Richard Ivey School of Business
The University of Western Ontario

W11700

FORD MOTOR COMPANY: ACCOUNTING FOR DEFERRED TAXES[1]

Christine Liu wrote this case under the supervision of Professor Darren Henderson solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

In early March 2011, Lewis Booth, Executive Vice President and Chief Financial Officer (CFO) of Ford Motor Company (Ford) sat pensively at his desk. Due to operating losses incurred from 2006 to 2008, Ford had recorded a valuation allowance over nearly all of its deferred tax assets beginning in 2006. The valuation allowance meant that Ford's $10.3 billion[2] of tax loss carry-forwards were not recorded as an asset on its balance sheet.[3] Now that Ford had returned to profitability, management was considering reversing the valuation allowance. Under U.S. Generally Accepted Accounting Principles (GAAP), companies could only record deferred tax assets to the extent that it was "more likely than not" that such assets would be realized in the future.[4] With Ford's outlook improving, the company was considering eliminating the valuation allowance, which would add a substantial amount to Ford's bottom line for the year. Booth knew an assessment of "more likely than not" required careful consideration and judgment. He would need strong support for his decision. He also would have to carefully consider the impact his decision would have on shareholders, bondholders, analysts, and Ford's auditor PricewaterhouseCoopers LLP (PWC). He needed to finalize his decision before the upcoming executive committee meeting.

FORD MOTOR COMPANY

One of the largest automotive manufacturers in the world, Ford manufactured and distributed automobiles across six continents. Its main segments were the Automotive and Financial Services units. The Automotive unit mainly produced passenger cars and trucks under the Ford and Lincoln brands. The company recorded $129.0 billion of revenue in fiscal 2010, an increase of 10.9 per cent from 2009, but down significantly from revenue of $172.5 billion in 2007. Approximately half of this revenue came from the U.S. market.[5] Fiscal 2010 net profit was $6.6 billion, which represented a 141.5 per cent increase over 2009. Ford's financial statements for 2006-2010 are shown in Exhibit 1.

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[1] This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Ford Motor Company or any of its employees.
[2] All funds are shown in U.S. dollars unless specified otherwise.
[3] Ford 2010 Annual Report, Note 23, Income Taxes, p. 156.
[4] Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, paragraph 17e.
[5] Ford 2010 Annual Report, Note 29, Geographic Information, p. 173.

Ford was first established by Henry Ford and several other associates in 1903. Soon after its establishment, Ford launched the world-famous model 'T'. As well, the company began producing trucks and tractors. In 1925, Ford acquired the Lincoln Motor Company, thus expanding into luxury cars. In 1956, the company went public and began to grow rapidly. The Ford brand name expanded internationally during the 1960s when it set up *Ford Europe*. In the 1990s, Ford acquired Jaguar, solidifying its position in the European market. These expansion initiatives were soon followed by further strategic acquisitions, including Volvo's passenger vehicle unit and BMW's Land Rover. In the 2000s, Ford increased its presence in Asia by first establishing a joint venture with Changan Automobile (Changan) in China, where its assembly plant produced the Fiesta. In late 2007, the company's Japanese affiliate Mazda and Changan began full production of Ford vehicles in Asia.[6]

One of Ford's greatest strengths was its engineering and research and development (R&D) capabilities. The company's *One Ford* global product development system used international platforms to efficiently deliver customer-focused programs across multiple geographical markets. Through its hub and spoke approach, one lead product development engineering centre was assigned to each global vehicle line, thereby ensuring large scale and efficiency through the use of common designs, parts, suppliers, and manufacturing processes. Ford was the first automotive manufacturer to produce hydrogen fueled V-10 engines. In 2008, Ford was awarded a $10 million grant by the U.S. Department of Energy for R&D of plug-in hybrid electric vehicles.[7]

Seeing the devastating impact that the financial crisis of 2008-2009 had on the domestic U.S. automotive industry, and experiencing a resulting loss of $14.8 billion in 2008, Ford carried out significant plans to alter its strategic direction and streamline its operations. After announcing it would cut 25,000 to 30,000 jobs in early 2006, Ford borrowed $23 billion to build up cash reserves.[8,9] Due to these actions, Ford was the only major U.S. automaker to avoid filing for bankruptcy during the economic downturn.

Early in 2009, the company announced that it would spend $550 million to change its Michigan Assembly Plant into a modern and versatile facility for small vehicle production. As well, Ford made plans to improve its car plant in Chongqing, China. It also discontinued its Mercury brand in late 2010, sold Jaguar and Land Rover to Tata Motors in June 2008, and sold Volvo to Geely Holding Company in August 2010. These changes allowed Ford to focus on its core brands.[10]

Prior to the financial crisis, Ford worked rigorously with the United Auto Workers (UAW) union to reach a new collective bargaining agreement (CBA) that improved operational flexibility, reduced wages and benefits, and reduced health care costs. Ford hoped that the agreement would secure the corporation's long-term competitiveness in the United States. The CBA was ratified on November 14, 2007 and covered a four-year term that expired on September 14, 2011.[11]

In 2010, Ford officially directed its full attention towards designing next-generation hybrid-electric vehicles. The corporation signed a partnership with Coulomb Technologies to provide free in-home ChargePoint Networked Charging Stations for its customers. Most recently in January 2011, Ford introduced *Focus Electric*, the company's first all-electric passenger car. The corporation plans to invest

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[6] *"Ford Motor Company, Company Profile," Datamonitor, June 14, 2011*
[7] *Ibid.*
[8] *Chris Woodyard, "Ford will cut 25,000 to 30,000 jobs, close 14 plants," USA Today, January 23, 2006, http://www.usatoday.com/money/companies/earnings/2006-01-23-ford-q4_x.htm, accessed February 12, 2012.*
[9] *Keith Naughton, "Ford may avoid bailout even after first-quarter loss," Bloomberg, April 23, 2009, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a9hCkbcM2B9U, accessed February 12, 2012.*
[10] *Ibid.*
[11] *Ford 2007 Annual Report, Management Discussion and Analysis, p. 13.*

an additional $850 million within the next three years to grow its engineering and manufacturing employee base, and more importantly to improve its vehicle fuel economy.[12]

THE U.S. AUTOMOTIVE INDUSTRY

The U.S. automotive industry includes the production of trucks, passenger cars, and motorcycles. The major players include Ford, General Motors Corporation (GM), Chrysler Group LLC (Chrysler), Honda Motor Co., Ltd. (Honda), and Toyota Motor Corporation (Toyota).

From 2006 through 2009, the U.S. automotive industry suffered significant market declines due to poor economic conditions. The market regained some momentum in 2010 with sales of 8.3 million units, up 39.2 per cent from 2009, when sales troughed to 6.0 million units.[13] Unit sales were projected to increase 30.9 per cent in 2011 to 10.9 million units, but were then expected to fall to 10.3 million units by 2015. Compared to international markets, the U.S. automotive industry was the most affected by the economic crisis. Globally, unit sales increased 15.3 per cent to 126.2 million units in 2010, after falling 9.7 per cent in 2009. Global unit sales were expected to increase by an average of 5.9 per cent from 2011-2015.[14]

Competition was fierce in this industry with a small number of large corporations competing to obtain greater market share within the mature market space. Generally manufacturers could only capture additional market share through improving product designs or by leveraging brand images through marketing.

General Motors Corporation

GM designed, develops, manufactures, and markets automotive products worldwide. The corporation manufactured its vehicles in 31 countries under various brands including Buick, Cadillac, Chevrolet, GMC, Opel, and Vauxhall. Its largest national market was China. GM recorded total revenues of $135.6 billion in 2010, up significantly from $104.6 billion in fiscal 2009. Net income was $6.2 billion, a significant improvement from losses of $23.5 billion in 2009 (excluding a net reorganization gain of $128.2 billion), and losses of $30.9 billion in 2008.[15] In 2008, GM ran into serious cash flow issues and tried to merge with Chrysler and Ford. However, merger talks soon ended when GM filed for Chapter 11 bankruptcy. Thereafter, the company ended its long-term association with Toyota by pulling out of the NUMMI joint venture. In mid-2009, GM emerged from reorganization as a new company with fewer brands, less debt, and a renewed focus on its core operations.

Chrysler Group LLC

Formed in 1920, Chrysler faced the threat of bankruptcy in the 1970's, but was saved by a $1.5 billion loan guarantee from the federal government after Chrysler brought in Lee Iacocca. Under Lee Iacocca's leadership, the company flourished and repaid all of its guaranteed loans well ahead of schedule. In 1998, Daimler-Benz acquired Chrysler for $37 billion, the largest takeover of an American firm by a foreign buyer at the time. Unfortunately, the forecasted synergies of the acquisition did not materialize and private equity firm Cerberus bought Chrysler for $7.4 billion in 2007. Chrysler was hit hard by the

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[12] *Ibid.*
[13] *"Automotive Manufacturing in the United States," Datamonitor, May 2011.*
[14] *Ibid.*
[15] *Ibid.*

financial meltdown of 2008-2009 and, similar to GM, Chrysler went through a brief Chapter 11 bankruptcy in 2009. In fiscal 2010, Chrysler generated total revenues of $41.9 billion, representing 45.7 per cent revenue growth over 2009. Chrysler's net loss of $652 million in 2010 was significantly less than 2009's net loss of $8.2 billion.[16] Exhibit 2 presents stock price returns for Ford, GM and Chrysler relative to the S&P 500 Index.

Honda Motor Co., Ltd.

Honda was one of the world's leading manufacturers of automobiles and motorcycles. The corporation operated 396 subsidiaries and 105 affiliates around the globe. Through its automobile division, Honda manufactured passenger cars, multi-wagons, minivans, sport utility vehicle, sports coupe, and mini vehicles. It also offered vehicles powered by alternative fuels such as natural gas and ethanol. The company manufactured its automobiles at two sites in Japan, but also had major production sites in the United States, Canada, United Kingdom, Thailand, India and Brazil. In fiscal 2009, Honda reported lower unit sales of 3.5 million, a 10.4 per cent drop from 2008. This was partly due to the economic slowdown in North America. The company was able to recover with a net income of $6.1 billion in 2010, a dramatic increase from 2009's net income of $1.6 billion.[17]

Toyota Motor Corporation

Toyota designs, manufactures, and sells cars, minivans, trucks, and parts and is the largest automaker in the world. Toyota officially entered the U.S. market in 1957 and established its headquarters in Hollywood, California. Toyota soon became the top import automobile brand in the United States by 1975. Today, Toyota's products can be categorized into conventional engine vehicles and hybrid vehicles. The company sold automobiles under the Toyota, Lexus, Hino and Daihatsu brands. Lexus was Toyota's luxury brand, while Hino produced commercial vehicles, and Daihatsu produced mini vehicles and compact cars. Toyota manufactured its vehicles and parts in 50 manufacturing companies located in 26 different countries. In 2009, Toyota sold 7.5 million units, which declined from 2008 sales of 8.9 million units. Product recalls hurt profitability significantly in 2009, when Toyota posted a loss of $5.0 billion. However, performance turned around in 2010 when it generated a net income of $2.4 billion.[18]

ACCOUNTING FOR DEFERRED TAXES

Deferred taxes result from differences between tax and accounting rules. For example, a provision for future warranty costs represents an accounting expense, but not a tax deduction until paid; deferred income taxes result from such timing differences. Both U.S. GAAP and International Financial Reporting Standards (IFRS) follow a balance-sheet focused approach to accounting for deferred taxes. While U.S. GAAP and IFRS accounting rules for income taxes are fundamentally the same, some minor differences exist (see Exhibit 3). Asset and liability accounts are assessed at each balance sheet date for differences between tax and accounting values. Such differences are aggregated and deferred tax is calculated based on the tax rate in effect. The change in the tax-effected net difference from the prior to the current year represents the deferred tax expense or recovery for the current year.

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[16] *Chrysler 2010 Annual Report.*
[17] *"Automotive Manufacturing in the United States," Datamonitor, May 2011.*
[18] *Toyota Motor Corporation company website, http://www.toyota-global.com/company/, accessed September 8, 2011.*

Deferred tax assets generally stem from items that have been expensed for accounting purposes, but not yet expensed for tax purposes, such as operating tax loss carry-forwards and unused tax credits. Operating loss carry-forwards are common for many companies, especially start-up ventures and companies experiencing a downturn. When an operating loss for tax purposes occurs, no income taxes are paid in that year. The firm may then use the operating loss to offset taxable income in the previous two years or in the next 20 years.[19] Thus, the tax operating losses will result in an immediate tax refund if carried back or a future reduction of tax if carried forward. Such tax loss carry-forwards will only have value to the extent that they offset future taxable income. Therefore, if no future taxable income is expected, no value is assigned and no asset is recorded.

Under U.S. GAAP and IFRS, deferred tax assets are only recorded if they are "more likely than not" (i.e. greater than 50 per cent chance) able to be used to offset future taxable income. For deferred tax assets with less than a 50 per cent chance of being used, a valuation allowance is recorded to reduce the value of the deferred tax asset. In the extreme case where no future taxable income is expected, a full valuation allowance is recorded to reduce deferred tax assets to zero. Management must use their judgment as the establishment and measurement of the valuation allowance requires estimates of future taxable income. Companies will generally consider their recent history of profitability and company-specific projections, in addition to future economic and industry expectations.

Since the change in net deferred tax assets and liabilities is reflected on the income statement as deferred tax expense or recovery, the judgment for when deferred taxes move from "more likely than not" to "*less* likely than not" can significantly impact the income statement. For example, in 2007, GM increased its valuation allowance by $39 billion as a result of such a judgment, which increased deferred tax expense and reduced net income by an equivalent amount.[20]

ELIMINATING THE VALUATION ALLOWANCE

As required by accounting standards, Ford considered the available evidence when assessing whether deferred tax assets were more likely than not recoverable. Since little objective evidence supported future projections, Ford placed heavy weight on its recent history of profitability. In particular, Ford considered cumulative pre-tax losses over the previous three-year period to be a strong indicator that a valuation allowance was required. Nevertheless, Ford still considered whether changing market conditions indicated that past profitability was not indicative of future profitability. Finally, Ford assessed the differences between accounting income and taxable income, and reviewed the impact of particular tax-planning strategies when making a final decision. See Exhibit 4 for Ford's 2010 income tax note disclosure.

The reversal of a valuation allowance did not directly impact a company's cash flow position and provided only a one-time change to its earnings. Nevertheless, Ford had to consider the impact on its financial statement users and auditors. Financial Post writer, Al Rosen, noted that "by increasing the valuation allowance, management sends an expense directly to the income statement, and suppresses profits. To increase profit again, the company simply needs to reverse (or decrease) the allowance… Investors need to ferret out the facts about a company's long term sales and operating expenses, in order to see past the chasm of temporary noise. This means examining non-company sources to decide whether

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[19] *In Canada, losses for tax purposes can be carried back three years and forward up to 20 years.*
[20] *Ruthie Ackerman, "A $39 Billion Headache for GM," Forbes.com, November 6, 2007, http://www.forbes.com/2007/11/06/gm-gmac-charge-markets-equity-cx_ra_1106markets43.html, accessed June 29, 2011.*

the reported accounting figures are out of phase with reality."[21] Ford needed to ensure that its valuation allowance reversal decision was strongly supported, otherwise investors could view the action negatively which would affect the company's stock price. Specifically, investors could view the reversal as evidence of poor management integrity and a desire to manage earnings.

Analysts could use the valuation allowance to infer management's short-term outlook for company performance. Robert Willens stated: "It seems to me you can draw one conclusion from a full valuation allowance: that the company's near- and medium-term profit outlook is… far from assured."[22] From an analysts' point of view, a company's valuation allowance signaled future expectations; consequently, maintaining a full valuation allowance could indicate that Ford had a lack of confidence in the company's recovery.

Further, Ford's auditors, PWC, would need to be convinced that the "more likely than not" criterion was met. Since the valuation allowance had such a significant effect on profitability and indicated improving company prospects, PWC would certainly scrutinize any reversal.

Finally, if Ford reversed its deferred tax valuation allowance, it would have to decide how to present the reversal on its financial statements. Typically, the amount reversed would be included in the deferred tax component of income tax expense; however, a large reversal would almost certainly cause negative income tax expense for the year. The negative tax could be misunderstood by investors to mean tax avoidance, especially when combined with a positive profit figure. As an alternative, some companies chose to state the valuation allowance reversal as a special item on the income statement and included specific note disclosure to explain the expense.

FUTURE OUTLOOK

Ford had a successful year in 2010 with 24 new and redesigned vehicles, global investment commitments totaling over $9 billion, and improved sales and profitability. In 2011, Ford's plan included maintaining or increasing market share and improving operating profit. The company intended to accelerate the development of new products and continue to improve its balance sheet. Analyst consensus earnings expectations for 2011 was $1.97 per share (basic), but ranged from $1.48 to $2.28 per share. Average expectation for 2012 was $2.00 per share.

Several factors tempered Ford's outlook for 2011. The recent March 2011 earthquake in Japan had a significant impact on industrial production; recovery of lost production would begin at the end of 2011 and continue into 2012. Ford was in the process of taking appropriate actions to mitigate any resultant risks. Further, uncertainty surrounding the economic recovery in the US and concerns about a potential "double-dip" recession weighed heavily. Finally, the potential debt crisis in Europe and austerity measures threatened European sales growth. Ford was focusing on repaying its automotive debt, which amounted to $19.1 billion as of December 31, 2010, which was much lower than $33.6 billion one year earlier.[23] Ford had a deferred tax valuation allowance of $15.7 billion and net deferred tax assets of $900 million as of December 31, 2010.[24]

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[21] *Al Rosen, "Profit picture can be retouched with ease: Beware the 'doom and gloom' accounting scam,"* Financial Post*, December 9, 2004.*
[22] *David Milstead, "Tesla admits it has a rough road ahead; Losses for electric car company forecast to get bigger before they get smaller",* The Globe and Mail*, February 5, 2010.*
[23] *Ford 2010 Annual Report, Management Discussion and Analysis, p. 29.*
[24] *Ford 2010 Annual Report, Note 23, Income Taxes, p. 156.*

DECISION

Looking at all of the information presented to him, Booth sat back at his desk and contemplated the issue of Ford's deferred income taxes. If management did decide to go ahead with eliminating the valuation allowance, $15.7 billion would be added to the company's net income. Ford needed to consider whether the available evidence was adequate to support a reversal of the valuation allowance and when any such reversal should be recognized. Finally, if Ford chose to go through with the accounting adjustment, a decision had to be made about how to report the amount in its financial statements.

Exhibit 1

FORD CONSOLIDATED STATEMENT OF OPERATIONS
(in millions of U.S. dollars, except for per share amounts)

	2010	2009	2008	2007	2006
Sales and revenues					
Automotive sales	119,280	103,868	127,635	154,379	143,249
Financial Services revenues	9,674	12,415	15,949	18,076	16,816
Total sales and revenues	128,954	116,283	143,584	172,455	160,065
Costs and expenses					
Automotive cost of sales	104,451	98,866	126,620	142,587	148,866
Selling, administrative and other expense	11,909	13,029	21,065	21,169	19,148
Goodwill impairment	-	-	-	2,400	-
Interest expense	6,152	6,790	9,737	10,927	8,783
Financial Services provision for credit and insurance losses	(216)	1,030	1,874	668	241
Total costs and expenses	122,296	119,715	159,296	177,751	177,038
Automotive interest income and other non-operating income/(expense), net	(362)	5,284	(713)	1,161	1,478
Financial Services other income/(loss)	315	552	1,149	389	421
Equity in net income/(loss) of affiliates	538	195	381	-	-
Income/(Loss) before income taxes	7,149	2,599	(14,895)	(3,746)	(15,074)
Benefit from/(Provision for) income taxes	(592)	113	62	1,294	2,655
Income/(Loss) from continuing operations	6,557	2,712	(14,833)	(2,452)	(12,419)
Income/(Loss) from discontinued operations	-	5	9	41	16
Net Income/(Loss)	6,557	2,717	(14,824)	(2,411)	(12,403)
Less: Income/(Loss) for non-controlling interests	(4)	-	(58)	312	210
Net Income/(Loss) attributable to Ford	6,561	2,717	(14,766)	(2,723)	(12,613)
Average number of shares of Common and Class B Stock outstanding	3,449	2,992	2,273	1,979	1,879
Basic Earnings Per Share	1.90	0.91	(6.50)	(1.38)	(6.72)
Diluted Earnings Per Share	1.66	0.86	(6.50)	(1.38)	(6.72)

Source: Ford Motor Company 10-K's.

Exhibit 1 (continued)

FORD STATEMENT OF OPERATIONS BY SECTOR
(in millions of U.S. dollars, except for per share amounts)

	2010	2009	2008	2007	2006
AUTOMOTIVE					
Sales	119,280	103,868	127,635	154,379	143,249
Costs and expenses					
Cost of sales	104,451	98,866	126,620	142,587	148,866
Selling, administrative and other expenses	9,040	8,354	10,991	13,660	12,327
Goodwill impairment	-	-	-	2,400	-
Total costs and expenses	113,491	107,220	137,611	158,647	161,193
Operating income/(loss)	5,789	(3,352)	(9,976)	(4,268)	(17,944)
Interest expense	(1,807)	(1,477)	(1,993)	(2,252)	(995)
Interest income and other income/(expense)	(362)	5,284	(713)	1,161	1,478
Equity in net income/(loss) of affiliates	526	330	368	389	421
Income/(Loss) before inc. tax - Automotive	4,146	785	(12,314)	(4,970)	(17,040)
FINANCIAL SERVICES					
Revenues	9,674	12,415	15,949	18,076	16,816
Costs and expenses					
Interest expense	4,345	5,313	7,744	8,675	7,788
Depreciation	2,024	3,937	9,109	6,289	5,295
Operating and other expenses	845	738	965	1,220	1,526
Provision for credit and insurance losses	(216)	1,030	1,874	668	241
Total costs and expenses	6,998	11,018	19,692	16,852	14,850
Other income/(loss), net	315	552	1,149	-	-
Equity in net income/(loss) of affiliates	12	(135)	13	-	-
Income/(Loss) before inc. tax - Financial Serv.	3,003	1,814	(2,581)	1,224	1,966
TOTAL COMPANY					
Income/(loss) before income taxes	7,149	2,599	(14,895)	(3,746)	(15,074)
Benefit from/(Provision for) income taxes	(592)	113	62	1,294	2,655
Income/(loss) from continuing operations	6,557	2,712	(14,833)	(2,452)	(12,419)
Income/(loss) from discontinued operations	-	5	9	-	-
Net Income/(loss)	6,557	2,717	(14,824)	(2,452)	(12,419)
Less: Income/(Loss) for non-controlling interests	(4)	-	(58)	312	210
Net Income/(loss) attributable to Ford	6,561	2,717	(14,766)	(2,764)	(12,629)
NET INCOME/(LOSS) ATTRIBUTABLE TO FORD MOTOR COMPANY					
Income/(loss) from continuing operations	6,561	2,712	(14,775)	(2,764)	(12,629)
Income/(loss) from discontinued operations	-	5	9	41	16
Net income/(loss)	6,561	2,717	(14,766)	(2,723)	(12,613)

Source: Ford Motor Company 10-K's.

Exhibit 1 (continued)

FORD CONSOLIDATED BALANCE SHEET
(in millions of U.S. dollars)

	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
ASSETS					
Cash and cash equivalents	14,805	20,894	22,049	35,283	28,894
Marketable securities	20,765	21,387	17,411	5,248	21,472
Loaned securities	-	-	-	10,267	5,256
Finance receivables, net	70,070	75,892	93,484	109,053	106,863
Other receivables, net	7,388	7,194	6,073	8,210	7,782
Net investment in operating leases	11,675	17,270	25,738	33,255	29,834
Retained interest in sold receivables	-	-	92	653	990
Inventories	5,917	5,041	8,618	10,121	11,578
Equity in net assets of affiliates	2,569	2,367	1,592	2,853	2,787
Net property	23,179	22,637	28,565	36,239	38,505
Deferred income taxes	2,003	3,479	3,108	3,500	4,950
Net intangible assets	102	165	1,593	2,069	6,937
Assets of held-for-sale operations	-	7,618	198	7,537	-
Other assets	6,214	8,096	9,807	14,976	12,706
Total assets	164,687	192,040	218,328	279,264	278,554
LIABILITIES					
Payables	16,362	14,301	14,772	20,832	23,549
Accrued liabilities and deferred revenue	43,844	46,144	63,386	74,738	82,518
Debt	103,988	131,635	154,196	168,787	172,049
Deferred income taxes	1,135	2,421	2,035	3,034	2,744
Liabilities of held-for-sale operations	-	5,321	55	4,824	-
Total liabilities	165,329	199,822	234,444	272,215	280,860
EQUITY					
Capital stock					
Common Stock	37	33	23	21	18
Class B Stock	1	1	1	1	1
Capital in excess of par value of stock	20,803	16,786	9,076	7,834	4,562
Accumulated other comprehensive loss	(14,313)	(10,864)	(10,085)	(558)	(7,846)
Treasury stock	(163)	(177)	(181)	(185)	(183)
Retained earnings/(Accumulated deficit)	(7,038)	(13,599)	(16,145)	(1,485)	(17)
Total equity/(deficit) attributable to Ford	(673)	(7,820)	(17,311)	5,628	(3,465)
Equity/(Deficit) for non-controlling interests	31	38	1,195	1,421	1,159
Total equity/(deficit)	(642)	(7,782)	(16,116)	7,049	(2,306)
Total liabilities and equity	164,687	192,040	218,328	279,264	278,554

Source: Ford Motor Company 10-K's.

Exhibit 1 (continued)

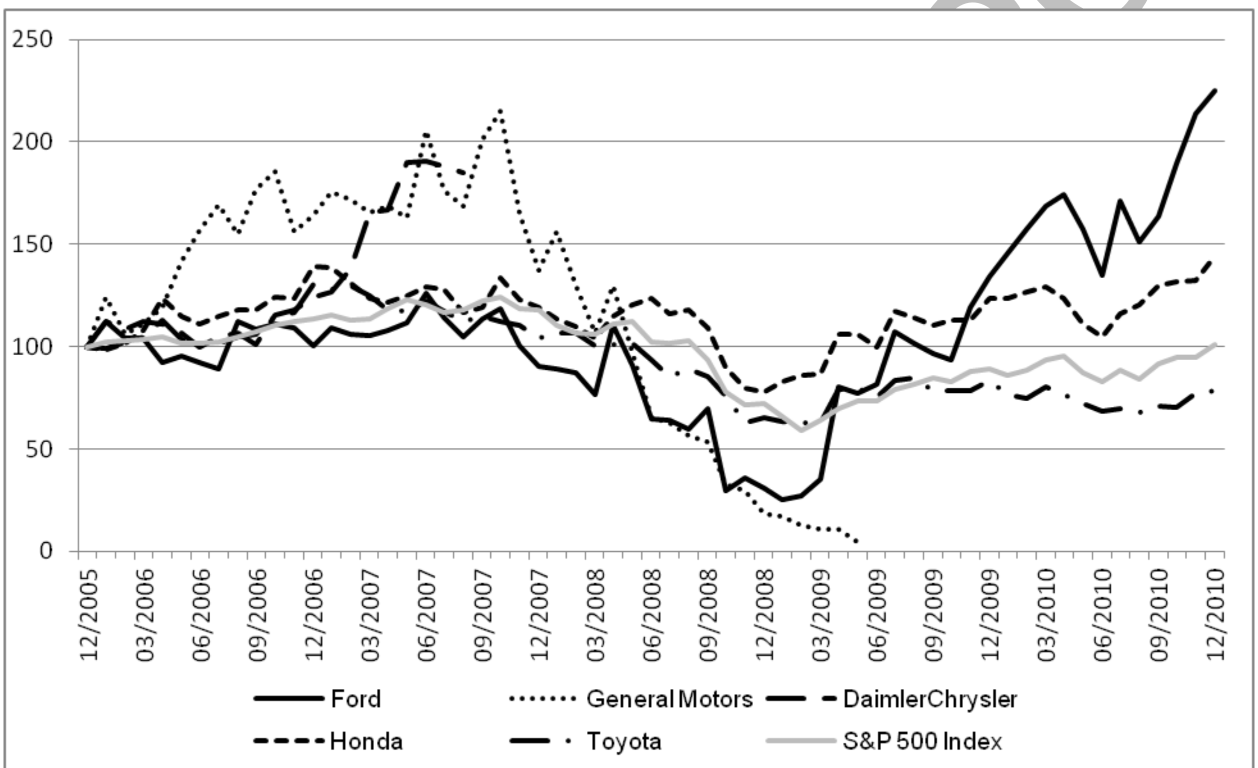
FORD CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions of U.S. dollars)

	2010	2009	2008	2007	2006
Cash flows from operating activities					
Net cash provided by/(used in) operations	11,477	15,477	(263)	17,074	9,622
Cash flows from investing activities					
Capital expenditures	(4,092)	(4,059)	(6,492)	(6,022)	(6,848)
Acquisitions of retail and finance rec. and leases	(28,873)	(26,392)	(44,562)	(55,681)	(59,793)
Collections of retail and finance rec. and leases	37,757	39,884	42,061	45,498	41,502
Purchases of securities	(100,150)	(78,200)	(64,754)	(11,423)	(23,678)
Sales and maturities of securities	101,077	74,344	62,046	18,660	18,456
Settlements of derivatives	(37)	478	2,533	861	486
Sales of retail and finance rec. and leases	-	911	-	708	5,120
Proceeds from sale of businesses	1,318	382	6,854	1,236	56
Cash paid for acquisitions	-	-	(13)	-	-
Elimination of cash balances upon disposition	(456)	-	(928)	(85)	17
Cash change due to deconsolidation of JVs	-	(343)	-		
Other	364	(386)	316	(211)	(161)
Net cash provided by/(used in) investing	6,908	6,619	(2,939)	(6,459)	(24,843)
Cash flows from financing activities					
Sales of Common Stock	1,339	2,450	756	250	431
Purchases of Common Stock	-	-	-	(31)	(183)
Changes in short-term debt	(1,754)	(5,881)	(5,240)	919	(5,825)
Proceeds from issuance of other debt	30,821	45,993	42,158	33,113	58,258
Principal payments on other debt	(47,625)	(61,822)	(46,243)	(39,431)	(36,601)
Payments on transfer of cash to UAW Voluntary Employee Benefit Association Trust	(7,302)	(2,574)	-	-	-
Other	100	(996)	(603)	(88)	(807)
Net cash (used in)/provided by financing	(24,421)	(22,830)	(9,172)	(5,268)	15,273
Effect of exchange rate changes on cash	(53)	454	(714)	1,014	464
Cash flows from discontinued operations	-	(630)	-	26	(11)
Net Increase/(decrease) in cash	(6,089)	(910)	(13,088)	6,387	505
Cash and cash equivalents at January 1	20,894	21,804	34,892	28,896	28,391
Net increase/(decrease) in cash	(6,089)	(910)	(13,088)	6,387	505
Cash and cash equivalents at December 31	14,805	20,894	21,804	35,283	28,896

Source: Ford Motor Company 10-K's.

Exhibit 2

FORD STOCK RETURN CHART
(relative to base 100 as of December 2005)



Notes:
1 – Stock returns are included for GM until June 1, 2009 when the company filed for bankruptcy.
2 – Stock returns are included for DaimlerChrysler until Chrysler was sold in July 2007.

Source: Center for Research in Security Prices.

Exhibit 3

SUMMARY OF DIFFERENCES BETWEEN U.S. GAAP AND IFRS FOR ACCOUNTING FOR DEFERRED TAXES

	U.S. GAAP (FAS 109)	IFRS (IAS 12)
Tax basis	Tax basis is strictly determined by the tax law. There is limited uncertainty on this amount.	IFRS does not provide a fixed definition of tax basis. It is simply the amount that is deductible or taxable for tax purposes, which changes depending on management's judgment.
Uncertain tax positions	FAS separates the measurement and recognition procedures for uncertain tax positions. A benefit is recognized when it is "more likely than not" to be sustained. The amount of the benefit to be recognized is based on the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement.	There is no specific guidance for recognition of tax benefits, companies generally follow the principle that tax assets and liabilities should be measured at the amount expected to be paid.
Recognition of deferred tax assets	The deferred tax assets are recognized in full, then valuation allowance is used to reduce the asset to the amount that is more likely than not to be realized.	Companies recognize deferred tax assets only to the amount that is "probable" to be realized.

Source: "U.S. GAAP vs. IFRS – The Basics," Ernst & Young, January 2009.

Exhibit 4

FORD 2010 INCOME TAXES NOTE

Income Taxes

In accordance with U.S. GAAP, we have elected to recognize accrued interest related to unrecognized tax benefits and tax-related penalties in the *Provision for/(Benefit from) income taxes* on our consolidated statement of operations.

Valuation of Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences that exist between the financial statement carrying value of assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards on a taxing jurisdiction basis. We measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which we expect the temporary differences to be recovered or paid.

Our accounting for deferred tax consequences represents our best estimate of the likely future tax consequences of events that have been recognized in our financial statements or tax returns and their future probability. In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. If, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be realized, we record a valuation allowance.

Components of Income Taxes

Components of income taxes excluding discontinued operations, cumulative effects of changes in accounting principles, other comprehensive income, and equity in net results of affiliated companies accounted for after-tax, are as follows:

	2010	2009	2008
Income/ (Loss) before income taxes, excluding equity in net results of affiliated companies accounted for after-tax (in millions)			
U.S.	$ 4,057	$ 1,724	$ (16,148)
Non-U.S.	2,554	680	872
Total	$ 6,611	$ 2,404	$ (15,276)
Provision for/ (Benefit from) income taxes (in millions)			
Current			
Federal	$ (69)	$ (274)	$ (117)
Non-U.S.	289	269	417
State and local	(5)	7	36
Total current	215	2	336
Deferred			
Federal	—	(100)	94
Non-U.S.	292	44	(433)
State and local	85	(59)	(59)
Total deferred	377	(115)	(398)
Total	$ 592	$ (113)	$ (62)

Exhibit 4 (continued)

Reconciliation of effective tax rate

U.S. tax at statutory rate	35.0%	35.0%	35.0%
Non-U.S. income taxes	1.2	(0.8)	0.9
State and local income taxes	1.5	(1.9)	0.2
General business credits	(1.8)	(6.2)	1.0
Dispositions and restructurings	(9.5)	(4.3)	15.1
Medicare prescription drug benefit	—	—	0.5
Prior year settlements and claims	(10.0)	10.4	(0.5)
Tax-related interest	(0.7)	(1.5)	0.5
Other	(1.0)	1.0	(0.2)
Valuation allowance	(5.7)	(36.4)	(52.1)
Effective rate	9.0%	(4.7)%	0.4%

No provision for deferred taxes has been made on $812 million of unremitted earnings that are permanently invested in our non-U.S. operating assets.

Components of Deferred Tax Assets and Liabilities

The components of deferred tax assets and liabilities at December 31 were as follows (in millions):

	2010	2009
Deferred tax assets		
Employee benefit plans	$6,332	$8,590
Net operating loss carryforwards	4,124	1,901
Tax credit carryforwards	4,546	2,941
Research expenditures	2,336	2,477
Dealer and customer allowances and claims	1,428	1,960
Other foreign deferred tax assets	1,513	6,441
Allowance for credit losses	252	529
All other	2,839	2,347
Total gross deferred tax asset	23,370	27,186
Less: valuation allowance	(15,664)	(17,396)
Total net deferred tax assets	7,706	9,790
Deferred tax liabilities		
Leasing transactions	928	1,411
Deferred income	2,101	-
Depreciation and amortization (excluding leasing transactions)	1,146	3,080
Finance receivables	716	719
Other foreign deferred tax liabilities	334	1,240
All other	1,613	2,282
Total deferred tax liabilities	6,838	8,732
Net deferred tax assets/ (liabilities)	$ 868	$1,058

Operating loss carryforwards for tax purposes were $10.3 billion at December 31, 2010. A substantial portion of these losses begin to expire in 2029; the remaining losses will begin to expire in 2018. Capital loss carryforwards for tax purposes were $415 million at December 31, 2010. Tax credits available to offset future tax liabilities are $4.5 billion. A substantial portion of these credits have a remaining carryforward period of 10 years or more. Tax benefits of operating loss and tax credit carryforwards are evaluated on an ongoing basis, including a review of historical and projected future operating results, the eligible carryforward period, and other circumstances.

Effective September 30, 2006, the balance of deferred taxes primarily at our U.S. entities 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, at December 31, 2010 we have a valuation allowance of $15.7 billion against the net deferred tax asset.

Exhibit 4 (continued)

Tax Benefits Preservation Plan

On September 11, 2009, our Board of Directors adopted a tax benefit preservation plan designed to preserve shareholder value and the value of certain tax assets including net operating losses, capital losses, and tax credit carryforwards ("Tax Attributes"). At December 31, 2010, we had Tax Attributes that would offset $20 billion of U.S. taxable income. Our ability to use these Tax Attributes would be substantially limited if there were an "ownership change" as defined under Section 382 of the Internal Revenue Code. In general, an ownership change would occur if 5-percent shareholders (as defined under U.S. federal income tax laws) collectively increase their ownership in Ford by more than 50 percentage points over a rolling three-year period.

In connection with the tax benefit preservation plan, our Board of Directors declared a dividend of one preferred share purchase right for each share of Ford Common Stock and Class B Stock outstanding as of the close of business on September 25, 2009. In accordance with the Plan, shares held by any person who acquires, without the approval of our Board of Directors, beneficial ownership of 4.99% or more of outstanding Ford Common Stock (including any ownership interest held by that person's affiliates and associates as defined under the tax benefit preservation plan) could be subject to significant dilution.

Other

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows for the years listed (in millions):

	2010	2009
Balance at January 1	$ 1,173	$ 1,898
Increase – tax positions in prior periods	138	282
Increase – tax positions in current period	52	55
Decrease – tax positions in prior periods	(141)	(213)
Settlements	(109)	(836)
Lapse of statute of limitations	(29)	(37)
Foreign currency translation adjustment	(21)	24
Balance at December 31	$ 1,063	$ 1,173

The amount of unrecognized tax benefits at December 31, 2010 and 2009 that would affect the effective tax rate if recognized was $510 million and $745 million, respectively.

The U.S. and Canadian governments have reached agreement on our transfer pricing methodologies. The agreement covers a number of years and has resulted in a favorable impact to the income tax provision of $196 million in 2009 after the impact of valuation allowances, primarily resulting from the refund of prior Canadian tax payments.

Examinations by tax authorities have been completed through 1999 in Germany, 2005 in Canada, 2007 in the United States, and 2006 in the United Kingdom. Although examinations have been completed in these jurisdictions, various unresolved transfer pricing disputes exist for years dating back to 1994.

We recorded in our consolidated statement of operations approximately $45 million, $54 million, and $69 million in tax-related interest income for the years ended December 31, 2010, 2009, and 2008. As of December 31, 2010 and 2009, we had recorded a net payable of $77 million and $38 million, respectively, for tax-related interest.

Source: Ford Motor Company 2010 Annual Report.