5,281
Ford Asia Pacific and Africa	—	—	—	—	—
Total Automotive Sector	5,108	2	—	408	5,518
Financial Services Sector:					
Ford Credit	17	—	—	—	17
Total Financial Services Sector	17	—	—	—	17
Total	$ 5,125	$ 2	$ —	$ 408	$ 5,535

In addition to the goodwill presented in the above table, included within *Equity in net assets of affiliated companies* was goodwill of $249 million at September 30, 2006. This included an increase of $36 million related to the conversion of our investment in Mazda Motor Corporation ("Mazda") convertible bonds to an investment in Mazda's equity.

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

	September 30, 2006			December 31, 2005		
	Gross Carrying Amount	Less: Accumulated Depreciation	Net Intangible Assets	Gross Carrying Amount	Less: Accumulated Depreciation	Net Intangible Assets
Automotive Sector:						
Tradename	$ 467	$ —	$ 467	$ 431	$ —	$ 431
Distribution Networks	354	(91)	263	337	(83)	254
Other	237	(106)	131	221	(86)	135
Total Automotive Sector	1,058	(197)	861	989	(169)	820
Total Financial Services Sector	4	(4)	—	4	(4)	—
Total	$ 1,062	$ (201)	$ 861	$ 993	$ (173)	$ 820

The intangibles account is comprised of a non-amortizable tradename, distribution networks with a useful life of 40 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 for the first nine months of 2006 and 2005 was $19 million and $41 million, respectively. Intangible asset amortization is forecasted to range from

$20 million to $30 million per year for the next five years, excluding the impact of foreign currency translation.

NOTE 10. 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 September 30, 2006 balance sheet are consolidated VIE assets of $5.3 billion for the Automotive sector and $55.7 billion for the Financial Services sector. Included in Automotive consolidated VIE assets are $382 million of cash and cash equivalents. For the Financial Services sector, consolidated VIE assets include $6.7 billion in cash and cash equivalents, and $49 billion of finance receivables.

Item 1. Financial Statements (Continued)

NOTE 10. VARIABLE INTEREST ENTITIES *(Continued)*

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 is $285 million for the Automotive sector and $196 million for the Financial Services sector at September 30, 2006. 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.

Ford Credit also sells finance receivables to bank-sponsored asset-backed commercial paper issuers that are special purpose entities ("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 these SPEs was approximately $4.6 billion at September 30, 2006.

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS

All derivative instruments, including embedded derivatives, are recorded at fair market value on our balance sheet.

Income Statement Impact: The ineffective portion of designated hedges and mark-to-market adjustments for non-designated hedging activity are recognized in *Cost of sales* or *Interest income and other non-operating income/(expense), net* for the Automotive sector and in *Revenues* for the Financial Services sector.

Fair Value 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 for these derivatives, 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, taking into consideration the effects of legally enforceable netting agreements (in millions):

	September 30, 2006		December 31, 2005	
	Fair Value Assets	Fair Value Liabilities	Fair Value Assets	Fair Value Liabilities
Automotive Sector				
Foreign currency forwards and options	$ 1,049	$ 752	$ 747	$ 1,168
Commodity forwards and options	939	57	703	38
Other	142	1	128	1
Total derivative financial instruments	$ 2,130	$ 810	$ 1,578	$ 1,207
Financial Services Sector				
Foreign currency swaps, forwards, and options	$ 879	$ 461	$ 1,126	$ 789
Interest rate swaps	1,104	47	1,657	96
Impact of netting agreements	(234)	(234)	(205)	(205)
Total derivative financial instruments	$ 1,749	$ 274	$ 2,578	$ 680

Item 1. Financial Statements (Continued)

NOTE 12. 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 obligations, 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):

	Third Quarter		First Nine Months	
	2006	2005	2006	2005
Basic and Diluted Income/(Loss)				
Basic income/(loss) from continuing operations	$ (5,248)	$ (583)	$ (6,990)	$ 1,469
Effect of dilutive convertible preferred securities	— (a)	— (a)	— (a)	160
Diluted income/(loss) from continuing operations	$ (5,248)	$ (583)	$ (6,990)	$ 1,629
Basic and Diluted Shares				
Average shares outstanding	1,883	1,853	1,875	1,842
Restricted and uncommitted-ESOP shares	(1)	(2)	(2)	(3)
Basic shares	1,882	1,851	1,873	1,839
Net dilutive options and restricted and uncommitted-ESOP shares	— (b)	— (b)	— (b)	10
Dilutive convertible preferred securities	— (a)	— (a)	— (a)	282
Diluted shares	1,882	1,851	1,873	2,131

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

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

(b) 3 million, 8 million, and 4 million contingently issuable shares for third quarter 2006, third quarter 2005, and first nine months 2006, respectively.

NOTE 13. COMPREHENSIVE INCOME/(LOSS)

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

	Third Quarter		First Nine Months	
	2006	2005	2006	2005
Net income/(loss)	$ (5,248)	$ (576)	$ (6,988)	$ 1,514
Other comprehensive income/(loss)				
Foreign currency translation	36	204	1,503	(2,755)
Minimum pension liability	(9)	16	1,137	117
Net income/(loss) on derivative instruments	(431)	(58)	249	(1,021)
Net holding gain/(loss)	22	(39)	6	(51)
Total other comprehensive income/(loss)	(382)	123	2,895	(3,710)
Total comprehensive income/(loss)	$ (5,630)	$ (453)	$ (4,093)	$ (2,196)

Item 1. Financial Statements (Continued)

NOTE 14. RETIREMENT BENEFITS

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

	Third Quarter					
	Pension Benefits				Health Care and Life Insurance	
	U.S. Plans		Non-U.S. Plans			
	2006	2005	2006	2005	2006	2005
Service cost	$ 162	$ 184	$ 180	$ 152	$ 136	$ 178
Interest cost	620	601	359	340	470	551
Expected return on assets	(847)	(847)	(424)	(400)	(128)	(126)
Amortization of:						
Prior service costs	111	125	32	30	(233)	(54)
(Gains)/losses and other	22	26	148	89	161	223
Separation programs	44	42	50	40	13	—
Loss from curtailment	258	—	179	—	1	—
Costs allocated to Visteon	—	(28)	—	—	2	(80)
Net expense	$ 370	$ 103	$ 524	$ 251	$ 422	$ 692

	First Nine Months					
	Pension Benefits				Health Care and Life Insurance	
	U.S. Plans		Non-U.S. Plans			
	2006	2005	2006	2005	2006	2005
Service cost	$ 516	$ 553	$ 522	$ 478	$ 513	$ 534
Interest cost	1,809	1,799	1,037	1,064	1,565	1,653
Expected return on assets	(2,523)	(2,516)	(1,219)	(1,236)	(386)	(374)
Amortization of:						
Prior service costs	344	377	92	92	(553)	(162)
(Gains)/losses and other	81	77	417	261	619	670
Separation programs	64	67	84	57	13	—
Loss from curtailment	1,161	—	179	—	3	—
Costs allocated to Visteon	—	(84)	—	—	4	(242)
Net expense	$ 1,452	$ 273	$ 1,112	$ 716	$ 1,778	$ 2,079

In the first half of 2006, we recorded a $903 million pension curtailment loss associated with employees to be permanently idled at announced facilities as well as with additional employee separations related to the Way Forward plan. In the third quarter of 2006, we recorded an additional $437 million pension curtailment loss associated with employee actions to be taken under our accelerated Way Forward plan.

The weighted average discount rate assumption used at September 30, 2006 to determine the U.S. pension obligation was 5.88%.

At September 30, 2006, our retiree Voluntary Employee Benefit Association trust ("VEBA") contained $5.1 billion of assets. This retiree VEBA balance reflects our transfer during the third quarter of $1.3 billion from our retiree VEBA to Automotive cash as reimbursement for hourly retiree health care and life insurance payments. Of the $5.1 billion of assets in our retiree VEBA, $1.8 billion was invested on a long-term basis consistent with our pension asset investments at September 30, 2006. The expected return assumption applicable to these assets invested consistent with our pension asset investments was 8.5% at September 30, 2006.

At September 30, 2006, we had $3.3 billion invested in shorter-duration fixed income investments, for which the expected return assumption was 5.5%. Of this $3.3 billion invested in shorter-duration fixed income investments, $1.7 billion was able to be used within the next 18 months to pay for retiree benefits ("short-term VEBA"). Our current strategy is to invest all of the assets of our retiree VEBA in shorter-duration fixed income investments, a move we plan to complete during the fourth quarter. Consistent with our standard practice, we will continue to include in Automotive gross cash our short-term VEBA. We refer to retiree VEBA assets that are not able to be used within the next 18 months to pay for retiree benefits as "long-term VEBA."

Item 1. Financial Statements (Continued)

NOTE 14. RETIREMENT BENEFITS *(Continued)*

Company Contributions

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 nine months of 2006, we contributed $900 million 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 $500 million in 2006, for a total of $1.4 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 2006.

UAW Agreement

As previously reported, we entered into an agreement with the UAW ("Agreement") in December 2005 to increase retiree health care cost sharing as part of our overall cost reduction efforts. Our decision to modify the retiree health care plan was challenged in court, so that implementation of the Agreement required court approval of a proposed settlement of the legal challenge. On July 13, 2006, we received the necessary court approval and cost savings began to accrue as of that date. The Agreement provides for increased cost sharing of health care expenses by retirees presently covered under the Hospital-Surgical-Medical-Drug-Dental-Vision Program ("H-S-M-D-D-V Program") ("Plan Amendment") and establishes an independent Defined Contribution Retiree Health Benefit Trust ("UAW Benefit Trust") which will serve as a non-Ford sponsored Voluntary Employee Benefit Association. The UAW Benefit Trust will be used to mitigate the reduction in health plan benefits for certain eligible present and future retirees, surviving spouses and other dependents. This settlement agreement will remain in effect until September 14, 2011, at which point either Ford or the UAW may provide notice of a desire to terminate the Agreement.

The Agreement provisions reduce significantly our share of health care costs. The Agreement has been accounted for as a negative amendment to the H-S-M-D-D-V Program in the amount of $4 billion, net of $90 million representing the present value of our commitment to fund the UAW Benefit Trust discounted at 6.5%. We will amortize the negative plan amendment on a straight-line basis over 12 years (which represents the average remaining service period of our active workforce). In addition we will accrete interest expense on the discounted value of the funding commitment noted above. The interest expense recorded for the third quarter was $1 million.

As part of the Agreement, we committed to make three non-contingent cash payments ("buy-down") to the UAW Benefit Trust totaling $108 million. We transferred the first installment of $30 million in cash to the UAW Benefit Trust on August 10, 2006. We have also committed to make a second contribution of $35 million in 2009, and a third contribution of $43 million in 2011.

The UAW Benefit Trust is controlled by the UAW Benefit Association Plan Committee ("Committee") which is appointed by the UAW. The Committee does not and will not include any representatives of the Company. The Committee has the right to appoint an independent trustee ("Trustee") for purposes of managing the assets. The assets of the UAW Benefit Trust are the responsibility of the Committee, which has full fiduciary responsibility for the investment strategy, safeguarding of assets, and execution of the benefit plan as designed. Benefit payments to eligible participants in the UAW Benefit Trust are limited in amount to the assets held by the UAW Benefit Trust. Each year, the Committee will determine the level of benefits to be paid to eligible participants. If the value of the assets in the UAW Benefit Trust is deemed insufficient by the Trustee, the Trustee may accelerate our obligation for the second and third contribution to the extent necessary to enable the UAW Benefit Trust to continue paying benefits.

As part of the Agreement, we also agreed to transfer to the UAW Benefit Trust the right to an amount of cash determined by the appreciation of 8.75 million shares of Ford Common Stock above $8.145 per share. These stock appreciation rights are exercisable for three years from the effective date of the Plan Amendment. One third of the 8.75 million stock appreciation rights were granted on July 13, 2006. As of September 30, 2006, these stock appreciation rights had not been exercised. On the first anniversary of the effective date of the Agreement, another third of the 8.75 million stock appreciation rights will become available and on the second anniversary, the remaining stock appreciation rights will become available. We use a Black-Scholes model to measure the fair value of the stock appreciation rights on a graded vesting schedule. We expensed $8 million related to the stock appreciation rights in the third quarter, recorded in *Automotive cost of sales*.

As part of the Agreement, UAW members also agreed to divert to the UAW Benefit Trust payments of a previously-negotiated 2006 wage increase and a portion of negotiated cost-of-living increases through 2011 as they are earned. In the third quarter, $4 million of diverted wage increases were expensed.

Item 1. Financial Statements (Continued)

NOTE 14. RETIREMENT BENEFITS *(Continued)*

The average annual cost savings to Ford from the plan amendment is projected to be $650 million, with projected average annual cash savings of $200 million. The cost savings associated with the amendment for 2006 is approximately $300 million. The agreement with the UAW constitutes a significant plan amendment. Accordingly, we remeasured the hourly H-S-M-D-D-V Program liability as of July 13, 2006. The Plan Amendment, together with the plan remeasurement reflecting a higher discount rate and recent health care claims experience, reduced our OPEB obligation by approximately $9 billion.

The weighted average discount rate assumption at July 13, 2006 was 6.23%. The weighted average initial health care cost trend rate was 6% for the 2006 calendar year.

NOTE 15. GUARANTEES

The fair values of guarantees and indemnifications during 2006 and 2005 are recorded in the financial statements and are *de minimis*.

At September 30, 2006, 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 $107 million.

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 September 30, 2006, the carrying value of our deferred gain related to the letters of credit was $24 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 2005 Form 10-K/A 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 16 and 18 of the Notes to the Financial Statements in our 2005 Form 10-K/A 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 third quarter of 2006, there were no significant changes to our indemnifications.

Item 1. Financial Statements (Continued)

NOTE 15. GUARANTEES *(Continued)*

Product Performance

Warranty: Estimated warranty costs and additional service actions are accrued for at the time the vehicle is sold to a dealer. 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 Nine Months	
	2006	**2005**
Beginning balance	$ 6,243	$ 5,814
Payments made during the period	(3,071)	(3,032)
Changes in accrual related to warranties issued during the period	2,598	2,936
Changes in accrual related to pre-existing warranties	133	651
Foreign currency translation and other	121	(160)
Ending balance	$ 6,024	$ 6,209

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.

NOTE 16. SEGMENT INFORMATION

We review and present our business results in two sectors: Automotive and Financial Services. Within these sectors, our business is divided into reportable segments based upon the organizational structure that we use to evaluate performance and make decisions on resource allocation, as well as availability and materiality of separate financial results consistent with that structure.

Beginning with the second quarter of 2006, we changed the reporting of our Automotive sector to separately disclose the following segments: Ford North America, Ford South America, Ford Europe, PAG, and Ford Asia Pacific and Africa/Mazda. Automotive sector prior-period information has been reclassified and is provided for these segments in the tables below.

Item 1. Financial Statements (Continued)

NOTE 16. SEGMENT INFORMATION *(Continued)*

(In Millions)

	Automotive Sector								
	Ford North America	**Ford South America**	**Total The Americas**	**Ford Europe**	**PAG**	**Ford Asia Pacific & Africa/Mazda**	**Total International**	**Other**	**Total**
THIRD QUARTER 2006									
Revenues									
External customer	$ 15,395	$ 1,523	$ 16,918	$ 7,275	$ 6,490	$ 1,873	$ 15,638	$ —	$ 32,556
Intersegment	(10)	—	(10)	183	62	—	245	—	235
Income									
Income/(loss) before income taxes	(5,733)	300	(5,433)	(34)	(2,177)	(16)	(2,227)	553	(7,107)
THIRD QUARTER 2005									
Revenues									
External customer	$ 18,187	$ 1,159	$ 19,346	$ 6,402	$ 6,770	$ 2,138	$ 15,310	$ —	$ 34,656
Intersegment	418	—	418	286	54	24	364	—	782
Income									
Income/(loss) before income taxes	(1,434)	98	(1,336)	(131)	(128)	133	(126)	(95)	(1,557)

	Financial Services Sector (a)					Total Company	
	Ford Credit	**Hertz (b)**	**Other**	**Elims**	**Total**	**Elims (c)**	**Total**
THIRD QUARTER 2006							
Revenues							
External customer	$ 4,489	$ —	$ 65	$ —	$ 4,554	$ —	$ 37,110
Intersegment	216	—	8	(1)	223	(458)	—
Income							
Income/(loss) before income taxes	730	—	20	—	750	—	(6,357)
THIRD QUARTER 2005							
Revenues							
External customer	$ 3,702	$ 2,128	$ 24	$ —	$ 5,854	$ —	$ 40,510
Intersegment	127	5	21	(19)	134	(916)	—
Income							
	393	350	(29)	—	714	—	

Income/(loss) before income taxes