

FORD MOTOR CO
Form 10-Q
July 26, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018

or

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)

Delaware 38-0549190
(State of incorporation) (I.R.S. Employer Identification No.)

One American Road, Dearborn, Michigan 48126
(Address of principal executive offices) (Zip Code)
313-322-3000
(Registrant's telephone number, including area code)

Indicate by check mark if 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

Edgar Filing: FORD MOTOR CO - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 20, 2018, Ford had outstanding 3,914,874,462 shares of Common Stock and 70,852,076 shares of Class B Stock.

Exhibit Index begins on page
68

FORD MOTOR COMPANY
 QUARTERLY REPORT ON FORM 10-Q
 For the Quarter Ended June 30, 2018

	Page
Table of Contents	
Part I - Financial Information	
Item 1 Financial Statements	<u>1</u>
Consolidated Income Statement	<u>1</u>
Consolidated Statement of Comprehensive Income	<u>1</u>
Consolidated Balance Sheet	<u>2</u>
Condensed Consolidated Statement of Cash Flows	<u>3</u>
Consolidated Statement of Equity	<u>4</u>
Notes to the Financial Statements	<u>5</u>
Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>29</u>
Overview	<u>29</u>
Results of Operations	<u>31</u>
Automotive Segment	<u>33</u>
Mobility Segment	<u>42</u>
Ford Credit Segment	<u>43</u>
Corporate Other	<u>46</u>
Interest on Debt	<u>46</u>
Special Items	<u>46</u>
Taxes	<u>47</u>
Liquidity and Capital Resources	<u>48</u>
Credit Ratings	<u>56</u>
Outlook	<u>57</u>
Non-GAAP Financial Measure Reconciliations	<u>58</u>
Supplemental Information	<u>61</u>
Cautionary Note on Forward-Looking Statements	<u>65</u>
Accounting Standards Issued But Not Yet Adopted	<u>66</u>
Item 3 Quantitative and Qualitative Disclosures About Market Risk	<u>66</u>
Item 4 Controls and Procedures	<u>66</u>
Part II - Other Information	
Item 1 Legal Proceedings	<u>67</u>
Item 1A Risk Factors	<u>67</u>
Item 6 Exhibits	<u>68</u>
Signature	<u>69</u>

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

FORD MOTOR COMPANY AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT

(in millions, except per share amounts)

	For the periods ended June 30,			
	2017	2018	2017	2018
	Second Quarter		First Half	
	(unaudited)			
Revenues				
Automotive	\$37,113	\$35,905	\$73,588	\$74,917
Ford Credit	2,738	3,009	5,407	5,952
Mobility	2	6	4	10
Total revenues (Note 3)	39,853	38,920	78,999	80,879
Costs and expenses				
Cost of sales	33,342	33,194	66,042	68,947
Selling, administrative, and other expenses	2,756	2,778	5,520	5,525
Ford Credit interest, operating, and other expenses	2,203	2,362	4,421	4,700
Total costs and expenses	38,301	38,334	75,983	79,172
Interest expense on Automotive debt	277	287	556	562
Interest expense on Other debt	14	14	28	28
Other income/(loss), net (Note 4)	732	1,004	1,466	1,867
Equity in net income of affiliated companies	273	60	619	284
Income before income taxes	2,266	1,349	4,517	3,268
Provision for/(Benefit from) income taxes	211	280	863	454
Net income	2,055	1,069	3,654	2,814
Less: Income/(Loss) attributable to noncontrolling interests	8	3	15	12
Net income attributable to Ford Motor Company	\$2,047	\$1,066	\$3,639	\$2,802
EARNINGS PER SHARE ATTRIBUTABLE TO FORD MOTOR COMPANY COMMON AND CLASS B STOCK (Note 6)				
Basic income	\$0.51	\$0.27	\$0.92	\$0.70
Diluted income	0.51	0.27	0.91	0.70
Cash dividends declared	0.15	0.15	0.35	0.43

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	For the periods ended June 30,			
	2017	2018	2017	2018
	Second Quarter		First Half	
	(unaudited)			
Net income	\$2,055	\$1,069	\$3,654	\$2,814
Other comprehensive income/(loss), net of tax (Note 16)				
Foreign currency translation	84	(595)	326	(300)
Marketable securities	4	(8)	3	(55)

Edgar Filing: FORD MOTOR CO - Form 10-Q

Derivative instruments	137	52	(31) 85
Pension and other postretirement benefits	(12) 17	(3) 25
Total other comprehensive income/(loss), net of tax	213	(534) 295	(245)
Comprehensive income	2,268	535	3,949	2,569
Less: Comprehensive income/(loss) attributable to noncontrolling interests	8	4	13	12
Comprehensive income attributable to Ford Motor Company	\$2,260	\$531	\$3,936	\$2,557

The accompanying notes are part of the financial statements.

1

Item 1. Financial Statements (Continued)

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

	December 31, 2017	June 30, 2018 (unaudited)
ASSETS		
Cash and cash equivalents (Note 7)	\$ 18,492	\$ 16,828
Marketable securities (Note 7)	20,435	19,648
Ford Credit finance receivables, net (Note 8)	52,210	51,354
Trade and other receivables, less allowances of \$392 and \$395	10,599	11,026
Inventories (Note 10)	11,176	12,565
Other assets	3,889	3,604
Total current assets	116,801	115,025
Ford Credit finance receivables, net (Note 8)	56,182	56,351
Net investment in operating leases	28,235	29,365
Net property	35,327	35,580
Equity in net assets of affiliated companies	3,085	3,087
Deferred income taxes	10,762	10,371
Other assets	8,104	8,300
Total assets	\$ 258,496	\$ 258,079
LIABILITIES		
Payables	\$ 23,282	\$ 22,743
Other liabilities and deferred revenue (Note 12)	19,697	21,234
Automotive debt payable within one year (Note 14)	3,356	3,968
Ford Credit debt payable within one year (Note 14)	48,265	46,916
Total current liabilities	94,600	94,861
Other liabilities and deferred revenue (Note 12)	24,711	24,107
Automotive long-term debt (Note 14)	12,575	11,642
Ford Credit long-term debt (Note 14)	89,492	89,718
Other long-term debt (Note 14)	599	599
Deferred income taxes	815	584
Total liabilities	222,792	221,511
Redeemable noncontrolling interest	98	99
EQUITY		
Common Stock, par value \$.01 per share (3,999 million shares issued of 6 billion authorized)	40	40
Class B Stock, par value \$.01 per share (71 million shares issued of 530 million authorized)	1	1
Capital in excess of par value of stock	21,843	21,953
Retained earnings	21,906	22,993
Accumulated other comprehensive income/(loss) (Note 16)	(6,959)	(7,204)
Treasury stock	(1,253)	(1,342)
Total equity attributable to Ford Motor Company	35,578	36,441
Equity attributable to noncontrolling interests	28	28
Total equity	35,606	36,469

Total liabilities and equity \$258,496 \$258,079

The following table includes assets to be used to settle liabilities of the consolidated variable interest entities (“VIEs”). These assets and liabilities are included in the consolidated balance sheet above.

	December 31,	
	2017	2018
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$3,479	\$ 3,079
Ford Credit finance receivables, net	56,250	55,600
Net investment in operating leases	11,503	12,207
Other assets	64	55
LIABILITIES		
Other liabilities and deferred revenue	\$2	\$ 6
Debt	46,437	50,012

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
 (in millions)

	For the periods ended June 30, 2017 2018 First Half (unaudited)	
Cash flows from operating activities		
Net cash provided by/(used in) operating activities	\$9,951	\$8,486
Cash flows from investing activities		
Capital spending	(3,264)	(3,688)
Acquisitions of finance receivables and operating leases	(27,379)	(32,273)
Collections of finance receivables and operating leases	21,636	25,980
Purchases of marketable and other securities	(16,931)	(11,725)
Sales and maturities of marketable and other securities	16,906	12,756
Settlements of derivatives	154	109
Other	16	(181)
Net cash provided by/(used in) investing activities	(8,862)	(9,022)
Cash flows from financing activities		
Cash dividends	(1,392)	(1,711)
Purchases of common stock	(131)	(89)
Net changes in short-term debt	72	(1,735)
Proceeds from issuance of long-term debt	20,467	28,135
Principal payments on long-term debt	(19,952)	(25,299)
Other	(102)	(93)
Net cash provided by/(used in) financing activities	(1,038)	(792)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	267	(289)
Net increase/(decrease) in cash, cash equivalents, and restricted cash	\$318	\$(1,617)
Cash, cash equivalents, and restricted cash at January 1 (Note 7)	\$16,019	\$18,638
Net increase/(decrease) in cash, cash equivalents, and restricted cash	318	(1,617)
Cash, cash equivalents, and restricted cash at June 30 (Note 7)	\$16,337	\$17,021

The accompanying notes are part of the financial statements.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY
(in millions, unaudited)

	Equity Attributable to Ford Motor Company					Total	Equity Attributable to Non-controlling Interests	Total Equity
	Capital Stock	Cap. in Excess of Par Value of Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss) (Note 16)	Treasury Stock			
Balance at December 31, 2016	\$41	\$21,630	\$16,193	\$ (7,013)	\$(1,122)	\$29,729	\$ 17	\$29,746
Adoption of accounting standards	—	6	566	—	—	572	—	572
Net income	—	—	3,639	—	—	3,639	15	3,654
Other comprehensive income/(loss), net of tax	—	—	—	297	—	297	(2)	295
Common stock issued (including share-based compensation impacts)	—	99	—	—	—	99	—	99
Treasury stock/other	—	—	—	—	(131)	(131)	(1)	(132)
Cash dividends declared	—	—	(1,392)	—	—	(1,392)	(11)	(1,403)
Balance at June 30, 2017	\$41	\$21,735	\$19,006	\$ (6,716)	\$(1,253)	\$32,813	\$ 18	\$32,831
Balance at December 31, 2017	\$41	\$21,843	\$21,906	\$ (6,959)	\$(1,253)	\$35,578	\$ 28	\$35,606
Net income	—	—	2,802	—	—	2,802	12	2,814
Other comprehensive income/(loss), net of tax	—	—	—	(245)	—	(245)	—	(245)
Common stock issued (including share-based compensation impacts)	—	110	—	—	—	110	—	110
Treasury stock/other	—	—	—	—	(89)	(89)	—	(89)
Dividends and dividend equivalents declared	—	—	(1,715)	—	—	(1,715)	(12)	(1,727)
Balance at June 30, 2018	\$41	\$21,953	\$22,993	\$ (7,204)	\$(1,342)	\$36,441	\$ 28	\$36,469

The accompanying notes are part of the financial statements.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

Table of Contents

	Page
Footnote	
Note 1 Presentation	<u>6</u>
Note 2 New Accounting Standards	<u>7</u>
Note 3 Revenue	<u>8</u>
Note 4 Other Income/(Loss)	<u>10</u>
Note 5 Income Taxes	<u>11</u>
Note 6 Capital Stock and Earnings Per Share	<u>11</u>
Note 7 Cash, Cash Equivalents, and Marketable Securities	<u>12</u>
Note 8 Ford Credit Finance Receivables	<u>15</u>
Note 9 Ford Credit Allowance for Credit Losses	<u>18</u>
Note 10 Inventories	<u>19</u>
Note 11 Goodwill	<u>19</u>
Note 12 Other Liabilities and Deferred Revenue	<u>19</u>
Note 13 Retirement Benefits	<u>20</u>
Note 14 Debt	<u>21</u>
Note 15 Derivative Financial Instruments and Hedging Activities	<u>22</u>
Note 16 Accumulated Other Comprehensive Income/(Loss)	<u>24</u>
Note 17 Commitments and Contingencies	<u>25</u>
Note 18 Segment Information	<u>27</u>

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. PRESENTATION

For purposes of this report, “Ford,” the “Company,” “we,” “our,” “us,” or similar references mean Ford Motor Company, our consolidated subsidiaries, and our consolidated VIEs of which we are the primary beneficiary, unless the context requires otherwise. We also make reference to Ford Motor Credit Company LLC, herein referenced to as Ford Credit. Our financial statements are presented in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information, instructions to Quarterly Report on Form 10-Q, and Rule 10-01 of Regulation S-X.

In the opinion of management, these unaudited financial statements reflect a fair statement of our results of operations and financial condition for the periods, and at the dates, presented. The results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. Reference should be made to the financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2017 (“2017 Form 10-K Report”). We reclassified certain prior year amounts in our consolidated financial statements to conform to the current year presentation.

Change in Presentation

Effective January 1, 2018, we changed our reportable segments to reflect the manner in which we now manage our business. Based on recent changes to our organization structure and how our Chief Operating Decision Maker (“CODM”) reviews operating results and makes decisions about resource allocation, we now have three reportable segments that represent the primary businesses reported in our consolidated financial statements: Automotive, Mobility, and Ford Credit. See Note 18 for a description of our new segment presentation.

Change in Accounting

We carry inventory on our consolidated balance sheet that is comprised of finished products, raw materials, work-in-process, and supplies. As of January 1, 2018, we changed our accounting method for U.S. inventories to a first-in, first-out basis from a last-in, first-out basis. We believe this change in accounting method is preferable as it is consistent with how we manage our business, results in a uniform method to value our inventory across all regions in our business, and improves comparability with our peers. The effect of this change was immaterial on our consolidated income statement, balance sheet, and statement of cash flow amounts for the interim period ended June 30, 2018.

We have retrospectively applied this change in accounting method to all prior periods. As of December 31, 2016, the cumulative effect of the change increased Retained earnings by \$559 million.

The effect of this change on our consolidated financial statements was as follows (in millions except for per share amounts):

	For the periods ended June 30, 2017					
	Second Quarter		First Half			
	Previously Reported	As Revised	Effect of Change Higher/(Lower)	Previously Reported	As Revised	Effect of Change Higher/(Lower)
Income Statement						
Cost of Sales	\$33,349	\$33,342	\$ (7)	\$66,057	\$66,042	\$ (15)

Edgar Filing: FORD MOTOR CO - Form 10-Q

Income before income taxes	2,259	2,266	7	4,502	4,517	15
Provision for/ (Benefit from) income taxes	209	211	2	858	863	5
Net income	2,050	2,055	5	3,644	3,654	10
Net income attributable to Ford Motor Company	2,042	2,047	5	3,629	3,639	10
Basic earning per share attributable to Ford Motor Company	0.51	0.51	—	0.91	0.92	0.01
Diluted earning per share attributable to Ford Motor Company	0.51	0.51	—	0.91	0.91	—

December 31, 2017

Previously Reported	As Revised	Effect of Change Higher/(Lower)
---------------------	------------	---------------------------------

Balance Sheet

Inventories	\$10,277	\$11,176	\$ 899	
Deferred income taxes (assets)	10,973	10,762	(211)
Retained earnings	21,218	21,906	688	

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. PRESENTATION (Continued)

Argentina

In June 2018, as a result of the three-year cumulative consumer price index exceeding 100%, Argentina was classified as having a highly inflationary economy. We are presently evaluating the impact of accounting for our Argentina operations as highly inflationary beginning on July 1, 2018.

NOTE 2. NEW ACCOUNTING STANDARDS

Adoption of New Accounting Standards

Accounting Standards Update (“ASU”) 2017-12, Derivatives and Hedging. On January 1, 2018, we adopted the amendments to Accounting Standards Codification 815 which aligns hedge accounting with risk management activities and simplifies the requirements to qualify for hedge accounting. Adoption did not have a material impact on our financial statements. We continue to assess opportunities enabled by the new standard to expand our risk management strategies.

ASU 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities.

On January 1, 2018, we adopted ASU 2016-01 and the related amendments. This standard amends various aspects of the recognition, measurement, presentation, and disclosure of financial instruments. We adopted the measurement alternative for equity investments without readily determinable fair values (often referred to as cost method investments) on a prospective basis. As a result, these investments will be revalued upon occurrence of an observable price change for similar investments and for impairments. We anticipate adoption may increase the volatility on our consolidated income statement.

We also adopted the following standards during 2018, none of which had a material impact to our financial statements or financial statement disclosures:

Standard	Effective Date
2017-08 Nonrefundable Fees and Other Costs - Premium Amortization on Purchased Callable Debt Securities	January 1, 2018
2016-18 Statement of Cash Flows - Restricted Cash	January 1, 2018
2016-16 Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory	January 1, 2018
2016-15 Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments	January 1, 2018

Accounting Standards Issued But Not Yet Adopted

The following represent the standards that will, or are expected to, result in a significant change in practice and/or have a significant financial impact to Ford.

ASU 2016-13, Credit Losses - Measurement of Credit Losses on Financial Instruments. In June 2016, the Financial Accounting Standards Board (“FASB”) issued a new accounting standard which replaces the current incurred loss impairment method with a method that reflects expected credit losses. The new standard is effective as of January 1, 2020, and early adoption is permitted as of January 1, 2019. We will adopt the new credit loss guidance by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of Retained earnings. We anticipate adoption will increase the amount of expected credit losses reported in Ford Credit

finance receivables, net on our consolidated balance sheet and do not expect a material impact to our consolidated income statement.

ASU 2016-02, Leases. In February 2016, the FASB issued a new accounting standard which provides guidance on the recognition, measurement, presentation, and disclosure of leases. The new standard supersedes the present U.S. GAAP standard on leases and requires substantially all leases to be reported on the balance sheet as right-of-use assets and lease obligations. We plan to adopt the new standard on its effective date of January 1, 2019. We anticipate adoption of the standard will add between \$1.5 billion and \$2 billion in right-of-use assets and lease obligations to our consolidated balance sheet and will not significantly impact results. We plan to elect the practical expedients upon transition that will retain the lease classification and initial direct costs for any leases that exist prior to adoption of the standard. We will not reassess whether any contracts entered into prior to adoption are leases. We are in the process of cataloging our existing lease contracts and implementing changes to our systems.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. REVENUE

The following tables disaggregate our revenue by major source for the periods ended June 30 (in millions):

	Second Quarter 2017			
	Automotive	Mobility	Ford Credit	Consolidated
Vehicles, parts, and accessories	\$35,746	\$ —	\$—	\$ 35,746
Used vehicles	708	—	—	708
Extended service contracts	332	—	—	332
Other revenue	202	2	55	259
Revenues from sales and services	36,988	2	55	37,045
Leasing income	125	—	1,381	1,506
Financing income	—	—	1,260	1,260
Insurance income	—	—	42	42
Total revenues	\$37,113	\$ 2	\$2,738	\$ 39,853

	Second Quarter 2018			
	Automotive	Mobility	Ford Credit	Consolidated
Vehicles, parts, and accessories	\$34,569	\$ —	\$—	\$ 34,569
Used vehicles	655	—	—	655
Extended service contracts	328	—	—	328
Other revenue	210	6	58	274
Revenues from sales and services	35,762	6	58	35,826
Leasing income	143	—	1,443	1,586
Financing income	—	—	1,465	1,465
Insurance income	—	—	43	43
Total revenues	\$35,905	\$ 6	\$3,009	\$ 38,920

	First Half 2017			
	Automotive	Mobility	Ford Credit	Consolidated
Vehicles, parts, and accessories	\$70,742	\$ —	\$—	\$ 70,742
Used vehicles	1,581	—	—	1,581
Extended service contracts	607	—	—	607
Other revenue	426	4	104	534
Revenues from sales and services	73,356	4	104	73,464
Leasing income	232	—	2,747	2,979
Financing income	—	—	2,474	2,474
Insurance income	—	—	82	82
Total revenues	\$73,588	\$ 4	\$5,407	\$ 78,999

First Half 2018

Edgar Filing: FORD MOTOR CO - Form 10-Q

	Automotive	Mobility	Ford Credit	Consolidated
Vehicles, parts, and accessories	\$71,986	\$ —	\$—	\$ 71,986
Used vehicles	1,583	—	—	1,583
Extended service contracts	657	—	—	657
Other revenue	429	10	113	552
Revenues from sales and services	74,655	10	113	74,778
Leasing income	262	—	2,858	3,120
Financing income	—	—	2,897	2,897
Insurance income	—	—	84	84
Total revenues	\$74,917	\$ 10	\$5,952	\$ 80,879

8

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. REVENUE (Continued)

Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally this occurs with the transfer of control of our vehicles, parts, accessories, or services. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The expected costs associated with our base warranties continue to be recognized as expense when the products are sold. We recognize revenue for vehicle service contracts that extend mechanical and maintenance coverages beyond our base warranties over the life of the contract. We do not have any material significant payment terms as payment is received at or shortly after the point of sale.

Automotive Segment

Vehicles, Parts, and Accessories. For the majority of vehicles, parts, and accessories, we transfer control and recognize a sale when we ship the product from our manufacturing facility to our customer (dealers and distributors). We receive cash equal to the invoice price for most vehicle sales at the time of wholesale. When the vehicle sale is financed by our wholly-owned subsidiary Ford Credit, the dealer pays Ford Credit when it sells the vehicle to the retail customer. Payment terms on part sales to dealers, distributors, and retailers range from 30 days to 120 days. The amount of consideration we receive and revenue we recognize varies with changes in marketing incentives and returns we offer to our customers and their customers. When we give our dealers the right to return eligible parts and accessories, we estimate the expected returns based on an analysis of historical experience. We adjust our estimate of revenue at the earlier of when the most likely amount of consideration we expect to receive changes or when the consideration becomes fixed. As a result, we recorded a decrease to revenue recognized in prior periods of \$510 million and \$220 million in the second quarter of 2017 and 2018, respectively.

Depending on the terms of the arrangement, we may also defer the recognition of a portion of the consideration received because we have to satisfy a future obligation (e.g., free extended service contracts). We use an observable price to determine the stand-alone selling price for separate performance obligations or a cost plus margin approach when one is not available. We have elected to recognize the cost for freight and shipping when control over vehicles, parts, or accessories have transferred to the customer as an expense in Cost of sales.

We sell vehicles to daily rental companies and guarantee that we will pay them the difference between an agreed amount and the value they are able to realize upon resale. At the time of transfer of vehicles to the daily rental companies, we record the probable amount we will pay under the guarantee to Other liabilities and deferred revenue.

Used Vehicles. We sell used vehicles both at auction and through our consolidated dealerships. Proceeds from the sale of these vehicles are recognized in Automotive revenues upon transfer of control of the vehicle to the customer and the related vehicle carrying value is recognized in Cost of sales.

Extended Service Contracts. We sell separately-priced service contracts that extend mechanical and maintenance coverages beyond our base warranty agreements to vehicle owners. The separately priced service contracts range from 12 months to 120 months. We receive payment at contract inception and recognize revenue over the term of the agreement in proportion to the costs we expect to incur in satisfying the contract obligations. At January 1, 2017 and December 31, 2017, \$3.5 billion and \$3.8 billion, respectively, of unearned revenue associated with outstanding contracts was reported in Other Liabilities and deferred revenue. We recognized \$271 million and \$269 million of the unearned amounts as revenue during the second quarter of 2017 and 2018, respectively, and \$541 million and \$567

million in the first half of 2017 and 2018, respectively. At June 30, 2018, the unearned amount was \$3.9 billion. We expect to recognize approximately \$600 million of the unearned amount in the remainder of 2018, \$1 billion in 2019, and \$2.3 billion thereafter.

We record a premium deficiency reserve to the extent we estimate the future costs associated with these contracts exceed the unrecognized revenue. Amounts paid to dealers to obtain these contracts are deferred and recorded as Other assets. These costs are amortized to expense consistent with how the related revenue is recognized. We had a balance of \$232 million and \$242 million in deferred costs as of December 31, 2017 and June 30, 2018, respectively. Amortization of \$14 million and \$19 million was recognized during the second quarter of 2017 and 2018, respectively, and \$29 million and \$37 million in the first half of 2017 and 2018, respectively.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. REVENUE (Continued)

Other Revenue. Other revenue consists primarily of net commissions received for serving as the agent in facilitating the sale of a third party's products or services to our customers and payments for vehicle-related design and testing services we perform for others. We have applied the practical expedient to recognize Automotive revenues for vehicle-related design and testing services over the two to three year term of these agreements in proportion to the amount we have the right to invoice.

Leasing Income. We sell vehicles to daily rental companies with an obligation to repurchase the vehicles for a guaranteed amount, exercisable at the option of the customer. The transactions are accounted for as operating leases. Upon the transfer of vehicles to the daily rental companies, we record proceeds received in Other liabilities and deferred revenue. The difference between the proceeds received and the guaranteed repurchase amount is recorded in Automotive revenues over the term of the lease using a straight-line method. The cost of the vehicle is recorded in Net investment in operating leases on our consolidated balance sheet and the difference between the cost of the vehicle and the estimated auction value is depreciated in Cost of sales over the term of the lease.

Ford Credit Segment

Leasing Income. Ford Credit offers leasing plans to retail consumers through Ford and Lincoln brand dealers who originate the leases. Ford Credit records an operating lease upon purchase of a vehicle subject to a lease from the dealer. The retail consumer makes lease payments representing the difference between Ford Credit's purchase price of the vehicle and the contractual residual value of the vehicle, plus lease fees that we recognize on a straight-line basis over the term of the lease agreement. Depreciation and the gain or loss upon disposition of the vehicle is recorded in Ford Credit interest, operating, and other expenses.

Financing Income. Ford Credit originates and purchases finance installment contracts. Financing income represents interest earned on the finance receivables (including direct financing leases). Interest is recognized using the interest method, and includes the amortization of certain direct origination costs.

Insurance Income. Income from insurance contracts is recognized evenly over the term of the agreement. Insurance commission revenue is recognized on a net basis at the time of sale of the third party's product or service to our customer.

NOTE 4. OTHER INCOME/(LOSS)

The amounts included in other income/(loss), net for the periods ended June 30 were as follows (in millions):

	Second Quarter		First Half	
	2017	2018	2017	2018
Net periodic pension and OPEB income/(cost), excluding service cost	\$389	\$429	\$779	\$906
Investment-related interest income	109	167	201	313
Interest income/(expense) on income taxes	—	32	1	33
Realized and unrealized gains/(losses) on cash equivalents, marketable securities, and other securities	(24)	217	27	212
Gains/(Losses) on changes in investments in affiliates	(1)	—	(2)	58
Royalty income	150	129	304	272

Edgar Filing: FORD MOTOR CO - Form 10-Q

Other	109	30	156	73
Total	\$732	\$1,004	\$1,466	\$1,867

10

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. INCOME TAXES

For interim tax reporting, we estimate one single effective tax rate for tax jurisdictions not subject to a valuation allowance, which is applied to the year-to-date ordinary income/(loss). Tax effects of significant unusual or infrequently occurring items are excluded from the estimated annual effective tax rate calculation and recognized in the interim period in which they occur.

For the second quarter and first half of 2018, our effective tax rates were 20.8% and 13.9%, respectively. During the first quarter of 2018, we recognized \$235 million of benefit for non-U.S. capital loss carryforwards expected to be realized in the foreseeable future.

NOTE 6. CAPITAL STOCK AND EARNINGS PER SHARE

Earnings Per Share Attributable to Ford Motor Company Common and Class B Stock

Basic and diluted income per share were calculated using the following (in millions):

	Second Quarter		First Half	
	2017	2018	2017	2018
Basic and Diluted Income Attributable to Ford Motor Company				
Basic income	\$2,047	\$1,066	\$3,639	\$2,802
Diluted income	2,047	1,066	3,639	2,802
Basic and Diluted Shares				
Basic shares (average shares outstanding)	3,977	3,977	3,977	3,976
Net dilutive options, unvested restricted stock units, and restricted stock	19	22	21	22
Diluted shares	3,996	3,999	3,998	3,998

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES

The fair values of cash, cash equivalents, and marketable securities measured at fair value on a recurring basis on our balance sheet were as follows (in millions):

	December 31, 2017				
	Fair Value Level	Automotive	Mobility	Ford Credit	Consolidated
Cash and cash equivalents					
U.S. government	1	\$913	\$ —	\$—	\$ 913
U.S. government agencies	2	433	—	300	733
Non-U.S. government and agencies	2	—	—	703	703
Corporate debt	2	55	—	25	80
Total marketable securities classified as cash equivalents		1,401	—	1,028	2,429
Cash, time deposits, and money market funds		7,529	4	8,530	16,063
Total cash and cash equivalents		\$8,930	\$ 4	\$9,558	\$ 18,492
Marketable securities					
U.S. government	1	\$5,580	\$ —	\$966	\$ 6,546
U.S. government agencies	2	2,484	—	384	2,868
Non-U.S. government and agencies	2	5,270	—	660	5,930
Corporate debt	2	4,031	—	848	4,879
Equities (a)	1	138	—	—	138
Other marketable securities	2	51	—	23	74
Total marketable securities		\$17,554	\$ —	\$2,881	\$ 20,435
June 30, 2018					
	Fair Value Level	Automotive	Mobility	Ford Credit	Consolidated
Cash and cash equivalents					
U.S. government	1	\$8	\$ —	\$10	\$ 18
U.S. government agencies	2	3	—	—	3
Non-U.S. government and agencies	2	210	—	587	797
Corporate debt	2	225	—	460	685
Total marketable securities classified as cash equivalents		446	—	1,057	1,503
Cash, time deposits, and money market funds		7,284	19	8,022	15,325
Total cash and cash equivalents		\$7,730	\$ 19	\$9,079	\$ 16,828
Marketable securities					
U.S. government	1	\$2,949	\$ —	\$404	\$ 3,353
U.S. government agencies	2	1,992	—	164	2,156
Non-U.S. government and agencies	2	6,322	—	1,045	7,367
Corporate debt	2	5,306	—	516	5,822
Equities (a)	1	558	—	—	558
Other marketable securities	2	235	—	157	392

Total marketable securities \$17,362 \$ — \$2,286 \$ 19,648

(a) Net unrealized gains/losses on equities were a \$27 million loss and a \$158 million gain at December 31, 2017 and June 30, 2018, respectively.

12

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES (Continued)

The cash equivalents and marketable securities accounted for as available-for-sale (“AFS”) debt securities on our balance sheet were as follows (in millions):

December 31, 2017

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Fair Value of Securities with Contractual Maturities		
					Within 1 Year	After 1 Year through 5 Years	After 5 Years
Automotive							
U.S. government	\$3,669	\$ —	\$ (18)	\$3,651	\$1,377	\$2,274	\$ —
U.S. government agencies	1,915	—	(15)	1,900	265	1,620	15
Non-U.S. government and agencies	4,021	—	(28)	3,993	197	3,771	25
Corporate debt	1,716	1	(8)	1,709	194	1,509	6
Other marketable securities	17	—	—	17	—	16	1
Total	\$11,338	\$ 1	\$ (69)	\$11,270	\$2,033	\$9,190	\$ 47

June 30, 2018

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Fair Value of Securities with Contractual Maturities		
					Within 1 Year	After 1 Year through 5 Years	After 5 Years
Automotive							
U.S. government	\$2,634	\$ —	\$ (21)	\$2,613	\$1,777	\$836	\$ —
U.S. government agencies	1,871	—	(26)	1,845	309	1,518	18
Non-U.S. government and agencies	4,178	—	(63)	4,115	6	4,109	—
Corporate debt	2,628	1	(33)	2,596	190	2,404	2
Other marketable securities	200	—	(1)	199	—	140	59
Total	\$11,511	\$ 1	\$ (144)	\$11,368	\$2,282	\$9,007	\$ 79

Sales proceeds and gross realized gains/(losses) from the sale of AFS debt securities prior to maturity, recorded in the income statement for the periods ended June 30 were as follows (in millions):

	Second Quarter		First Half	
	2017	2018	2017	2018
Automotive				
Sales proceeds	\$1,315	\$1,507	\$2,616	\$2,846
Gross realized gains	2	1	3	1