

FORD MOTOR CO
Form 10-Q/A
November 17, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q/A

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

For the quarterly period ended March 31, 2006

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

Yes 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 Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 2, 2006, the registrant had outstanding 1,805,099,381 shares of Common Stock and 70,852,076 shares of

Class B Stock.

Exhibit index located on page number 44.



EXPLANATORY NOTE

Ford Motor Company (generally referred to herein as "Ford," "the Company", "we," "our" or "us") is filing this Quarterly Report on Form 10-Q/A for the period ended March 31, 2006 ("Amendment" or "First Quarter 2006 Form 10-Q/A Report") to amend our Quarterly Report on Form 10-Q for the period ended March 31, 2006 ("Original Filing") that was filed with the Securities and Exchange Commission ("SEC") on May 9, 2006.

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.

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 First Quarter 2006 Form 10-Q/A Report includes, in Note 2 of the Notes to the Financial Statements, restated consolidated and sector statements of income for the quarters ended March 31, 2006 and 2005, restated consolidated and sector balance sheets as of March 31, 2006 and December 31, 2005, and restated condensed consolidated and sector statements of cash flows for the quarters ended March 31, 2006 and 2005.

Item 1. Financial Statements

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

	First Quarter	
	2006	2005
Previously reported	\$ (1,187)	\$ 1,212
Pre-tax adjustments:		
Fair value interest rate swaps	(331)	(572)
Out-of-period adjustments	(43)	45
Total pre-tax adjustments	(374)	(527)
Related tax effects - provision for/(benefit from)	(138)	(190)
Net after-tax adjustments	(236)	(337)
Restated	\$ (1,423)	\$ 875

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.

The out-of-period adjustments in the table above include the following:

- Marketing incentives: We recorded out-of-period adjustments primarily to correct marketing expenses for vehicle residual values that were not reserved. As a result of these adjustments, we recognized additional pre-tax income/(loss) of \$(12) million and \$82 million in the first quarter of 2006 and 2005, respectively.
- In addition, during the affected periods, we also recorded many other less-significant out-of-period adjustments, which totaled \$(31) million and \$(37) million in the first quarter of 2006 and 2005, respectively. Nearly all of these adjustments were recorded in *Cost of sales*.

The fair value interest rate swaps adjustment resulted in decreased debt value for the debt no longer in hedge accounting relationships and also impacted deferred income taxes. This adjustment had no impact on *Cash and cash equivalents* but resulted in reclassification from *Cash flows from operating activities* to *Cash flows from investing activities* and a reclassification from *Interest expense* to *Financial Services revenues*.

For the convenience of the reader, this First Quarter Form 10-Q/A Report sets forth the Original Filing in its entirety, although we are only restating those portions of "Part I. Financial Information" affected by corrected financial information. This First Quarter Form 10-Q/A Report includes currently-dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as well as the currently dated consent of our independent registered public accounting firm. The changes we have made are a result of and reflect the restatement described herein; no other information in the Original Filing has been updated.

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 periods ended March 31, 2006 and 2005, but should instead rely upon the updated financial data provided for these quarters herein.

PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements****FORD MOTOR COMPANY AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF INCOME****For the Periods Ended March 31, 2006 and 2005****(in millions, except per share amounts)**

	Restated—See Note 2	
	First Quarter	
	2006	2005
	(unaudited)	
Sales and revenues		
Automotive sales	\$ 36,973	\$ 39,414
Financial Services revenues	3,828	5,481
Total sales and revenues	40,801	44,895
Costs and expenses		
Cost of sales	36,656	35,593
Selling, administrative and other expenses	4,603	6,094
Interest expense	2,135	2,211
Financial Services provision for credit and insurance losses	46	185
Total costs and expenses	43,440	44,083
Automotive interest income and other non-operating income/(expense), net	215	153
Automotive equity in net income/(loss) of affiliated companies	79	57
Income/(loss) before income taxes	(2,345)	1,022
Provision for/(benefit from) income taxes	(981)	124
Income/(loss) before minority interests	(1,364)	898
Minority interests in net income/(loss) of subsidiaries	59	58
Income/(loss) from continuing operations	(1,423)	840
Income/(loss) from discontinued operations	—	35
Net income/(loss)	\$ (1,423)	\$ 875

AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK**(Note 11)****Basic income/(loss)**

Income/(loss) from continuing operations	\$ (0.76)	\$ 0.46
Income/(loss) from discontinued operations	—	0.02
Net income/(loss)	\$ (0.76)	\$ 0.48

Diluted income/(loss)

Income/(loss) from continuing operations	\$ (0.76)	\$ 0.42
Income/(loss) from discontinued operations	—	0.02
Net income/(loss)	\$ (0.76)	\$ 0.44

Cash dividends	\$ 0.10	\$ 0.10
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The accompanying notes are part of the financial statements

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

SECTOR STATEMENT OF INCOME
For the Periods Ended March 31, 2006 and 2005
(in millions, except per share amounts)

	Restated—See Note 2 First Quarter	
	2006	2005
	(unaudited)	
AUTOMOTIVE		
Sales	\$ 36,973	\$ 39,414
Costs and expenses		
Cost of sales	36,656	35,593
Selling, administrative and other expenses	2,985	3,113
Total costs and expenses	39,641	38,706
Operating income/(loss)	(2,668)	708
Interest expense	346	402
Interest income and other non-operating income/(expense), net	215	153
Equity in net income/(loss) of affiliated companies	79	57
Income/(loss) before income taxes — Automotive	(2,720)	516
FINANCIAL SERVICES		
Revenues	3,828	5,481
Costs and expenses		
Interest expense	1,789	1,809
Depreciation	1,208	1,514
Operating and other expenses	410	1,467
Provision for credit and insurance losses	46	185
Total costs and expenses	3,453	4,975
Income/(loss) before income taxes — Financial Services	375	506
TOTAL COMPANY		
Income/(loss) before income taxes	(2,345)	1,022
Provision for/(benefit from) income taxes	(981)	124
Income/(loss) before minority interests	(1,364)	898
Minority interests in net income/(loss) of subsidiaries	59	58
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Net income/(loss)	\$	(0.76)	\$	0.48
Diluted income/(loss)				
Income/(loss) from continuing operations	\$	(0.76)	\$	0.42
Income/(loss) from discontinued operations		—		0.02
Net income/(loss)	\$	(0.76)	\$	0.44
Cash dividends	\$	0.10	\$	0.10

The accompanying notes are part of the financial statements

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(in millions)

	Restated—See Note 2	
	March 31, 2006 (unaudited)	December 31, 2005
ASSETS		
Cash and cash equivalents	\$ 21,179	\$ 28,406
Marketable securities	14,732	10,672
Loaned securities	3,160	3,461
Finance receivables, net	103,975	105,975
Other receivables, net	8,841	8,536
Net investment in operating leases	28,952	27,099
Retained interest in sold receivables	1,399	1,420
Inventories (Note 6)	11,962	10,271
Equity in net assets of affiliated companies	2,557	2,579
Net property	40,918	40,676
Deferred income taxes	6,776	5,880
Goodwill and other intangible assets (Note 8)	6,072	5,945
Assets of discontinued/held-for-sale operations	—	5
Other assets	18,552	18,534
Total assets	\$ 269,075	\$ 269,459
LIABILITIES AND STOCKHOLDERS' EQUITY		
Payables	\$ 24,080	\$ 22,910
Accrued liabilities and deferred revenue	75,666	73,047
Debt	150,396	153,278
Deferred income taxes	5,533	5,660
Total liabilities	255,675	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	4,778	4,872
Accumulated other comprehensive income/(loss)	(3,294)	(3,680)
Treasury stock	(680)	(833)
Earnings retained for use in business	11,455	13,064
Total stockholders' equity	12,278	13,442
Total liabilities and stockholders' equity	\$ 269,075	\$ 269,459

The accompanying notes are part of the financial statements

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

SECTOR BALANCE SHEET
(in millions)

	Restated—See Note 2	
	March 31, 2006 (unaudited)	December 31, 2005
ASSETS		
Automotive		
Cash and cash equivalents	\$ 10,104	\$ 13,388
Marketable securities	9,044	6,860
Loaned securities	3,160	3,461
Total cash, marketable and loaned securities	22,308	23,709
Receivables, net	3,296	3,075
Inventories (Note 6)	11,962	10,271
Deferred income taxes	1,147	1,249
Other current assets	9,049	8,177
Current receivable from Financial Services	324	—
Total current assets	48,086	46,481
Equity in net assets of affiliated companies	1,736	1,756
Net property	40,598	40,348
Deferred income taxes	11,702	10,999
Goodwill and other intangible assets (Note 8)	6,055	5,928
Assets of discontinued/held-for-sale operations	—	5
Other assets	8,376	8,308
Total Automotive assets	116,553	113,825
Financial Services		
Cash and cash equivalents	11,075	15,018
Marketable securities	5,688	3,812
Finance receivables, net	109,520	111,436
Net investment in operating leases	24,411	22,951
Retained interest in sold receivables	1,399	1,420
Goodwill and other intangible assets (Note 8)	17	17
Other assets	6,909	7,457
Current receivable from Automotive	—	83
Total Financial Services assets	159,019	162,194
Intersector elimination	(324)	(83)
Total assets	\$ 275,248	\$ 275,936
LIABILITIES AND STOCKHOLDERS' EQUITY		
Automotive		
Trade payables	\$ 18,127	\$ 16,637
Other payables	4,195	4,222
Accrued liabilities and deferred revenue	30,345	28,829
Deferred income taxes	852	804
Debt payable within one year	1,264	978
Current payable to Financial Services	—	83
Total current liabilities	54,783	51,553

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Long-term debt	16,510	16,900
Other liabilities	40,135	38,639
Deferred income taxes	355	586
Total Automotive liabilities	111,783	107,678
Financial Services		
Payables	1,758	2,051
Debt	132,622	135,400
Deferred income taxes	10,499	10,747
Other liabilities and deferred income	5,186	5,579
Payable to Automotive	324	—
Total Financial Services liabilities	150,389	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	4,778	4,872
Accumulated other comprehensive income/(loss)	(3,294)	(3,680)
Treasury stock	(680)	(833)
Earnings retained for use in business	11,455	13,064
Total stockholders' equity	12,278	13,442
Intersector elimination	(324)	(83)
Total liabilities and stockholders' equity	\$ 275,248	\$ 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 March 31, 2006 and 2005
(in millions)

	Restated—See Note 2	
	2006	2005
	(unaudited)	
Cash flows from operating activities of continuing operations		
Net cash (used in)/provided by operating activities	\$ (30)	\$ 3,791
Cash flows from investing activities of continuing operations		
Capital expenditures	(1,838)	(1,561)
Acquisitions of retail and other finance receivables and operating leases	(13,732)	(14,035)
Collections of retail and other finance receivables and operating leases	11,446	12,874
Net acquisitions of daily rental vehicles	—	(907)
Purchases of securities	(6,735)	(1,922)
Sales and maturities of securities	4,501	1,931
Proceeds from sales of retail and other finance receivables and operating leases	2,540	8,373
Proceeds from sale of businesses	50	39
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	(4)	—
Other	(36)	881
Net cash (used in)/provided by investing activities	(3,808)	5,673
Cash flows from financing activities of continuing operations		
Cash dividends	(186)	(183)
Net sales/(purchases) of Common Stock	42	(14)
Changes in short-term debt	1,015	(477)
Proceeds from issuance of other debt	10,007	5,522
Principal payments on other debt	(14,446)	(14,312)
Other	126	(29)
Net cash (used in)/provided by financing activities	(3,442)	(9,493)
Effect of exchange rate changes on cash	49	(137)
Net increase/(decrease) in cash and cash equivalents from continuing operations	(7,231)	(166)
Cash flows from discontinued operations		
Cash flows from operating activities of discontinued operations	—	111
Cash flows from investing activities of discontinued operations	—	(60)
Cash flows from financing activities of discontinued operations	—	—
Net increase/(decrease) in cash and cash equivalents	\$ (7,231)	\$ (115)

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		(7,231)		(115)
Less: cash and cash equivalents of discontinued/held-for-sale operations at March 31		—		(748)
Cash and cash equivalents at March 31	\$	21,179	\$	22,646

The accompanying notes are part of the financial statements

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

CONDENSED SECTOR STATEMENT OF CASH FLOWS
For the Periods Ended March 31, 2006 and 2005
(in millions)

	First Quarter 2006		Restated—See Note 2 First Quarter 2005	
	Automotive (unaudited)	Financial Services	Automotive (unaudited)	Financial Services
Cash flows from operating activities of continuing operations				
Net cash (used in)/provided by operating activities	\$ (658)	\$ 1,212	\$ 1,818	\$ 2,127
Cash flows from investing activities of continuing operations				
Capital expenditures	(1,820)	(18)	(1,436)	(125)
Acquisitions of retail and other finance receivables and operating leases	—	(13,732)	—	(14,035)
Collections of retail and other finance receivables and operating leases	—	11,276	—	12,759
Net (increase)/decrease in wholesale receivables	—	(414)	—	(1,106)
Net acquisitions of daily rental vehicles	—	—	—	(1,283)
Purchases of securities	(1,739)	(4,996)	(1,808)	(114)
Sales and maturities of securities	1,271	3,230	1,540	391
Proceeds from sales of retail and other finance receivables and operating leases	—	2,540	—	8,373
Proceeds from sale of wholesale receivables	—	—	—	1,443
Proceeds from sale of businesses	50	—	39	—
Transfer of cash balances upon disposition of discontinued/held-for-sale operations	(4)	—	—	—
Net investing activity with Financial Services	184	—	415	—
Other	28	(64)	(21)	902
Net cash (used in)/provided by investing activities	(2,030)	(2,178)	(1,271)	7,205
Cash flows from financing activities of continuing operations				
Cash dividends	(186)	—	(183)	—
Net sales/(purchases) of Common Stock	42	—	(14)	—
Changes in short-term debt	86	929	(7)	(470)

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Proceeds from issuance of other debt	91	9,916	76	5,446
Principal payments on other debt	(271)	(14,175)	(373)	(13,939)
Net financing activity with Automotive	—	(184)	—	(415)
Other	131	(5)	(3)	(26)
Net cash (used in)/provided by financing activities	(107)	(3,519)	(504)	(9,404)
Effect of exchange rate changes on cash	(23)	72	56	(193)
Net change in intersector receivables/payables and other liabilities	(470)	470	(710)	710
Net increase/(decrease) in cash and cash equivalents from continuing operations	(3,288)	(3,943)	(611)	445
Cash flows from discontinued operations				
Cash flows from operating activities of discontinued operations	—	—	40	71
Cash flows from investing activities of discontinued operations	—	—	6	(66)
Cash flows from financing activities of discontinued operations	—	—	—	—
Net increase/(decrease) in cash and cash equivalents	\$ (3,288)	\$ (3,943)	\$ (565)	\$ 450
Cash and cash equivalents at January 1				
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	(3,288)	(3,943)	(565)	450
Less: cash and cash equivalents of discontinued/held-for-sale operations at March 31	—	—	(48)	(700)
Cash and cash equivalents at March 31	\$ 10,104	\$ 11,075	\$ 9,528	\$ 13,118

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 financial data presented herein are unaudited, but in the opinion of management 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.

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*Item 1. Financial Statements (Continued)***NOTE 2. RESTATEMENT OF PREVIOUSLY ISSUED 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.

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Net after-tax adjustments	(236)	(337)
Restated	\$ (1,423)	\$ 875

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.

The out-of-period adjustments in the table above include the following:

- Marketing incentives: We recorded out-of-period adjustments primarily to correct marketing expenses for vehicle residual values that were not reserved. As a result of these adjustments, we recognized additional pre-tax income/(loss) of \$(12) million and \$82 million in the first quarter of 2006 and 2005, respectively.

- In addition, during the affected periods, we also recorded many other less-significant out-of-period adjustments, which totaled \$(31) million and \$(37) million in the first quarter of 2006 and 2005, respectively. Nearly all of these adjustments were recorded in *Cost of sales*.

The fair value interest rate swaps adjustment resulted in decreased debt value for the debt no longer in hedge accounting relationships and also impacted deferred income taxes. This adjustment had no impact on *Cash and cash equivalents* but resulted in reclassification from *Cash flows from operating activities* to *Cash flows from investing activities* and a reclassification from *Interest expense* to *Financial Services revenues*.

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)

In accordance with the definition of cash equivalents in SFAS No. 95, *Statement of Cash Flows*, we revised the presentation of \$3.1 billion of marketable securities with contractual maturities exceeding ninety days from the date of purchase from *Cash and cash equivalents* to *Marketable securities* on the balance sheet as of December 31, 2005. All of these securities had maturity dates of less than twelve months from the date of purchase and were highly liquid. This revision had no impact on the previously reported *Cash and cash equivalents* at March 31, 2005 or *Net increase/(decrease) in cash and cash equivalents* for first quarter of 2005 and no impact on 2005 *Net income/(loss)*.

Financial Statements

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

	First Quarter 2006		First Quarter 2005	
	Previously Reported (unaudited)	Restated	Previously Reported (unaudited)	Restated
Sales and revenues				
Automotive sales	\$ 36,985	\$ 36,973	\$ 39,332	\$ 39,414
Financial Services revenues	4,070	3,828	5,804	5,481
Total sales and revenues	41,055	40,801	45,136	44,895
Costs and expenses				
Cost of sales	36,674	36,656	35,558	35,593
Selling, administrative and other expenses	4,592	4,603	6,090	6,094
Interest expense	2,019	2,135	1,964	2,211
Financial Services provision for credit and insurance losses	35	46	185	185
Total costs and expenses	43,320	43,440	43,797	44,083
Automotive interest income and other non-operating income/(expense), net	215	215	153	153
Automotive equity in net income/(loss) of affiliated companies	79	79	57	57
Income/(loss) before income taxes	(1,971)	(2,345)	1,549	1,022
Provision for/(benefit from) income taxes	(843)	(981)	314	124
Income/(loss) before minority interests	(1,128)	(1,364)	1,235	898
Minority interests in net income/(loss) of subsidiaries	59	59	58	58
Income/(loss) from continuing operations	(1,187)	(1,423)	1,177	840
Income/(loss) from discontinued operations	—	—	35	35
Net income/(loss)	\$ (1,187)	\$ (1,423)	\$ 1,212	\$ 875

**AMOUNTS PER SHARE OF
COMMON AND CLASS B STOCK**

(Note 11)

Basic income/(loss)

Income/(loss) from continuing operations	\$	(0.64)	\$	(0.76)	\$	0.64	\$	0.46
Income/(loss) from discontinued operations		—		—		0.02		0.02
Net income/(loss)	\$	(0.64)	\$	(0.76)	\$	0.66	\$	0.48

Diluted income/(loss)

Income/(loss) from continuing operations	\$	(0.64)	\$	(0.76)	\$	0.58	\$	0.42
Income/(loss) from discontinued operations		—		—		0.02		0.02
Net income/(loss)	\$	(0.64)	\$	(0.76)	\$	0.60	\$	0.44
Cash dividends	\$	0.10	\$	0.10	\$	0.10	\$	0.10

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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):

	First Quarter 2006		First Quarter 2005	
	Previously Reported (unaudited)	Restated	Previously Reported (unaudited)	Restated
AUTOMOTIVE				
Sales	\$ 36,985	\$ 36,973	\$ 39,332	\$ 39,414
Costs and expenses				
Cost of sales	36,674	36,656	35,558	35,593
Selling, administrative and other expenses	2,974	2,985	3,109	3,113
Total costs and expenses	39,648	39,641	38,667	38,706
Operating income/(loss)	(2,663)	(2,668)	665	708
Interest expense	346	346	402	402
Interest income and other non-operating income/(expense), net	215	215	153	153
Equity in net income/(loss) of affiliated companies	79	79	57	57
Income/(loss) before income taxes — Automotive	(2,715)	(2,720)	473	516
FINANCIAL SERVICES				
Revenues	4,070	3,828	5,804	5,481
Costs and expenses				
Interest expense	1,673	1,789	1,562	1,809
Depreciation	1,208	1,208	1,514	1,514
Operating and other expenses	410	410	1,467	1,467
Provision for credit and insurance losses	35	46	185	185
Total costs and expenses	3,326	3,453	4,728	4,975
Income/(loss) before income taxes — Financial Services	744	375	1,076	506
TOTAL COMPANY				
Income/(loss) before income taxes	(1,971)	(2,345)	1,549	1,022
Provision for/(benefit from) income taxes	(843)	(981)	314	124
Income/(loss) before minority interests	(1,128)	(1,364)	1,235	898
Minority interests in net income/(loss) of subsidiaries	59	59	58	58
	(1,187)	(1,423)	1,177	840

Income/(loss) from continuing operations								
Income/(loss) from discontinued operations		—		—	35	35		
Net income/(loss)	\$	(1,187)	\$	(1,423)	\$	1,212	\$	875

**AMOUNTS PER SHARE OF
COMMON AND CLASS B STOCK
(Note 11)**

Basic income/(loss)								
Income/(loss) from continuing operations	\$	(0.64)	\$	(0.76)	\$	0.64	\$	0.46
Income/(loss) from discontinued operations		—		—		0.02		0.02
Net income/(loss)	\$	(0.64)	\$	(0.76)	\$	0.66	\$	0.48
Diluted income/(loss)								
Income/(loss) from continuing operations	\$	(0.64)	\$	(0.76)	\$	0.58	\$	0.42
Income/(loss) from discontinued operations		—		—		0.02		0.02
Net income/(loss)	\$	(0.64)	\$	(0.76)	\$	0.60	\$	0.44
Cash dividends	\$	0.10	\$	0.10	\$	0.10	\$	0.10

*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 (in millions):

	March 31, 2006		December 31, 2005	
	Previously Reported	Restated	Previously Reported	Restated
ASSETS				
Cash and cash equivalents	\$ 21,179	\$ 21,179	\$ 28,406	\$ 28,406
Marketable securities	14,732	14,732	10,672	10,672
Loaned securities	3,160	3,160	3,461	3,461
Finance receivables, net	103,986	103,975	105,975	105,975
Other receivables, net	8,824	8,841	8,522	8,536
Net investment in operating leases	28,952	28,952	27,099	27,099
Retained interest in sold receivables	1,399	1,399	1,420	1,420
Inventories (Note 6)	11,962	11,962	10,271	10,271
Equity in net assets of affiliated companies				