

FORD MOTOR CO  
Form 10-Q  
July 26, 2017

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, 2017

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 19, 2017, Ford had outstanding 3,900,903,065 shares of Common Stock and 70,852,076 shares of Class B Stock.

Exhibit Index begins on page

11

---

FORD MOTOR COMPANY  
 QUARTERLY REPORT ON FORM 10-Q  
 For the Quarter Ended June 30, 2017

	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>
Report of Independent Registered Public Accounting Firm	<u>31</u>
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>32</u>
Overview	<u>32</u>
Results of Operations	<u>33</u>
Automotive Segment	<u>35</u>
Financial Services Segment	<u>50</u>
All Other	<u>54</u>
Special Items	<u>54</u>
Taxes	<u>55</u>
Liquidity and Capital Resources	<u>55</u>
Credit Ratings	<u>62</u>
Production Volumes	<u>64</u>
Outlook	<u>65</u>
Non-GAAP Financial Measure Reconciliations	<u>67</u>
Supplemental Financial Information	<u>69</u>
Risk Factors	<u>72</u>
Accounting Standards Issued But Not Yet Adopted	<u>73</u>
Other Financial Information	<u>73</u>
Item 3 Quantitative and Qualitative Disclosures About Market Risk	<u>74</u>
Item 4 Controls and Procedures	<u>75</u>
Part II - Other Information	
Item 1 Legal Proceedings	<u>75</u>
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	<u>75</u>
Item 6 Exhibits	<u>75</u>
Signature	<u>76</u>
Exhibit Index	<u>77</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,			
	2016	2017	2016	2017
	Second Quarter		First Half	
	(unaudited)			
Revenues				
Automotive	\$36,932	\$37,113	\$72,189	\$73,588
Financial Services	2,553	2,738	5,014	5,407
Other	—	2	—	4
Total revenues (Note 3)	39,485	39,853	77,203	78,999
Costs and expenses				
Cost of sales	32,522	33,349	63,039	66,057
Selling, administrative, and other expenses	2,784	2,756	5,474	5,520
Financial Services interest, operating, and other expenses	2,258	2,217	4,318	4,449
Total costs and expenses	37,564	38,322	72,831	76,026
Interest expense on Automotive debt	212	277	412	556
Non-Financial Services other income/(loss), net (Note 4)	686	658	1,454	1,370
Financial Services other income/(loss), net (Note 4)	82	74	173	96
Equity in net income of affiliated companies	398	273	939	619
Income before income taxes	2,875	2,259	6,526	4,502
Provision for/(Benefit from) income taxes	903	209	2,099	858
Net income	1,972	2,050	4,427	3,644
Less: Income/(Loss) attributable to noncontrolling interests	2	8	5	15
Net income attributable to Ford Motor Company	\$1,970	\$2,042	\$4,422	\$3,629

EARNINGS PER SHARE ATTRIBUTABLE TO FORD MOTOR COMPANY COMMON  
AND CLASS B STOCK (Note 6)

Basic income	\$0.50	\$0.51	\$1.11	\$0.91
Diluted income	0.49	0.51	1.11	0.91
Cash dividends declared	0.15	0.15	0.55	0.35

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions)

	For the periods ended June 30,			
	2016	2017	2016	2017
	Second Quarter		First Half	
	(unaudited)			
Net income	\$1,972	\$2,050	\$4,427	\$3,644
Other comprehensive income/(loss), net of tax (Note 15)				
Foreign currency translation	(58	) 84	(122	) 326
Marketable securities	—	4	6	3

Edgar Filing: FORD MOTOR CO - Form 10-Q

Derivative instruments	111	137	357	(31 )
Pension and other postretirement benefits	17	(12 )	39	(3 )
Total other comprehensive income/(loss), net of tax	70	213	280	295
Comprehensive income	2,042	2,263	4,707	3,939
Less: Comprehensive income/(loss) attributable to noncontrolling interests	2	8	4	13
Comprehensive income attributable to Ford Motor Company	\$2,040	\$2,255	\$4,703	\$3,926

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, 2016	June 30, 2017
	(unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents (Note 7)	\$ 15,905	\$ 16,223
Marketable securities (Note 7)	22,922	22,886
Financial Services finance receivables, net (Note 8)	46,266	49,888
Trade and other receivables, less allowances of \$392 and \$416	11,102	10,159
Inventories (Note 10)	8,898	11,092
Other assets	3,368	3,291
Total current assets	108,461	113,539
Financial Services finance receivables, net (Note 8)	49,924	51,551
Net investment in operating leases	28,829	28,597
Net property	32,072	33,794
Equity in net assets of affiliated companies	3,304	3,241
Deferred income taxes	9,705	10,145
Other assets	5,656	6,602
Total assets	\$ 237,951	\$ 247,469
<b>LIABILITIES</b>		
Payables	\$ 21,296	\$ 23,568
Other liabilities and deferred revenue (Note 11)	19,316	19,958
Automotive debt payable within one year (Note 13)	2,685	2,911
Financial Services debt payable within one year (Note 13)	46,984	47,862
Total current liabilities	90,281	94,299
Other liabilities and deferred revenue (Note 11)	24,395	24,840
Automotive long-term debt (Note 13)	13,222	13,277
Financial Services long-term debt (Note 13)	80,079	81,959
Deferred income taxes	691	735
Total liabilities	208,668	215,110
Redeemable noncontrolling interest	96	97
<b>EQUITY</b>		
Common Stock, par value \$.01 per share (3,986 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	21,630	21,735
Retained earnings	15,634	18,437
Accumulated other comprehensive income/(loss) (Note 15)	(7,013 )	(6,716 )
Treasury stock	(1,122 )	(1,253 )
Total equity attributable to Ford Motor Company	29,170	32,244
Equity attributable to noncontrolling interests	17	18
Total equity	29,187	32,262
Total liabilities and equity	\$ 237,951	\$ 247,469

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,	
	2016	2017
	(unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents	\$3,047	\$2,608
Financial Services finance receivables, net	50,857	53,359
Net investment in operating leases	11,761	11,003
Other assets	25	39
<b>LIABILITIES</b>		
Other liabilities and deferred revenue	\$5	\$2
Debt	43,730	43,051

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, 2016      2017 First Half (unaudited)	
Cash flows from operating activities		
Net cash provided by/(used in) operating activities	\$11,891	\$9,951
Cash flows from investing activities		
Capital spending	(3,206 )	(3,264 )
Acquisitions of finance receivables and operating leases	(27,501 )	(27,379 )
Collections of finance receivables and operating leases	19,732	21,636
Purchases of equity and debt securities	(16,757 )	(16,931 )
Sales and maturities of equity and debt securities	15,491	16,906
Settlements of derivatives	111	154
Other	21	16
Net cash provided by/(used in) investing activities	(12,109 )	(8,862 )
Cash flows from financing activities		
Cash dividends	(2,184 )	(1,392 )
Purchases of common stock	(145 )	(131 )
Net changes in short-term debt	934	72
Proceeds from issuance of other debt	25,574	20,467
Principal payments on other debt	(21,104 )	(19,952 )
Other	(87 )	(102 )
Net cash provided by/(used in) financing activities	2,988	(1,038 )
Effect of exchange rate changes on cash and cash equivalents	21	267
Net increase/(decrease) in cash and cash equivalents	\$2,791	\$318
Cash and cash equivalents at January 1	\$14,272	\$15,905
Net increase/(decrease) in cash and cash equivalents	2,791	318
Cash and cash equivalents at June 30	\$17,063	\$16,223

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 15)	Treasury Stock			
Balance at December 31, 2015	\$41	\$21,421	\$14,414	\$ (6,257 )	\$(977 )	\$28,642	\$ 15	\$28,657
Net income	—	—	4,422	—	—	4,422	5	4,427
Other comprehensive income/(loss), net of tax	—	—	—	281	—	281	(1 )	280
Common stock issued (including share-based compensation impacts)	—	125	—	—	—	125	—	125
Treasury stock/other	—	—	—	—	(145 )	(145 )	(1 )	(146 )
Cash dividends declared	—	—	(2,184 )	—	—	(2,184 )	(5 )	(2,189 )
Balance at June 30, 2016	\$41	\$21,546	\$16,652	\$ (5,976 )	\$(1,122)	\$31,141	\$ 13	\$31,154
Balance at December 31, 2016	\$41	\$21,630	\$15,634	\$ (7,013 )	\$(1,122)	\$29,170	\$ 17	\$29,187
Adoption of accounting standards (Note 2)	—	6	566	—	—	572	—	572
Net income	—	—	3,629	—	—	3,629	15	3,644
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	\$18,437	\$ (6,716 )	\$(1,253)	\$32,244	\$ 18	\$32,262

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>6</u>
Note 3 Revenue	<u>10</u>
Note 4 Other Income/(Loss)	<u>12</u>
Note 5 Income Taxes	<u>13</u>
Note 6 Capital Stock and Earnings Per Share	<u>13</u>
Note 7 Cash, Cash Equivalents, and Marketable Securities	<u>14</u>
Note 8 Financial Services Finance Receivables	<u>17</u>
Note 9 Financial Services Allowance for Credit Losses	<u>20</u>
Note 10 Inventories	<u>21</u>
Note 11 Other Liabilities and Deferred Revenue	<u>21</u>
Note 12 Retirement Benefits	<u>22</u>
Note 13 Debt	<u>23</u>
Note 14 Derivative Financial Instruments and Hedging Activities	<u>24</u>
Note 15 Accumulated Other Comprehensive Income/(Loss)	<u>26</u>
Note 16 Commitments and Contingencies	<u>27</u>
Note 17 Segment Information	<u>29</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. 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, 2016 (“2016 Form 10-K Report”). We reclassified certain prior year amounts in our consolidated financial statements to conform to the current year presentation.

NOTE 2. NEW ACCOUNTING STANDARDS

Adoption of New Accounting Standards

Accounting Standards Update (“ASU”) 2016-09, Stock Compensation - Improvements to Employee Share-Based Payment Accounting. On January 1, 2017, we adopted the amendments to accounting standards codification (“ASC”) 718 which simplify accounting for share-based payment transactions. Prior to this amendment, excess tax benefits resulting from the difference between the deduction for tax purposes and the compensation costs recognized for financial reporting were not recognized until the deduction reduced taxes payable. Under the new method, we will recognize excess tax benefits in the current accounting period. In addition, prior to January 1, 2017, the employee share-based compensation expense was recorded net of estimated forfeiture rates and subsequently adjusted at the vesting date, as appropriate. As part of the amendment, we have elected to recognize the actual forfeitures by reducing the employee share-based compensation expense in the same period as the forfeitures occur. We have adopted these changes in accounting method using the modified retrospective method by recognizing one-time adjustments to retained earnings for excess tax benefits previously unrecognized and the change in accounting for forfeited awards.

ASU 2014-09, Revenue - Revenue from Contracts with Customers. On January 1, 2017, we adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments (“new revenue standard”) to all contracts using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of the new revenue standard to be immaterial to our net income on an ongoing basis.

A majority of our sales revenue continues to be recognized when products are shipped from our manufacturing facilities. For certain vehicle sales where revenue was previously deferred, such as vehicles subject to a guaranteed resale value recognized as a lease and transactions in which a Ford-owned entity delivered vehicles, we now recognize revenue when vehicles are shipped in accordance with the new revenue standard.

The new revenue standard also provided additional clarity that resulted in reclassifications to or from Revenue, Cost of sales, and Financial Services other income/(loss), net.



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2. NEW ACCOUNTING STANDARDS (Continued)

The cumulative effect of the changes made to our consolidated January 1, 2017 balance sheet for the adoption of ASU 2016-09, Stock Compensation - Improvements to Employee Share-Based Payment Accounting and ASU 2014-09, Revenue - Revenue from Contracts with Customers were as follows (in millions):

	Balance at December 31, 2016	Adjustments Due to ASU 2016-09	Adjustments Due to ASU 2014-09	Balance at January 1, 2017
<b>Balance Sheet</b>				
<b>Assets</b>				
Trade and other receivables	\$ 11,102	\$ —	—\$ (17 )	\$ 11,085
Inventories	8,898	—	(9 )	8,889
Other assets, current	3,368	—	307	3,675
Net investment in operating leases	28,829	—	(1,078 )	27,751
Deferred income taxes	9,705	536	(13 )	10,228
<b>Liabilities</b>				
Payables	21,296	—	262	21,558
Other liabilities and deferred revenue, current	19,316	—	(1,429 )	17,887
Automotive debt payable within one year	2,685	—	326	3,011
Other liabilities and deferred revenue, non-current	24,395	—	(5 )	24,390
<b>Equity</b>				
Capital in excess of par value of stock	21,630	6	—	21,636
Retained earnings	15,634	530	36	16,200

As part of ASU 2016-09, we retrospectively reclassified cash paid to taxing authorities related to shares withheld for tax purposes from operating activities to financing activities on our consolidated statement of cash flows. Cash paid to taxing authorities related to shares withheld for tax purposes was about \$57 million and \$56 million for the first half of 2016 and 2017, respectively. This standard did not have a material impact on our second quarter and first half 2017 consolidated income statement or June 30, 2017 consolidated balance sheet.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2. NEW ACCOUNTING STANDARDS (Continued)

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our consolidated income statement and balance sheet for the periods ended June 30, 2017 was as follows (in millions):

	Second Quarter			First Half		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
<b>Income statement</b>						
<b>Revenues</b>						
Automotive	\$37,113	\$36,898	\$ 215	\$73,588	\$73,040	\$ 548
Financial Services	2,738	2,641	97	5,407	5,221	186
<b>Costs and expenses</b>						
Cost of sales	33,349	33,184	165	66,057	65,630	427
Interest expense on Automotive debt	277	266	11	556	528	28
Non-Financial Services other income/(loss), net	658	679	(21)	1,370	1,411	(41)
Financial Services other income/(loss), net	74	171	(97)	96	282	(186)
Provision for/(Benefit from) income taxes	209	204	5	858	846	12
Net income	2,050	2,037	13	3,644	3,604	40
June 30, 2017						
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)			
<b>Balance Sheet</b>						
<b>Assets</b>						
Trade and other receivables	\$10,159	\$10,199	\$ (40)			
Other assets, current	3,291	2,951	340			
Net investment in operating leases	28,597	29,553	(956)			
Deferred income taxes	10,145	10,170	(25)			
<b>Liabilities</b>						
Payables	23,568	23,285	283			
Other liabilities and deferred revenue, current	19,958	21,393	(1,435)			
Automotive debt payable within one year	2,911	2,511	400			
Other liabilities and deferred revenue, non-current	24,840	24,845	(5)			
Deferred income taxes	735	735	—			
<b>Equity</b>						
Retained earnings	18,437	18,361	76			



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2. NEW ACCOUNTING STANDARDS (Continued)

ASU 2017-07, Retirement Benefits - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. On January 1, 2017, we adopted the amendments to ASC 715 that improve the presentation of net periodic pension and postretirement benefit costs. We retrospectively adopted the presentation of service cost separate from the other components of net periodic costs. The interest cost, expected return on assets, amortization of prior service costs, net remeasurement, and other costs have been reclassified from Cost of Sales and Selling, administrative, and other expenses to Non-Financial Services other income/(loss), net. We elected to apply the practical expedient which allows us to reclassify amounts disclosed previously in the retirement benefits note as the basis for applying retrospective presentation for comparative periods as it is impracticable to determine the disaggregation of the cost components for amounts capitalized and amortized in those periods. On a prospective basis, the other components of net periodic benefit costs will not be included in amounts capitalized in inventory or property, plant, and equipment.

The effect of the retrospective presentation change related to the net periodic cost of our defined benefit pension and other postretirement employee benefits (“OPEB”) plans on our consolidated income statement for the periods ended June 30, 2016 was as follows (in millions):

	Second Quarter			First Half		
	As Revised	Previously Reported	Effect of Change Higher/(Lower)	As Revised	Previously Reported	Effect of Change Higher/(Lower)
Income statement						
Cost of sales	\$32,522	\$ 32,348	\$ 174	\$63,039	\$ 62,629	\$ 410
Selling, administrative, and other expenses	2,784	2,661	123	5,474	5,223	251
Non-Financial Services other income/(loss), net	686	389	297	1,454	793	661

We also adopted the following standards during 2017, none of which had a material impact to our financial statements or financial statement disclosures:

Standard	Effective Date
2017-05 Gains and Losses from the Derecognition of Nonfinancial Assets - Clarifying the Scope of Asset Derecognition Guidance	January 1, 2017
2017-04 Goodwill and Other - Simplifying the Test for Goodwill Impairment	January 1, 2017
2017-03 Accounting Changes and Error Corrections and Investments - Equity Method and Joint Ventures	January 1, 2017
2017-01 Business Combinations - Clarifying the Definition of a Business	January 1, 2017
2016-17 Consolidation - Interests Held through Related Parties That Are under Common Control	January 1, 2017
2016-07 Equity Method and Joint Ventures - Simplifying the Transition to the Equity Method of Accounting	January 1, 2017
2016-06 Derivatives and Hedging - Contingent Put and Call Options in Debt Instruments	January 1, 2017
2016-05	



Edgar Filing: FORD MOTOR CO - Form 10-Q

	Derivatives and Hedging - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships	January 1, 2017
2016-04	Extinguishments of Liabilities - Recognition of Breakage for Certain Prepaid Stored-Value Products	January 1, 2017
2017-09	Stock Compensation - Scope of Modification Accounting	April 1, 2017

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 are assessing the potential impact to our financial statements and disclosures.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2. NEW ACCOUNTING STANDARDS (Continued)

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 at 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 balance sheet and will not significantly impact pre-tax profit. We are in the early stages of implementation.

## NOTE 3. REVENUE

The following table disaggregates our revenue by major source for the periods ended June 30, 2017 (in millions):

	Second Quarter			Consolidated
	Automotive	Financial Services	All Other	
Vehicles, parts, and accessories	\$35,746	\$ —	\$ —	\$ 35,746
Sale of used vehicles	708	—	—	708
Extended service contracts	332	—	—	332
Other (a)	202	55	2	259
Revenues from sales and services	36,988	55	2	37,045
Leasing income	125	1,381	—	1,506
Financing income	—	1,260	—	1,260
Insurance income	—	42	—	42
Total revenues	\$37,113	\$ 2,738	\$ 2	\$ 39,853
	First Half			
	Automotive	Financial Services	All Other	Consolidated
Vehicles, parts, and accessories	\$70,742	\$ —	\$ —	\$ 70,742
Sale of used vehicles	1,581	—	—	1,581
Extended service contracts	607	—	—	607
Other (a)	426	104	4	534
Revenues from sales and services	73,356	104	4	73,464
Leasing income	232	2,747	—	2,979
Financing income	—	2,474	—	2,474
Insurance income	—	82	—	82
Total revenues	\$73,588	\$ 5,407	\$ 4	\$ 78,999

(a) Primarily includes commissions and vehicle-related design and testing services.

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 and field service actions continue to be recognized as expense when the products are sold (see Note 16). We recognize revenue for vehicle service contracts that extend mechanical and maintenance beyond our base warranties over the life of the contract.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. REVENUE (Continued)

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). 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 recognized a decrease to revenue from prior periods in the second quarter of 2017 of \$259 million.

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.

Sale of 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 the inception of the contract and recognize revenue over the term of the agreement in proportion to the costs expected to be incurred in satisfying the obligations under the contract. At January 1, 2017, \$3.5 billion of unearned revenue associated with outstanding contracts was reported in Other Liabilities and deferred revenue, \$271 million and \$541 million of this was recognized as revenue during the second quarter and first half of 2017, respectively. At June 30, 2017, the unearned amount was \$3.7 billion. We expect to recognize approximately \$550 million of the unearned amount in 2017, \$950 million in 2018, and \$2.2 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 \$239 million in deferred costs as of June 30, 2017 and recognized \$14 million and \$29 million of amortization during the second quarter and first half of 2017, respectively.

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.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 3. REVENUE (Continued)

## Financial Services Segment

**Leasing Income.** Ford Credit offers leasing plans to retail consumers through Ford and Lincoln brand dealers who originate the leases. Upon the purchase of a lease from the dealer, Ford Credit takes ownership of the vehicle and records an operating lease. 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 Financial Services 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)

## Non-Financial Services

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

	Second Quarter		First Half	
	2016	2017	2016	2017
Net periodic pension and OPEB income/(cost), excluding service cost	\$297	\$389	\$661	\$779
Investment-related interest income	52	85	113	156
Interest income/(expense) on income taxes	1	(1)	(1)	2
Realized and unrealized gains/(losses) on cash equivalents and marketable securities	(7)	(24)	65	25
Gains/(Losses) on changes in investments in affiliates	147	(1)	181	(2)
Royalty income	137	150	320	304
Other	59	60	115	106
Total	\$686	\$658	\$1,454	\$1,370

## Financial Services

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

	Second Quarter		First Half	
	2016	2017	2016	2017
Investment-related interest income	\$20	\$24	\$39	\$45

Edgar Filing: FORD MOTOR CO - Form 10-Q

Interest income/(expense) on income taxes	15	1	13	(1 )
Insurance premiums earned	41	—	80	—
Other	6	49	41	52
Total	\$82	\$ 74	\$173	\$96

12

---

## 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 of 2016 and 2017, our effective tax rates were 31.4% and 9.3%, respectively. During the second quarter of 2017, we recognized a \$421 million benefit for foreign tax credits expected to be realized in the foreseeable future. The tax benefit relates to investments in certain non-U.S. subsidiaries previously determined to be indefinitely reinvested in operations outside the United States. Our change in assertion for these investments is related to planned distributions in anticipation of potential U.S. corporate tax reform.

## 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	
	2016	2017	2016	2017
Basic and Diluted Income Attributable to Ford Motor Company				
Basic income	\$1,970	\$2,042	\$4,422	\$3,629
Diluted income	1,970	2,042	4,422	3,629
Basic and Diluted Shares				
Basic shares (average shares outstanding)	3,973	3,977	3,972	3,977
Net dilutive options and unvested restricted stock units	24	19	24	21
Diluted shares	3,997	3,996	3,996	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, 2016				
	Fair Value Level	Automotive	Financial Services	All Other	Consolidated
Cash and cash equivalents					
U.S. government	1	\$ 888	\$ 924	\$ —	\$ 1,812
U.S. government agencies	2	—	—	—	—
Non-U.S. government and agencies	2	200	142	—	342
Corporate debt	2	100	—	—	100
Total marketable securities classified as cash equivalents		1,188	1,066	—	2,254
Cash, time deposits, and money market funds		6,632	7,011	8	13,651
Total cash and cash equivalents		\$ 7,820	\$ 8,077	\$ 8	\$ 15,905
Marketable securities					
U.S. government	1	\$ 8,099	\$ 1,634	\$ —	\$ 9,733
U.S. government agencies	2	2,244	505	—	2,749
Non-U.S. government and agencies	2	4,751	632	—	5,383
Corporate debt	2	4,329	475	—	4,804
Equities	1	165	—	—	165
Other marketable securities	2	54	34	—	88
Total marketable securities		\$ 19,642	\$ 3,280	\$ —	\$ 22,922
June 30, 2017					
	Fair Value Level	Automotive	Financial Services	All Other	Consolidated
Cash and cash equivalents					
U.S. government	1	\$ 300	\$ 182	\$ —	\$ 482
U.S. government agencies	2	624	100	—	724
Non-U.S. government and agencies	2	270	342	—	612
Corporate debt	2	—	75	—	75
Total marketable securities classified as cash equivalents		1,194	699	—	1,893
Cash, time deposits, and money market funds		7,659	6,667	4	14,330
Total cash and cash equivalents		\$ 8,853	\$ 7,366	\$ 4	\$ 16,223
Marketable securities					
U.S. government	1	\$ 5,365	\$ 977	\$ —	\$ 6,342
U.S. government agencies	2	3,677	663	—	4,340
Non-U.S. government and agencies	2	6,036	790	—	6,826
Corporate debt	2	4,284	854	—	5,138
Equities	1	177	—	—	177
Other marketable securities	2	36	27	—	63

Total marketable securities	\$19,575	\$ 3,311	\$ —	\$ 22,886
-----------------------------	----------	----------	------	-----------

## 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”) securities on our balance sheet were as follows (in millions):

	December 31, 2016				Fair Value of Securities with Contractual Maturities		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Within 1 Year	After 1 Year through 5 Years	After 5 Years through 10 Years
Automotive							
U.S. government	\$3,703	\$ 2	\$ (14 )	\$3,691	\$727	\$2,776	\$ 188
U.S. government agencies	308	—	(2 )	306	—	306	—
Non-U.S. government and agencies	1,443	1	(11 )	1,433	148	1,285	—
Corporate debt	1,079	—	—	1,079	1,031	48	—
Total	\$6,533	\$ 3	\$ (27 )	\$6,509	\$1,906	\$4,415	\$ 188

	June 30, 2017				Fair Value of Securities with Contractual Maturities		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Within 1 Year	After 1 Year through 5 Years	After 5 Years through 10 Years
Automotive							
U.S. government	\$2,587	\$ —	\$ (7 )	\$2,580	\$524	\$2,056	\$ —
U.S. government agencies	1,982	1	(4 )	1,979	677	1,237	65
Non-U.S. government and agencies	2,961	5	(5 )	2,961	248	2,688	25
Corporate debt	1,398	—	(2 )	1,396	756	633	7
Total	\$8,928	\$ 6	\$ (18 )	\$8,916	\$2,205	\$6,614	\$ 97

Sales proceeds from investments classified as AFS and sold prior to maturity were \$0 and \$1.3 billion in the second quarter of 2016 and 2017, respectively, and \$69 million and \$2.6 billion in the first half of 2016 and 2017, respectively. The gross realized gains from the sale of AFS securities were \$0 and \$2 million in the second quarter of 2016 and 2017, respectively, and \$1 million and \$3 million in the first half of 2016 and 2017, respectively. Gross realized losses from the sale of AFS securities were \$0 and \$6 million in the second quarter of 2016 and 2017, respectively, and \$0 and \$8 million in the first half of 2016 and 2017, respectively.

## 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 present fair values and gross unrealized losses for cash equivalents and marketable securities accounted for as AFS securities that were in an unrealized loss position, aggregated by investment category and the length of time that individual securities have been in a continuous loss position, were as follows (in millions):

	December 31, 2016					
	Less than 1 year		1 Year or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Automotive						
U.S. government	\$1,474	\$ (14 )	\$ —	\$ —	—\$1,474	\$ (14 )
U.S. government agencies	261	(2 )	—	—	261	(2 )
Non-U.S. government and agencies	1,137	(11 )	—	—	1,137	(11 )
Corporate debt	—	—	—	—	—	—
Total	\$2,872	\$ (27 )	\$ —	\$ —	—\$2,872	\$ (27 )
	June 30, 2017					
	Less than 1 year		1 Year or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Automotive						
U.S. government	\$2,580	\$ (7 )	\$ —	\$ —	—\$2,580	\$ (7 )
U.S. government agencies	1,172	(4 )	—	—	1,172	(4 )
Non-U.S. government and agencies	1,555	(5 )	—	—	1,555	(5 )
Corporate debt	517	(2 )	—	—	517	(2 )
Total	\$5,824	\$ (18 )	\$ —	\$ —	—\$5,824	\$ (18 )

We determine other-than-temporary impairments on cash equivalents and marketable securities using a specific identification method. During the six months ended June 30, 2016 and 2017, we did not recognize any other-than-temporary impairment loss.

## Other Securities

Investments in entities that we do not control and over which we do not have the ability to exercise significant influence are recorded at cost and reported in Other assets in the non-current assets section of our consolidated balance sheet. These cost method investments were \$219 million and \$221 million at December 31, 2016 and June 30, 2017, respectively.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 8. FINANCIAL SERVICES FINANCE RECEIVABLES

Our Financial Services segment, primarily Ford Credit, manages finance receivables as “consumer” and “non-consumer” portfolios. The receivables are generally secured by the vehicles, inventory, or other property being financed.

Finance receivables, net were as follows (in millions):

	December 31, 2016	June 30, 2017
Consumer		
Retail financing, gross	\$ 68,121	\$71,079
Unearned interest supplements	(2,783	) (2,926
Consumer finance receivables	65,338	68,153
Non-Consumer		
Dealer financing	31,336	33,808
Non-Consumer finance receivables	31,336	33,808
Total recorded investment	\$ 96,674	\$101,961
Recorded investment in finance receivables	\$ 96,674	\$101,961
Allowance for credit losses	(484	) (522
Finance receivables, net	\$ 96,190	\$101,439
Current portion	\$ 46,266	\$49,888
Non-current portion	49,924	51,551
Finance receivables, net	\$ 96,190	\$101,439
Net finance receivables subject to fair value (a)	\$ 94,066	\$98,916
Fair value	94,785	98,872

At December 31, 2016 and June 30, 2017, Finance receivables, net includes \$2.1 billion and \$2.5 billion, (a) respectively, of direct financing leases that are not subject to fair value disclosure requirements. The fair value of finance receivables is categorized within Level 3 of the fair value hierarchy.

Excluded from finance receivables at both December 31, 2016 and June 30, 2017, was \$223 million of accrued uncollected interest, which is reported as Other assets in the current assets section of our consolidated balance sheet.

Included in the recorded investment in finance receivables at December 31, 2016 and June 30, 2017 were consumer receivables of \$32.5 billion and \$33.1 billion, respectively, and non-consumer receivables of \$26 billion and \$26.1 billion, respectively, that have been sold for legal purposes in securitization transactions but continue to be reported in our consolidated financial statements. The receivables are available only for payment of the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions; they are not available to pay the other obligations or the claims of Ford Credit’s other creditors. Ford Credit holds the right to receive the excess cash flows not needed to pay the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions.



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 8. FINANCIAL SERVICES FINANCE RECEIVABLES (Continued)

## Aging

For all finance receivables, we define “past due” as any payment, including principal and interest, that is at least 31 days past the contractual due date. The recorded investment of consumer receivables greater than 90 days past due and still accruing interest was \$21 million and \$23 million at December 31, 2016 and June 30, 2017, respectively. The recorded investment of non-consumer receivables greater than 90 days past due and still accruing interest was de minimis at December 31, 2016 and \$1 million at June 30, 2017.

The aging analysis of our finance receivables balances were as follows (in millions):

	December 31, 2016	June 30, 2017
Consumer		
31-60 days past due	\$ 760	\$ 643
61-90 days past due	114	106
91-120 days past due	34	36
Greater than 120 days past due	39	36
Total past due	947	821
Current	64,391	67,332
Consumer finance receivables	65,338	68,153
Non-Consumer		
Total past due	107	133
Current	31,229	33,675
Non-Consumer finance receivables	31,336	33,808
Total recorded investment	\$ 96,674	\$ 101,961

## Credit Quality

Consumer Portfolio. Credit quality ratings for consumer receivables are based on aging. Refer to the aging table above.

Consumer receivables credit quality ratings are as follows:

Pass – current to 60 days past due

- Special Mention – 61 to 120 days past due and in intensified collection status

• Substandard – greater than 120 days past due and for which the uncollectible portion of the receivables has already been charged off, as measured using the fair value of collateral less costs to sell

Non-Consumer Portfolio. Dealers are assigned to one of four groups according to risk ratings as follows:

• Group I – strong to superior financial metrics

• Group II – fair to favorable financial metrics

• Group III – marginal to weak financial metrics

Group IV – poor financial metrics, including dealers classified as uncollectible

18

---



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 8. FINANCIAL SERVICES FINANCE RECEIVABLES (Continued)

The credit quality analysis of our dealer financing receivables was as follows (in millions):

	December 31, June 30,	
	2016	2017
Dealer Financing		
Group I	\$ 24,315	\$26,688
Group II	5,552	5,589
Group III	1,376	1,364
Group IV	93	167
Total recorded investment	\$ 31,336	\$33,808

Impaired Receivables. Impaired consumer receivables include accounts that have been rewritten or modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code that are considered to be Troubled Debt Restructurings (“TDRs”), as well as all accounts greater than 120 days past due. Impaired non-consumer receivables represent accounts with dealers that have weak or poor financial metrics or dealer financing that has been modified in TDRs. The recorded investment of consumer receivables that were impaired at December 31, 2016 and June 30, 2017 was \$367 million, or 0.6% of consumer receivables, and \$381 million, or 0.6% of consumer receivables, respectively. The recorded investment of non-consumer receivables that were impaired at December 31, 2016 and June 30, 2017 was \$107 million, or 0.3% of non-consumer receivables, and \$181 million, or 0.5% of non-consumer receivables, respectively. Impaired finance receivables are evaluated both collectively and specifically.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 9. FINANCIAL SERVICES ALLOWANCE FOR CREDIT LOSSES

An analysis of the allowance for credit losses related to finance receivables for the periods ended June 30 was as follows (in millions):

	Second Quarter 2016			First Half 2016		
	Consumer	Non-Consumer	Total	Consumer	Non-Consumer	Total
Allowance for credit losses						
Beginning balance	\$390	\$ 20	\$410	\$357	\$ 16	\$373
Charge-offs	(94 )	(3 )	(97 )	(196 )	(2 )	(198 )
Recoveries	31	2	33	60	3	63
Provision for credit losses	109	(1 )	108	211	—	211
Other (a)	(4 )	(1 )	(5 )	—	—	—
Ending balance (b)	\$432	\$ 17	\$449	\$432	\$ 17	\$449
Analysis of ending balance of allowance for credit losses						
Collective impairment allowance				\$414	\$ 13	\$427
Specific impairment allowance				18	4	22
Ending balance (b)				432	17	449
Analysis of ending balance of finance receivables						
Collectively evaluated for impairment				61,819	33,425	95,244
Specifically evaluated for impairment				366	126	492
Recorded investment				62,185	33,551	95,736
Ending balance, net of allowance for credit losses				\$61,753	\$ 33,534	\$95,287

(a) Primarily represents amounts related to translation adjustments.

(b) Total allowance, including reserves for operating leases, was \$512 million.

	Second Quarter 2017			First Half 2017		
	Consumer	Non-Consumer	Total	Consumer	Non-Consumer	Total
Allowance for credit losses						
Beginning balance	\$504	\$ 13	\$517	\$469	\$ 15	\$484
Charge-offs	(110 )	(2 )	(112 )	(233 )	(4 )	(237 )
Recoveries	35	3	38	69	3	72
Provision for credit losses	73	—	73	194	—	194
Other (a)	5	1	6	8	1	9
Ending balance (b)	\$507	\$ 15	\$522	\$507	\$ 15	\$522
Analysis of ending balance of allowance for credit losses						
Collective impairment allowance				\$487	\$ 13	\$500
Specific impairment allowance				20	2	22
Ending balance (b)				507	15	522
Analysis of ending balance of finance receivables						
Collectively evaluated for impairment				67,772	33,627	101,399
Specifically evaluated for impairment				381	181	562

Edgar Filing: FORD MOTOR CO - Form 10-Q

Recorded investment	68,153	33,808	101,961
Ending balance, net of allowance for credit losses	\$67,646	\$ 33,793	\$101,439

          
(a) Primarily represents amounts related to translation adjustments.

(b) Total allowance, including reserves for operating leases, was \$588 million.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 10. INVENTORIES

All inventories are stated at the lower of cost and net realizable value. Cost for a substantial portion of U.S. inventories is determined on a last-in, first-out (“LIFO”) basis. LIFO was used for 30% and 34% of total inventories at December 31, 2016 and June 30, 2017, respectively. Cost of other inventories is determined by costing methods that approximate a first-in, first-out (“FIFO”) basis.

Inventories were as follows (in millions):

	December 31, June 30,	
	2016	2017
Raw materials, work-in-process, and supplies	\$ 3,843	\$4,090
Finished products	5,943	7,904
Total inventories under FIFO	9,786	11,994
LIFO adjustment	(888 )	(902 )
Total inventories	\$ 8,898	\$11,092

## NOTE 11. OTHER LIABILITIES AND DEFERRED REVENUE

Other liabilities and deferred revenue were as follows (in millions):

	December 31, June 30,	
	2016	2017
Current		
Dealer and dealers’ customer allowances and claims	\$ 9,542	\$11,034
Deferred revenue	3,866	2,443
Employee benefit plans	1,469	1,436
Accrued interest	974	1,034
OPEB (a)	349	351
Pension (a)	247	252
Other	2,869	3,408
Total current other liabilities and deferred revenue	\$ 19,316	\$19,958
Non-current		
Pension (a)	\$ 10,150	\$10,218
OPEB (a)	5,516	5,526
Dealer and dealers’ customer allowances and claims	2,564	2,806
Deferred revenue	3,687	3,832
Employee benefit plans	1,063	1,105
Other	1,415	1,353
Total non-current other liabilities and deferred revenue	\$ 24,395	\$24,840

Balances at June 30, 2017 reflect pension and OPEB liabilities at December 31, 2016, updated (where applicable) for service and interest cost, expected return on assets, separation expense, actual benefit payments, and cash (a) contributions. The discount rate and rate of expected return assumptions are unchanged from year-end 2016.

Included in Other assets are pension assets of \$1.5 billion and \$2.1 billion at December 31, 2016 and June 30, 2017, respectively.



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 12. RETIREMENT BENEFITS

## Defined Benefit Plans - Expense

The pre-tax net periodic benefit cost for our defined benefit pension and OPEB plans for the periods ended June 30 was as follows (in millions):

	Second Quarter					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Worldwide OPEB	
	2016	2017	2016	2017	2016	2017
Service cost	\$127	\$134	\$124	\$125	\$12	\$12
Interest cost	381	381	202	173	49	49
Expected return on assets	(674 )	(684 )	(350 )	(335 )	—	—
Amortization of prior service costs/(credits)	43	35	9	9	(36 )	(29 )
Net remeasurement (gain)/loss	—	—	11	—	—	—
Separation programs/other	3	9	65	3	—	—
Net periodic benefit cost/(income)	\$(120)	\$(125)	\$61	\$(25 )	\$25	\$32

	First Half					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Worldwide OPEB	
	2016	2017	2016	2017	2016	2017
Service cost	\$255	\$267	\$242	\$259	\$24	\$24
Interest cost	762	762	397	332	97	98
Expected return on assets	(1,347)	(1,367)	(689 )	(665 )	—	—
Amortization of prior service costs/(credits)	85	71	19	18	(71 )	(59 )
Net remeasurement (gain)/loss	—	—	11	—	—	—
Separation programs/other	3	12	72	19	—	—
Net periodic benefit cost/(income)	\$(242)	\$(255)	\$52	\$(37 )	\$50	\$63

The service cost component is included in Cost of sales and Selling, administrative and other expenses. Other components of net periodic benefit cost/(income) are included in Non-Financial Services other income/(loss), net of our consolidated income statement.

## Pension Plan Contributions

During 2017, we expect contributions to be about \$1 billion (most of which are mandatory) from cash and cash equivalents to our worldwide funded pension plans, and to make about \$300 million of benefit payments to participants in unfunded plans, for a total of about \$1.3 billion. In the first half of 2017, we contributed about \$500 million to our worldwide funded pension plans and made about \$150 million of benefit payments to participants in unfunded plans.



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 13. DEBT

The carrying value of Automotive and Financial Services debt was as follows (in millions):

	December 31, 2016	June 30, 2017
Automotive Segment		
Debt payable within one year		
Short-term	\$ 1,324	\$ 1,516
Long-term payable within one year		
U.S. Department of Energy Advanced Technology Vehicles Manufacturing Incentive Program	591	591
Other debt	827	853
Unamortized (discount)/premium	(57)	(49)
Total debt payable within one year	2,685	2,911
Long-term debt payable after one year		
Public unsecured debt securities	9,394	9,394
DOE ATVM Incentive Program	2,651	2,356
Other debt	1,573	1,904
Adjustments		
Unamortized (discount)/premium	(320)	(299)
Unamortized issuance costs	(76)	(78)
Total long-term debt payable after one year	13,222	13,277
Total Automotive Segment	\$ 15,907	\$ 16,188
Fair value of Automotive Segment debt (a)	\$ 17,433	\$ 17,873
Financial Services Segment		
Debt payable within one year		
Short-term	\$ 15,330	\$ 15,429
Long-term payable within one year		
Unsecured debt	12,369	14,409
Asset-backed debt	19,286	18,018
Adjustments		
Unamortized (discount)/premium	(2)	(1)
Unamortized issuance costs	(16)	(18)
Fair value adjustments (b)	17	25
Total debt payable within one year	46,984	47,862
Long-term debt payable after one year		
Unsecured debt	49,912	52,579
Asset-backed debt	30,112	29,409
Adjustments		
Unamortized (discount)/premium	(9)	(8)
Unamortized issuance costs	(197)	(205)
Fair value adjustments (b)	261	184
Total long-term debt payable after one year	80,079	81,959
Total Financial Services Segment	\$ 127,063	\$ 129,821



Fair value of Financial Services Segment debt (a) \$ 128,777 \$ 131,913

The fair value of debt includes \$1.1 billion and \$1.2 billion of Automotive segment short-term debt and \$14.3 billion and \$14.7 billion of Financial Services segment short-term debt at December 31, 2016 and June 30, 2017, respectively, carried at cost, which approximates fair value. All other debt is categorized within Level 2 of the fair value hierarchy.

(b) Adjustments related to designated fair value hedges of unsecured debt.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

In the normal course of business, our operations are exposed to global market risks, including the effect of changes in foreign currency exchange rates, certain commodity prices, and interest rates. To manage these risks, we enter into highly effective derivative contracts. We have elected to apply hedge accounting to certain derivatives. Derivatives that are designated in hedging relationships are evaluated for effectiveness using regression analysis at the time they are designated and throughout the hedge period. Some derivatives do not qualify for hedge accounting; for others, we elect not to apply hedge accounting.

## Income Effect of Derivative Financial Instruments

The gains/(losses), by hedge designation, recorded in income for the periods ended June 30 were as follows (in millions):

	Second Quarter		First Half	
	2016	2017	2016	2017
Cash flow hedges (a)				
Reclassified from AOCI to net income	\$46	\$124	\$133	\$242
Fair value hedges				
Interest rate contracts				
Net interest settlements and accruals excluded from the assessment of hedge effectiveness	98	62	197	132
Ineffectiveness (b)	5	4	22	—
Derivatives not designated as hedging instruments				
Foreign currency exchange contracts	171	(218 )	32	(426 )
Cross-currency interest rate swap contracts	140	16	335	74
Interest rate contracts	(43 )	30	(91 )	37
Commodity contracts	9	(10 )	4	32
Total	\$426	\$8	\$632	\$91

For the second quarter and first half of 2016, a \$184 million gain and a \$547 million gain, respectively, were (a) recorded in Other comprehensive income. For the second quarter and first half of 2017, a \$318 million gain and a \$206 million gain, respectively, were recorded in Other comprehensive income.

For the second quarter and first half of 2016, hedge ineffectiveness reflects the net change in fair value on derivatives of \$273 million gain and \$883 million gain, respectively, and a change in value on hedged debt attributable to the change in benchmark interest rates of \$268 million loss and \$861 million loss, respectively. For (b) the second quarter and first half of 2017, hedge ineffectiveness reflects the net change in fair value on derivatives of \$34 million gain and \$55 million loss, respectively, and a change in value on hedged debt attributable to the change in benchmark interest rates of \$30 million loss and \$55 million gain, respectively.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

## Balance Sheet Effect of Derivative Financial Instruments

Derivative assets and liabilities are recorded on the balance sheet at fair value and are presented on a gross basis. The notional amounts of the derivative instruments do not necessarily represent amounts exchanged by the parties and are not a direct measure of our financial exposure. We also enter into master agreements with counterparties that may allow for netting of exposures in the event of default or breach of the counterparty agreement. Collateral represents cash received or paid under reciprocal arrangements that we have entered into with our derivative counterparties which we do not use to offset our derivative assets and liabilities.

The fair value of our derivative instruments and the associated notional amounts, presented gross, were as follows (in millions):

	December 31, 2016			June 30, 2017		
	Notional	Fair Value of Assets	Fair Value of Liabilities	Notional	Fair Value of Assets	Fair Value of Liabilities
Cash flow hedges						
Foreign currency exchange contracts	\$19,091	\$620	\$ 257	\$17,926	\$504	\$ 179
Fair value hedges						
Interest rate contracts	33,175	487	80	34,958	429	83
Derivatives not designated as hedging instruments						
Foreign currency exchange contracts	17,227	379	194	21,221	208	346
Cross-currency interest rate swap contracts	3,201	242	8	3,918	338	6
Interest rate contracts	61,689	156	74	53,968	180	55
Commodity contracts	531	11	6	550	14	5
Total derivative financial instruments, gross (a) (b)	\$134,914	\$1,895	\$ 619	\$132,541	\$1,673	\$ 674
Current portion		\$1,108	\$ 371		\$870	\$ 473
Non-current portion		787	248		803	201
Total derivative financial instruments, gross		\$1,895	\$ 619		\$1,673	\$ 674

(a) At December 31, 2016 and June 30, 2017, we held collateral of \$15 million and \$10 million, and we posted collateral of \$12 million and \$16 million, respectively.

(b) At December 31, 2016 and June 30, 2017, the fair value of assets and liabilities available for counterparty netting was \$554 million and \$477 million, respectively. All derivatives are categorized within Level 2 of the fair value hierarchy.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 15. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The changes in the balances for each component of accumulated other comprehensive income/(loss) attributable to Ford Motor Company for the periods ended June 30 were as follows (in millions):

	Second Quarter		First Half	
	2016	2017	2016	2017
<b>Foreign currency translation</b>				
Beginning balance	\$(3,633)	\$(4,350)	\$(3,570)	\$(4,593)
Gains/(Losses) on foreign currency translation	(58 )	(39 )	(88 )	150
Less: Tax/(Tax benefit)	—	(123 )	—	(177 )
Net gains/(losses) on foreign currency translation	(58 )	84	(88 )	327
(Gains)/Losses reclassified from AOCI to net income (a)	—	—	(33 )	—
Other comprehensive income/(loss), net of tax	(58 )	84	(121 )	327
Ending balance	\$(3,691)	\$(4,266)	\$(3,691)	\$(4,266)
<b>Marketable securities</b>				
Beginning balance	\$—	\$(15 )	\$(6 )	\$(14 )
Gains/(Losses) on available for sale securities	—	2	11	3
Less: Tax/(Tax benefit)	—	2	—	5
Net gains/(losses) on available for sale securities	—	—	11	(2 )
(Gains)/Losses reclassified from AOCI to net income	—	4	(1 )	5
Less: Tax/(Tax benefit)	—	—	4	—
Net (gains)/losses reclassified from AOCI to net income	—	4	(5 )	5
Other comprehensive income/(loss), net of tax	—	4	6	3
Ending balance	\$—	\$(11 )	\$—	\$(11 )
<b>Derivative instruments</b>				
Beginning balance	\$310	\$116	\$64	\$283
Gains/(Losses) on derivative instruments	184	318	547	206
Less: Tax/(Tax benefit)	35	85	94	51
Net gains/(losses) on derivative instruments	149	233	453	155
(Gains)/Losses reclassified from AOCI to net income	(46 )	(124 )	(133 )	(242 )
Less: Tax/(Tax benefit)	(8 )	(28 )	(37 )	(57 )
Net (gains)/losses reclassified from AOCI to net income (b)	(38 )	(96 )	(96 )	(185 )
Other comprehensive income/(loss), net of tax	111	137	357	(30 )
Ending balance	\$421	\$253	\$421	\$253
<b>Pension and other postretirement benefits</b>				
Beginning balance	\$(2,723)	\$(2,680)	\$(2,745)	\$(2,689)
Amortization and recognition of prior service costs/(credits)	16	15	33	30
Less: Tax/(Tax benefit)	7	23	10	28
Net prior service costs/(credits) reclassified from AOCI to net income	9	(8 )	23	2
Translation impact on non-U.S. plans	8	(4 )	16	(5 )
Other comprehensive income/(loss), net of tax	17	(12 )	39	(3 )
Ending balance	\$(2,706)	\$(2,692)	\$(2,706)	\$(2,692)

Edgar Filing: FORD MOTOR CO - Form 10-Q

Total AOCI ending balance at June 30 \$(5,976) \$(6,716) \$(5,976) \$(6,716)

(a) Reclassified to Non-Financial Services other income/(loss), net.

(b) Reclassified to Cost of sales. During the next twelve months we expect to reclassify existing net losses on cash flow hedges of \$270 million. See Note 14 for additional information.

26

---

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 16. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies primarily consist of guarantees and indemnifications, litigation and claims, and warranty.

## Guarantees and Indemnifications

The maximum potential payments and the carrying value of recorded liabilities related to guarantees and limited indemnities were as follows (in millions):

	December 31, June 30,	
	2016	2017
Maximum potential payments	\$ 177	\$ 1,613
Carrying value of recorded liabilities related to guarantees and limited indemnities	23	481

Guarantees and indemnifications are recorded at fair value at their inception. We regularly review our performance risk under these arrangements, and in the event it becomes probable we will be required to perform under guarantee or indemnity, the amount of probable payment is recorded.

We guarantee the resale value of vehicles sold in certain arrangements to daily rental companies. The maximum potential payment of \$1.5 billion as of June 30, 2017 included in the table above represents the total proceeds we guarantee the rental company will receive on re-sale. Reflecting our present estimate of proceeds the rental companies will receive on resale from third parties, we have recorded \$459 million as our best estimate of the amount we will have to pay under the guarantee. See Note 2 for additional information on the adoption of the new revenue standard.

We also guarantee debt and lease obligations of certain joint ventures, as well as certain financial obligations of outside third parties, including suppliers, to support our business and economic growth. Expiration dates vary through 2033, and guarantees will terminate on payment and/or cancellation of the underlying obligation. A payment by us would be triggered by failure of the joint venture or other third party to fulfill its obligation covered by the guarantee. In some circumstances, we are entitled to recover from a third party amounts paid by us under the guarantee. However, our ability to enforce these rights is sometimes stayed until the guaranteed party is paid in full, and may be limited in the event of insolvency of the third party or other circumstances.

In the ordinary course of business, we execute contracts involving indemnifications standard in the industry and indemnifications specific to a transaction, such as the sale of a business. These indemnifications might include and are not limited to claims relating to any of the following: environmental, tax, and shareholder matters; intellectual property rights; power generation contracts; governmental regulations and employment-related matters; dealer, supplier, and other commercial contractual relationships; and financial matters, such as securitizations. Performance under these indemnities generally would be triggered by a breach of terms of the contract or by a third-party claim. While some of these indemnifications are limited in nature, many of them do not limit potential payment. Therefore, we are unable to estimate a maximum amount of future payments that could result from claims made under these unlimited indemnities.

## Litigation and Claims

Various legal actions, proceedings, and claims (generally, “matters”) are pending or may be instituted or asserted against us. These include but are not limited to matters arising out of alleged defects in our products; product warranties;

governmental regulations relating to safety, emissions, and fuel economy or other matters; government incentives; tax matters; alleged illegal acts resulting in fines or penalties; financial services; employment-related matters; dealer, supplier, and other contractual relationships; intellectual property rights; environmental matters; shareholder or investor matters; and financial reporting matters. Certain of the pending legal actions are, or purport to be, class actions. Some of the matters involve or may involve claims for compensatory, punitive, or antitrust or other treble damages in very large amounts, or demands for field service actions, environmental remediation programs, sanctions, loss of government incentives, assessments, or other relief, which, if granted, would require very large expenditures.

The extent of our financial exposure to these matters is difficult to estimate. Many matters do not specify a dollar amount for damages, and many others specify only a jurisdictional minimum. To the extent an amount is asserted, our historical experience suggests that in most instances the amount asserted is not a reliable indicator of the ultimate outcome.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 16. COMMITMENTS AND CONTINGENCIES (Continued)

We accrue for matters when losses are deemed probable and reasonably estimable. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood that we will prevail, and the severity of any potential loss. We reevaluate and update our accruals as matters progress over time.

For the majority of matters, which generally arise out of alleged defects in our products, we establish an accrual based on our extensive historical experience with similar matters. We do not believe there is a reasonably possible outcome materially in excess of our accrual for these matters.

For the remaining matters, where our historical experience with similar matters is of more limited value (i.e., “non-pattern matters”), we evaluate the matters primarily based on the individual facts and circumstances. For non-pattern matters, we evaluate whether there is a reasonable possibility of a material loss in excess of any accrual that can be estimated. Our estimate of reasonably possible loss in excess of our accruals for all material matters currently reflects indirect tax and customs matters, for which we estimate the aggregate risk to be a range of up to about \$2.8 billion.

As noted, the litigation process is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. Our assessments are based on our knowledge and experience, but the ultimate outcome of any matter could require payment substantially in excess of the amount that we have accrued and/or disclosed.

## Warranty and Field Service Actions

We accrue obligations for warranty costs and field service actions (i.e., safety recalls, emission recalls, and other product campaigns) at the time of sale using a patterned estimation model that includes historical information regarding the nature, frequency, and average cost of claims for each vehicle line by model year. Warranty and field service action obligations are reported in Other liabilities and deferred revenue. We reevaluate the adequacy of our accruals on a regular basis.

We recognize the benefit from a recovery of the costs associated with our warranty and field service actions when specifics of the recovery have been agreed with our supplier and the amount of the recovery is virtually certain. Recoveries are reported in Trade and other receivables and Other assets.

The estimate of our future warranty and field service action costs, net of supplier recoveries, for the periods ended June 30 were as follows (in millions):

	First Half	
	2016	2017
Beginning balance	\$4,558	\$4,960
Payments made during the period	(1,593 )	(1,710 )
Changes in accrual related to warranties issued during the period	1,179	1,272
Changes in accrual related to pre-existing warranties	279	582
Foreign currency translation and other	45	71
Ending balance	\$4,468	\$5,175



Revisions to our estimated costs are reported as changes in accrual related to pre-existing warranties in the table above.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 17. SEGMENT INFORMATION

Below is a description of our reportable segments and the business activities included in All Other.

Automotive Segment

Our Automotive segment primarily includes the sale of Ford and Lincoln brand vehicles, service parts, and accessories worldwide, together with the associated costs to develop, manufacture, distribute, and service the vehicles, parts, and accessories. The segment includes five regional business units: North America, South America, Europe, Middle East & Africa, and Asia Pacific.

Financial Services Segment

The Financial Services segment primarily includes our vehicle-related financing and leasing activities at Ford Credit.

All Other

All Other is a combination of two operating segments that did not meet the quantitative thresholds in this reporting period to qualify as reportable segments. All Other consists of our Central Treasury Operations and Ford Smart Mobility LLC. The Central Treasury Operations segment is primarily engaged in decision making for investments, risk management activities, and providing financing for the Automotive segment. Interest income (excluding interest earned on our extended service contract portfolio that is included in our Automotive segment), interest expense, gains and losses on cash equivalents and marketable securities, and foreign exchange derivatives associated with intercompany lending, are included in the results of Central Treasury Operations. The underlying assets and liabilities, primarily cash and cash equivalents, marketable securities, debt, and derivatives, remain with the Automotive segment.

Ford Smart Mobility LLC is a subsidiary formed to design, build, grow, and invest in emerging mobility services. Designed to compete like a start-up company, Ford Smart Mobility LLC designs and builds mobility services on its own, and collaborates with start-ups and tech companies.

Special Items

Our results include Special items that consist of (i) pension and OPEB remeasurement gains and losses, (ii) significant personnel and dealer-related costs stemming from our efforts to match production capacity and cost structure to market demand and changing model mix, and (iii) certain infrequent significant items that we generally do not consider to be indicative of our ongoing operating activities. Our management excludes these items from its review of the results of the operating segments for purposes of measuring segment profitability and allocating resources. Special items are presented as a separate reconciling item.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 17. SEGMENT INFORMATION (Continued)

Key operating data for the periods ended or at June 30 were as follows (in millions):

	Automotive	Financial Services	All Other	Special Items	Adjustments	Total
<b>Second Quarter 2016</b>						
Revenues	\$ 36,932	\$ 2,553	\$ —	\$ —	\$ —	\$39,485
Pre-tax results - income/(loss)	2,832	385	(224)	(118)	—	2,875
Equity in net income/(loss) of affiliated companies	390	8	—	—	—	398
Cash, cash equivalents, and marketable securities	27,210	12,087	—	—	—	39,297
Total assets	99,272	145,303	6	—	(4,903 )	(a) 239,678
Debt	13,071	126,843	—	—	—	139,914
Operating cash flows	4,144	2,283	—	—	1,315	(b) 7,742
<b>Second Quarter 2017</b>						
Revenues	\$ 37,113	\$ 2,738	\$ 2	\$ —	\$ —	\$39,853
Pre-tax results - income/(loss)	2,191	603	(287)	(248)	—	2,259
Equity in net income/(loss) of affiliated companies	266	8	(1 )	—	—	273
Cash, cash equivalents, and marketable securities	28,428	10,677	4	—	—	39,109
Total assets	103,583	150,793	83	—	(6,990 )	(a) 247,469
Debt	16,188	129,821	—	—	—	146,009
Operating cash flows	1,270	3,152	(23 )	—	1,216	(b) 5,615
<b>First Half 2016</b>						
Revenues	\$ 72,189	\$ 5,014	\$ —	\$ —	\$ —	\$77,203
Pre-tax results - income/(loss)	6,296	884	(350)	(304)	—	6,526
Equity in net income/(loss) of affiliated companies	924	15	—	—	—	939
Operating cash flows	6,871	2,808	—	—	2,212	(b) 11,891
<b>First Half 2017</b>						
Revenues	\$ 73,588	\$ 5,407	\$ 4	\$ —	\$ —	\$78,999
Pre-tax results - income/(loss)	4,156	1,069	(499)	(224)	—	4,502
Equity in net income/(loss) of affiliated companies	605	15	(1 )	—	—	619
Operating cash flows	3,286	4,236	(33 )	—	2,462	(b) 9,951

(a) Includes eliminations of intersegment transactions occurring in the ordinary course of business and deferred tax netting.

(b) We measure and evaluate our Automotive segment operating cash flow on a different basis than Net cash provided by/(used in) operating activities in our consolidated statement of cash flows. Automotive segment operating cash flow includes additional elements management considers to be related to our Automotive operating activities, primarily capital spending and non-designated derivatives, and excludes outflows for funded pension contributions, separation payments, and other items that are considered operating cash flows under U.S. GAAP. The table below quantifies these reconciling adjustments to Net cash provided by/(used in) operating activities for the periods ended

June 30 (in millions):

	Second Quarter		First Half	
	2016	2017	2016	2017
Automotive capital spending	\$1,686	\$1,547	\$3,183	\$3,242
Net cash flows from non-designated derivatives	41	(66 )	(76 )	(200 )
Funded pension contributions	(221 )	(221 )	(589 )	(456 )
Separation payments	(148 )	(31 )	(158 )	(59 )
Other	(43 )	(13 )	(148 )	(65 )
Total operating cash flow adjustments	\$1,315	\$1,216	\$2,212	\$2,462

30

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Ford Motor Company

We have reviewed the accompanying consolidated balance sheet of Ford Motor Company and its subsidiaries as of June 30, 2017, and the related consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2017 and 2016 and the consolidated statement of equity and the condensed consolidated statement of cash flows for the six-month periods ended June 30, 2017 and 2016. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the year then ended (not presented herein), and in our report dated February 9, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2016, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Detroit, Michigan  
July 26, 2017

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

Non-GAAP Financial Measures That Supplement GAAP Measures

We use both generally accepted accounting principles ("GAAP") and non-GAAP financial measures for operational and financial decision making, and to assess Company and segment business performance. The non-GAAP measures listed below are intended to be considered by users as supplemental information to their equivalent GAAP measures, to aid investors in better understanding our financial results. We believe that these non-GAAP measures provide useful perspective on underlying business results and trends, and a means to assess our period-over-period results. These non-GAAP measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. These non-GAAP measures may not be the same as similarly titled measures used by other companies due to possible differences in method and in items or events being adjusted.

**Total Company Adjusted Pre-tax Profit (Most Comparable GAAP Measure: Net Income Attributable to Ford)** – The non-GAAP measure is useful to management and investors because it allows users to evaluate our pre-tax results excluding pre-tax special items. Pre-tax special items consist of (i) pension and other postretirement employee benefits ("OPEB") remeasurement gains and losses that are not reflective of our underlying business results, (ii) significant restructuring actions related to our efforts to match production capacity and cost structure to market demand and changing model mix, and (iii) other items that we do not necessarily consider to be indicative of earnings from ongoing operating activities. When we provide guidance for adjusted pre-tax profit, we do not provide guidance on a net income basis because the GAAP measure will include potentially significant special items that have not yet occurred and are difficult to predict with reasonable certainty prior to year-end, including pension and OPEB remeasurement gains and losses.

**Adjusted Earnings Per Share (Most Comparable GAAP Measure: Earnings Per Share)** – Measure of Company's diluted net earnings per share adjusted for impact of pre-tax special items (described above) and tax special items. The measure provides investors with useful information to evaluate performance of our business excluding items not indicative of the underlying run rate of our business. When we provide guidance for adjusted earnings per share, we do not provide guidance on an earnings per share basis because the GAAP measure will include potentially significant special items that have not yet occurred and are difficult to predict with reasonable certainty prior to year-end, including pension and OPEB remeasurement gains and losses.

**Adjusted Effective Tax Rate (Most Comparable GAAP Measure: Effective Tax Rate)** – Measure of Company's tax rate excluding pre-tax special items (described above) and tax special items. The measure provides an ongoing effective rate which investors find useful for historical comparisons and for forecasting. When we provide guidance for adjusted effective tax rate, we do not provide guidance on an effective tax rate basis because the GAAP measure will include potentially significant special items that have not yet occurred and are difficult to predict with reasonable certainty prior to year-end, including pension and OPEB remeasurement gains and losses.

**Ford Credit Managed Receivables (Most Comparable GAAP Measure: Net Finance Receivables plus Net Investment in Operating Leases)** – Measure of Ford Credit's total net receivables, excluding unearned interest supplements and residual support, allowance for credit losses, and other (primarily accumulated supplemental depreciation). The measure is useful to management and investors as it closely approximates the customer's outstanding balance on the receivables, which is the basis for earning revenue.

**Ford Credit Managed Leverage (Most Comparable GAAP Measure: Financial Statement Leverage)** – Ford Credit's debt-to-equity ratio adjusted (i) to exclude cash, cash equivalents, and marketable securities (other than amounts related to insurance activities), and (ii) for derivative accounting. The measure is useful to investors because it reflects

the way Ford Credit manages its business. Cash, cash equivalents, and marketable securities are deducted because they generally correspond to excess debt beyond the amount required to support operations and on-balance sheet securitization transactions. Derivative accounting adjustments are made to asset, debt, and equity positions to reflect the impact of interest rate instruments used with Ford Credit's term-debt issuances and securitization transactions. Ford Credit generally repays its debt obligations as they mature, so the interim effects of changes in market interest rates are excluded in the calculation of managed leverage.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

## RESULTS OF OPERATIONS

## Total Company

Net income attributable to Ford. The chart below shows our second quarter 2017 net income attributable to Ford.

Net income attributable to Ford in the second quarter of 2017 was \$2 billion or \$0.51 diluted earnings per share of Common and Class B Stock, an increase of \$72 million or \$0.02 per share compared with the second quarter of 2016. Second quarter 2017 pre-tax results of our Automotive segment, Financial Services segment, All Other, and Special Items, as well as Taxes are discussed in the following sections in "Results of Operations."

Revenue. Company revenue in the second quarter of 2017 was \$39.9 billion, \$368 million higher than a year ago.

Cost of sales and Selling, administrative, and other expenses for the second quarter of 2017 were \$36.1 billion, an increase of \$0.8 billion. Cost of sales and Selling, administrative, and other expenses for the first half of 2017 was \$71.6 billion, an increase of \$3.1 billion. The detail for the second quarter and first half of 2017 change compared with 2016 is shown below (in billions):

	2017	
	Lower/(Higher)	
	2016	
	Second	First
	Quarter	Half
	Quarter	Half
Volume and mix, exchange, and other	\$ (0.3 )	\$ (1.5 )
Contribution costs		
Material excluding commodities	—	(0.3 )
Commodities	(0.4 )	(0.6 )
Freight and other	0.1	(0.3 )
Structural costs	(0.1 )	(0.5 )
Special items	(0.1 )	0.1
Total	\$ (0.8 )	\$ (3.1 )



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Equity. At June 30, 2017, total equity attributable to Ford was \$32.2 billion, an increase of \$3.1 billion compared with December 31, 2016. The detail for this change is shown below (in billions):

	Increase/ (Decrease)
Net income	\$ 3.6
Shareholder distributions	(1.5 )
Other comprehensive income	0.3
Adoption of accounting standards	0.6
Common Stock issued (including share-based compensation impacts)	0.1
Total	\$ 3.1

The chart below shows our second quarter 2017 total Company adjusted pre-tax results and the pre-tax results of our Automotive segment, our Financial Services segment, and All Other, which is mainly net interest expense and the results of Ford Smart Mobility LLC.

Our total Company adjusted pre-tax profit for the second quarter of 2017 was \$2.5 billion, \$486 million lower than a year ago. Adjusted earnings per share of Common and Class B stock was \$0.56, up \$0.04 per share compared with the second quarter of 2016.

Our total Company adjusted pre-tax profit of \$2.5 billion consisted of: Automotive segment profit of about \$2.2 billion, a profit of \$603 million in the Financial Services segment, and a loss of \$287 million in All Other, largely net interest expense.

As shown below the chart, the Automotive segment profit decline from a year ago drove the lower total Company adjusted pre-tax profit.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

AUTOMOTIVE SEGMENT

In general, we measure year-over-year change in Automotive segment pre-tax results using the causal factors listed below, with net pricing and cost variances calculated at present-year volume and mix and exchange:

Market Factors:

Volume and Mix – primarily measures profit variance from changes in wholesale volumes (at prior-year average contribution margin per unit) driven by changes in industry volume, market share, and dealer stocks, as well as the profit variance resulting from changes in product mix, including mix among vehicle lines and mix of trim levels and options within a vehicle line

Net Pricing – primarily measures profit variance driven by changes in wholesale prices to dealers and marketing incentive programs such as rebate programs, low-rate financing offers, special lease offers, and stock adjustments on dealer inventory

Contribution Costs – primarily measures profit variance driven by per-unit changes in cost categories that typically vary with volume, such as material costs (including commodity and component costs), warranty expense, and freight and duty costs

Structural Costs – primarily measures profit variance driven by absolute change in cost categories that typically do not have a directly proportionate relationship to production volume. Structural costs include the following cost categories: Manufacturing, Including Volume Related – consists primarily of costs for hourly and salaried manufacturing personnel, plant overhead (such as utilities and taxes), and new product launch expense. These costs could be affected by volume for operating pattern actions such as overtime, line-speed, and shift schedules

Engineering – consists primarily of costs for engineering personnel, prototype materials, testing, and outside engineering services

Spending-Related – consists primarily of depreciation and amortization of our manufacturing and engineering assets, but also includes asset retirements and operating leases

Advertising and Sales Promotions – includes costs for advertising, marketing programs, brand promotions, customer mailings and promotional events, and auto shows

Administrative and Selling – includes primarily costs for salaried personnel and purchased services related to our staff activities and selling functions, as well as associated information technology costs

Pension and OPEB – consists primarily of past service pension costs and other postretirement employee benefit costs

Exchange – primarily measures profit variance driven by one or more of the following: (i) transactions denominated in currencies other than the functional currencies of the relevant entities, (ii) effects of converting functional currency income to U.S. dollars, (iii) effects of remeasuring monetary assets and liabilities of the relevant entities in currencies other than their functional currency, or (iv) results of our foreign currency hedging

Other – includes a variety of items, such as parts and services profits, royalties, government incentives and compensation-related changes

In addition, definitions and calculations used in this report include:

Wholesales and Revenue – wholesale unit volumes include all Ford and Lincoln badged units (whether produced by Ford or by an unconsolidated affiliate) that are sold to dealerships, units manufactured by Ford that are sold to other manufacturers, units distributed by Ford for other manufacturers, and local brand units produced by our China joint venture, Jiangling Motors Corporation, Ltd. ("JMC"), that are sold to dealerships. Vehicles sold to daily rental car

companies that are subject to a guaranteed repurchase option (i.e., rental repurchase), as well as other sales of finished vehicles for which the recognition of revenue is deferred (e.g., consignments), also are included in wholesale unit volumes. Revenue from certain vehicles in wholesale unit volumes (specifically, Ford badged vehicles produced and distributed by our unconsolidated affiliates, as well as JMC brand vehicles) are not included in our revenue

Automotive Segment Operating Margin – defined as Automotive segment pre-tax profit divided by Automotive segment revenue

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

• Industry Volume and Market Share – based, in part, on estimated vehicle registrations; includes medium and heavy duty trucks

• Automotive Cash – includes cash, cash equivalents, and marketable securities

• SAAR – seasonally adjusted annual rate

References to Automotive records for operating cash flow, operating margin, and business units are since at least 2000.

The charts on the following pages detail second quarter 2017 key metrics and the change in second quarter 2017 pre-tax results compared with second quarter 2016 by causal factor for our Automotive segment and its business units — North America, South America, Europe, Middle East & Africa, and Asia Pacific.

Our second quarter 2017 Automotive pre-tax results by business unit are shown above. Automotive profit was driven by North America with Europe and Asia Pacific also profitable. Outside North America, other regions were about breakeven in total.

As shown below the chart, the decline in Automotive profit versus last year was due to North America and Europe; results improved in Asia Pacific, South America, and Middle East & Africa.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Shown above are the second quarter 2017 key metrics for our Automotive segment. Wholesale volume was down 3% from a year ago, while Automotive revenue was about flat.

Global industry SAAR is estimated at 93.2 million units, up 4%; this was driven by Asia Pacific, Europe, and South America.

Global market share, at 7.4%, was down one-tenth of a percentage point, reflecting lower share in North America, Europe, and Middle East & Africa. Market share improved in Asia Pacific and South America.

Automotive operating margin and pre-tax profit, at 5.9% and \$2.2 billion, respectively, were both lower than a year ago.

As shown below the chart, first half 2017 Automotive revenue was up 2% year over year, while all other key metrics were lower.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Shown above are the factors that contributed to the \$641 million decline in second quarter 2017 Automotive segment pre-tax profit. The lower profit is explained by higher commodity cost, with steel the largest factor, unfavorable exchange, and the non-repeat of a gain from an asset sale in North America last year.

Market factors were positive, driven by favorable mix and higher net pricing.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Shown above are the second quarter 2017 key metrics for North America. Revenue was up 3%, driven by the continued strong mix and higher net pricing. All other key metrics were flat to lower than a year ago.

North America SAAR, at 21 million units, and U.S. SAAR, at 17 million units, were both down 500,000 units from a year ago.

North America market share was down one-tenth of a percentage point, with U.S. share also down one-tenth of a point to 15.2%. This was driven by lower U.S. fleet sales. We gained share in the growing utilities and truck segments.

In the quarter, F-Series sales improved 7.4% compared to a year ago and gained share, reflecting our best second quarter sales performance since 2001. Ford-brand SUVs also had outstanding results, achieving record sales for the quarter. Lincoln continued to grow, up 3% with retail sales up 8%, delivering the brand's best sales performance in a decade.

Operating margin was 9% and pre-tax profit was \$2.2 billion, both lower than a year ago.

As shown below the chart, each of North America's first half key metrics, except for revenue, was lower than a year ago.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

As shown above, North America's pre-tax profit was \$505 million lower than a year ago, reflecting mainly higher commodity cost and the non-repeat of last year's gain on the sale of a majority of our stake in OEConnection LLC.

Market factors were positive due to favorable mix and higher net pricing. The mix reflects primarily the continued strength of F-Series.

For 2017, we continue to expect North America operating margin and profit to be lower than 2016, mainly due to higher commodity cost and increased engineering expense, mainly for utility and autonomous vehicles. Exchange is also expected to be unfavorable.



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

As shown above, the metrics continue to demonstrate the disciplined approach we take to our business. This is true everywhere we operate, but highlighted here for North America.

Our year-over-year average transaction price in the U.S. in the second quarter of 2017 grew nearly five times faster than the industry due to the strength of F-Series. In the quarter, F-Series transaction prices were up over \$3,100 per unit compared to a year ago, outpacing the overall segment increase of \$1,400 per unit, reflecting strong customer demand for high-level trim series on both Super Duty and F-150, including the Raptor.

We also continued our disciplined approach to incentives. While industry incentives as a percent of vehicle price were up in the second quarter, our levels were slightly lower as we managed supply and demand well and benefited from the strength of our products.

Our U.S. stocks remain in good shape and we continue to take a disciplined approach to match supply to demand.

Ford's days supply tend to be slightly higher than industry average because of our stronger position in trucks and the associated larger number of product configurations we offer, a Ford strength.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

All key metrics for South America in the second quarter of 2017 improved from a year ago -- our third consecutive quarter of improvement across the board.

The top-line improved with wholesale volume up 12% and revenue up 18%. The higher volume was driven by higher industry and improved market share, while the higher revenue was due to the volume increase and higher pricing.

Industry SAAR for the region, at 4.2 million units, was up 17%, or 600,000 units. Brazil SAAR, at 2.3 million units, was up 15%, or 300,000 units. The increase was the first quarterly year-over-year improvement in Brazil in four years.

Our market share for the region, at 9.2%, was up five-tenths of a percentage point due to strong sales of Ka.

Operating margin and pre-tax results for the region both improved sharply from a year ago.

As shown below the chart, each of South America's key metrics improved significantly in the first half from a year ago.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

As shown above, South America's second quarter 2017 pre-tax result improved \$80 million compared to a year ago due to higher net pricing and volume.

Total cost was about flat as we continued to improve the fitness of our business while inflation and exchange effects moderated.

For 2017, we continue to expect South America's loss to improve from last year as a result of favorable market factors as the economy continues to recover. We expect most of the full year improvement to occur in the second half as the economy gains momentum.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Shown above are the second quarter 2017 key metrics for Europe. We delivered our ninth consecutive quarterly profit, but all key metrics were lower.

The top line declined with wholesale volume down 13% and revenue down 12% from a year ago. The lower wholesales were driven by a decrease in dealer stocks this quarter compared to an increase a year ago. This reflects the launch effect of the all-new Fiesta. The lower revenue was driven by the lower volume and adverse exchange.

Europe SAAR, at 20.7 million units, was 5% higher than a year ago, including the first quarterly year-over-year improvement in Russia since fourth quarter of 2012.

Market share, at 7.3%, was down two-tenths of a percentage point, driven by Fiesta. Commercial vehicle share improved, and Ford remained Europe's best-selling commercial vehicle brand in the second quarter.

Europe's operating margin was 1.2% and pre-tax profit was \$88 million, both lower than a year ago.

As shown below the chart, our year-to-date market share was flat compared to a year ago. Top line metrics were down modestly, while operating margin and profit were down more sharply.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Europe's second quarter 2017 pre-tax profit was \$379 million lower than a year ago, reflecting the weaker sterling and lower U.K. industry resulting from Brexit, the launch effects of the all-new Fiesta, and higher commodity cost.

Although not shown, results in Russia continued to improve.

For 2017, we continue to expect Europe to remain profitable, although at levels below 2016. This is due mainly to Brexit effects and higher commodity cost. Favorable market factors and continued improvement in Russia will be a partial offset.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Shown above are the key metrics for Middle East & Africa for the second quarter of 2017, where our pre-tax result improved from a year ago despite declines in all other key metrics.

The top line was down due to lower wholesale volume, largely reflecting lower share and lower industry in the Middle East.

Industry SAAR for the region, at 3.7 million units, was down 100,000 units from 2016. Within this, the markets where we participate declined 300,000 units.

Our market share was 3.4%, down 1.2 percentage points, mostly reflecting performance in the Middle East.

As shown below chart, each of the key metrics in the first half was lower compared with a year ago because of volume declines as a result of lower industry volume and market performance in the Middle East.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

As shown above, Middle East & Africa's second quarter 2017 pre-tax result improved \$12 million from a year ago.

The better result was due to favorable cost performance, reflecting mainly lower material and freight and distribution costs, and favorable exchange. This was partially offset by lower volume driven by market performance and lower industry volume in the Middle East, along with related dealer stock adjustments.

For 2017, we continue to expect results in Middle East & Africa to improve compared to 2016 due to lower cost and favorable exchange with lower volume a partial offset.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Asia Pacific's second quarter 2017 key metrics are shown above, where we delivered a pre-tax profit of \$143 million with all key metrics improving from a year ago.

Wholesale volume increased by 7% and revenue from consolidated operations increased by 21%, reflecting the strength of our full line up of SUVs and continued growth of Lincoln in China.

Asia Pacific SAAR was 43.7 million units, up 2.3 million units, driven by a 1.9 million unit increase in China SAAR, estimated at 27.2 million units.

Asia Pacific market share was 3.7%, up one-tenth of a percentage point due to higher share in China because of strong JMC commercial vehicle gains and Lincoln performance.

Asia Pacific's operating margin and pre-tax profit both increased significantly from a year ago.

In the quarter, our China joint ventures contributed \$195 million to pre-tax profit, reflecting our equity share of the JVs' after-tax earnings. This was \$101 million lower than last year due mainly to lower investment incentives and unfavorable exchange. Net income margin was 10.7%, down 5.4 percentage points.

As shown below the chart, all key metrics except market share improved in the first half versus a year ago.



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

As shown above, Asia Pacific's second quarter 2017 pre-tax profit was \$151 million higher than a year ago, driven by higher volume and mix. This reflects higher share and industry volume in China, favorable stock adjustments for Ford brand imports to China, and favorable mix in Australia.

China drove lower net industry pricing and unfavorable exchange.

Our results in markets outside of China improved compared to a year ago, particularly in Australia and India.

For 2017, we continue to expect Asia Pacific's pre-tax profit to improve from 2016 due to favorable volume and mix and lower cost. Partial offsets will be lower net industry pricing in China and unfavorable exchange because of a weaker RMB.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

FINANCIAL SERVICES SEGMENT

In general, we measure year-over-year changes in Ford Credit's pre-tax results using the causal factors listed below:

•Volume and Mix:

Volume primarily measures changes in net financing margin driven by changes in average managed receivables at prior period financing margin yield (defined below in financing margin) at prior period exchange rates. Volume changes are primarily driven by the volume of new and used vehicle sales and leases, the extent to which Ford Credit purchases retail installment sale and lease contracts, the extent to which Ford Credit provides wholesale financing, the sales price of the vehicles financed, the level of dealer inventories, Ford-sponsored special financing programs available exclusively through Ford Credit, and the availability of cost-effective funding for the purchase of retail installment sale and lease contracts and to provide wholesale financing

Mix primarily measures changes in net financing margin driven by period over period changes in the composition of Ford Credit's average managed receivables by product and by country or region

•Financing Margin:

Financing margin variance is the period-to-period change in financing margin yield multiplied by the present period average managed receivables at prior period exchange rates. This calculation is performed at the product and country level and then aggregated. Financing margin yield equals revenue, less interest expense and scheduled depreciation for the period, divided by average managed receivables for the same period

Financing margin changes are driven by changes in revenue and interest expense. Changes in revenue are primarily driven by the level of market interest rates, cost assumptions in pricing, mix of business, and competitive environment. Changes in interest expense are primarily driven by the level of market interest rates, borrowing spreads, and asset-liability management

•Credit Loss:

Credit loss is the change in the provision for credit losses at prior period exchange rates. For analysis purposes, management splits the provision for credit losses into net charge-offs and the change in the allowance for credit losses. Net charge-off changes are primarily driven by the number of repossessions, severity per repossession, and recoveries. Changes in the allowance for credit losses are primarily driven by changes in historical trends in credit losses and recoveries, changes in the composition and size of Ford Credit's present portfolio, changes in trends in historical used vehicle values, and changes in economic conditions. For additional information on the allowance for credit losses, refer to the "Critical Accounting Estimates - Allowance for Credit Losses" section of Item 7 of Part II of our 2016 Form 10-K Report

•Lease Residual:

Lease residual measures changes to residual performance at prior period exchange rates. For analysis purposes, management splits residual performance primarily into residual gains and losses, and the change in accumulated supplemental depreciation

Residual gain and loss changes are primarily driven by the number of vehicles returned to Ford Credit and sold, and the difference between the auction value and the depreciated value (which includes both base and accumulated supplemental depreciation) of the vehicles sold. Changes in accumulated supplemental depreciation are primarily driven by changes in Ford Credit's estimate of the expected auction value at the end of the lease term, and changes in the estimate of the number of vehicles that will be returned to it and sold. For additional information on accumulated supplemental depreciation, refer to the "Critical Accounting Estimates - Accumulated Depreciation on Vehicles Subject to Operating Leases" section of Item 7 of Part II of our 2016 Form 10-K Report

**Exchange:**

Reflects changes in pre-tax results driven by the effects of converting functional currency income to U.S. dollars

**Other:**

Primarily includes operating expenses, other revenue, and insurance expenses at prior period exchange rates

Changes in operating expenses are primarily driven by salaried personnel costs, facilities costs, and costs associated with the origination and servicing of customer contracts

In general, other revenue changes are primarily driven by changes in earnings related to market valuation adjustments to derivatives (primarily related to movements in interest rates) and other miscellaneous items

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

In addition, the following definitions and calculations apply to Ford Credit when used in this report:

• Cash (as shown on the Funding Structure, Liquidity Sources, and Leverage charts) – Cash, cash equivalents, and marketable securities, excluding amounts related to insurance activities

• Securitizations (as shown on the Public Term Funding Plan chart) – Public securitizations, Rule 144A offerings sponsored by Ford Motor Credit, and widely distributed offerings by Ford Credit Canada

• Term Asset-Backed Securities (as shown on the Funding Structure chart) – Obligations issued in securitization transactions that are payable only out of collections on the underlying securitized assets and related enhancements

Total Debt (as shown on the Leverage chart) – Debt on Ford Credit's balance sheet. Includes debt issued in securitizations and payable only out of collections on the underlying securitized assets and related enhancements. Ford Credit holds the right to receive the excess cash flows not needed to pay the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions

The charts on the following pages detail second quarter 2017 key metrics and the change in second quarter 2017 pre-tax results compared with second quarter 2016 by causal factor for Ford Credit.

In the second quarter of 2017, Ford Credit's pre-tax profit was \$619 million, its best quarterly pre-tax profit since 2011. Receivables were higher than a year ago with growth globally led by retail receivables.

FICO scores remain strong, and origination, servicing, and collection practices continue to be disciplined and consistent. Portfolio performance was robust. The loss-to-receivables ratio of 46 basis points was up 9 basis points and within expectations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

As shown above, Ford Credit's second quarter 2017 pre-tax profit improvement of \$219 million from a year ago was driven by most factors. The favorable volume and mix reflects primarily growth in retail receivables globally. Improved credit loss performance is due to a smaller increase in reserves, offset partially by higher losses.

Recent auction value performance has been better than expected. As a result, Ford Credit's year-over-year lease residual performance was flat. Derivatives market valuation was favorable, reflecting primarily higher interest rates in Canada and the United Kingdom in the second quarter of 2017, versus the Brexit effect of lower rates globally in the second quarter of 2016.

For the remainder of 2017, Ford Credit continues to plan for lower auction values; however, Ford Credit's outlook for full-year supplemental depreciation has improved, reflecting the latest third party valuations. Ford Credit's full-year pre-tax profit is now expected to be higher than \$1.5 billion, reflecting an improved lease residual outlook, along with higher volume, financing margin, and a strong cost focus. Ford Credit's pre-tax profit in the second half of 2017 is expected to be lower than in the first half of the year due to seasonally higher credit losses and operating costs, along with adverse lease residual performance.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

In the second quarter of 2017, lease share was lower compared to a year ago and remains below the industry average. In addition, Ford Credit's lease portfolio continues to be smaller than major competitors.

Ford Credit's off-lease auction values in the second quarter were lower than a year ago, but higher than the prior quarter. Three-year auction values in the quarter were down less than 5% year-over-year.

Ford Credit is encouraged by the relative strength of the used vehicle market given the increase in off-lease volume; however, it continues to plan for three-year full year auction values to be down about 6% at constant mix.

The second quarter repossession ratio was higher than last year but down seasonally from first quarter and remains within expectations. Severity is higher than last year but lower than first quarter, reflecting primarily improvements in auction values.

Charge-offs and LTR were higher than last year but seasonally lower than first quarter.

Credit quality remains strong reflecting a strong business environment and healthy consumer credit conditions.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

ALL OTHER

All Other is a combination of Central Treasury Operations and Ford Smart Mobility LLC, two operating segments that did not meet the quantitative thresholds in this reporting period to qualify as reportable segments.

The Central Treasury Operations segment is primarily engaged in decision making for investments, risk management activities, and providing financing for the Automotive segment. Interest income (excluding interest earned on our extended service contract portfolio that is included in our Automotive segment), interest expense, gains and losses on cash equivalents and marketable securities, and foreign exchange derivatives associated with intercompany lending are included in the results of Central Treasury Operations. The underlying assets and liabilities, primarily cash and cash equivalents, marketable securities, debt, and derivatives, remain with the Automotive segment.

Ford Smart Mobility LLC is a subsidiary formed to design, build, grow, and invest in emerging mobility services. Designed to compete like a start-up company, Ford Smart Mobility LLC designs and builds mobility services on its own, and collaborates with start-ups and tech companies.

Our second quarter 2017 All Other pre-tax results were a loss of \$287 million, a \$63 million greater loss compared with a year ago. This increase is more than explained by higher net interest expense, higher net losses on cash equivalents and marketable securities, and Ford Smart Mobility LLC's results.

SPECIAL ITEMS

In Note 17 of the Notes to the Financial Statements, special items are reflected as a separate reconciling item, as opposed to being allocated among the Automotive segment, Financial Services segment, and All Other. This reflects the fact that management excludes these items from its review of operating segment results for purposes of measuring segment profitability and allocating resources.

Our pre-tax and tax special items were as follows:

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

TAXES

Our tax provisions for the second quarter and first six months of 2017 were \$209 million and \$858 million, respectively, resulting in GAAP effective tax rates of 9.3% and 19.1%, respectively.

Our second quarter and first six months 2017 non-GAAP adjusted effective tax rates, which exclude special items, were 10.2% and 18.8%, respectively, 19.9 and 10.2 percentage points lower than a year ago, reflecting the realization of benefits from foreign tax credits in the second quarter of 2017.

LIQUIDITY AND CAPITAL RESOURCES

Automotive Segment

Liquidity. One of our key priorities is to maintain a strong balance sheet, while at the same time having resources available to invest in and grow our business. Based on our planning assumptions, we believe we have sufficient liquidity and capital resources to continue to invest in new products and services that customers want and value, transform and grow our business, pay our debts and obligations as and when they come due, pay a sustainable regular dividend at the current level, and provide protection within an uncertain global economic environment.

Our key balance sheet metrics include total cash, cash equivalents, and marketable securities (collectively "Automotive cash"), Automotive liquidity, which includes Automotive cash and total available committed credit lines, and cash net of debt.



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

At June 30, 2017, we had \$28.4 billion of Automotive cash, of which 82% was held by consolidated entities domiciled in the United States. We target to have an average ongoing Automotive cash balance of about \$20 billion. We expect to have periods when we will be above or below this amount due to: (i) future cash flow expectations, such as for pension contributions, debt maturities, capital investments, investments in future opportunities, or restructuring requirements, (ii) short-term timing differences, and (iii) changes in the global economic environment.

Our Automotive cash investments primarily include U.S. Department of Treasury obligations, federal agency securities, bank time deposits with investment-grade institutions, corporate investment-grade securities, commercial paper rated A-1/P-1 or higher, and debt obligations of a select group of non-U.S. governments, non-U.S. governmental agencies, and supranational institutions. The average maturity of these investments is approximately one year, and is adjusted based on market conditions and liquidity needs. We monitor our Automotive cash levels and average maturity on a daily basis.

In addition to our target Automotive cash balance, we also target to maintain a corporate credit facility, discussed below, for our Automotive business of about \$10 billion to protect against exogenous shocks. We assess the appropriate long-term target for total Automotive liquidity, which includes Automotive cash and the corporate credit facility, to be about \$30 billion, which is an amount we believe is sufficient to support our business priorities and to protect our business. At June 30, 2017, we had \$39.3 billion of Automotive liquidity. Our Automotive cash and Automotive liquidity targets could be reduced over time based on improved operating performance and changes in our risk profile.

Changes in Automotive Cash. Changes in Automotive cash are summarized below (in billions):

In managing our Automotive business, we classify changes in Automotive cash into operating and other items. Operating items include: Automotive segment pre-tax profits, capital spending, depreciation and tooling amortization, changes in working capital, and All other and timing differences. Non-operating items include: separation payments, transactions with other segments, acquisitions and divestitures, changes in Automotive debt, contributions to funded pension plans, and shareholder distributions.

Automotive operating cash flow was \$1.3 billion in the second quarter of 2017, more than explained by Automotive segment pre-tax profit and timing differences, offset partially by unfavorable working capital changes and net spending.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Capital spending was \$1.5 billion in the second quarter of 2017, and our outlook for capital spending remains at about \$7 billion for the full year. Based on expected cash flows and the identification of additional opportunities for profitable growth, the ongoing amount of capital spending to support product development, growth, restructuring, and infrastructure is now expected to be about \$8 billion annually through 2020.

Shareholder distributions, including anti-dilutive share repurchases, were about \$700 million in the second quarter of 2017. For the full year, we expect distributions to be about \$2.7 billion.

With respect to "Changes in working capital," in general we carry relatively low Automotive segment trade receivables compared with our trade payables because the majority of our Automotive wholesales are financed (primarily by Ford Credit) immediately upon sale of vehicles to dealers, which generally occurs at the time the vehicles are gate-released shortly after being produced. In addition, our inventories are lean because we build to order, not for inventory. In contrast, our Automotive trade payables are based primarily on industry-standard production supplier payment terms generally ranging between 30 days to 45 days. As a result, our cash flow tends to improve as wholesale volumes increase, but can deteriorate significantly when wholesale volumes drop sharply. These working capital balances generally are subject to seasonal changes that can impact cash flow. For example, we typically experience cash flow timing differences associated with inventories and payables due to our annual summer and December shutdown periods, when production, and therefore inventories and wholesale volumes, are usually at their lowest levels, while payables continue to come due and be paid. The net impact of this typically results in cash outflows from changes in our working capital balances during these shutdown periods.

Available Credit Lines. Total committed Automotive credit lines at June 30, 2017 were \$11.9 billion, consisting of \$10.4 billion of our corporate credit facility and \$1.5 billion of local credit facilities for use by our non-U.S. Automotive affiliates. At June 30, 2017, the utilized portion of the corporate credit facility was about \$35 million, representing amounts utilized for letters of credit. At June 30, 2017, the utilized portion of the local credit facilities was about \$980 million.

Our corporate credit facility was amended as of April 28, 2017 to extend the maturities by one year. Lenders under our corporate credit facility have commitments to us totaling \$13.4 billion, with 75% of the commitments maturing on April 30, 2022 and 25% of the commitments maturing on April 30, 2020. We have allocated \$3 billion of commitments to Ford Credit on an irrevocable and exclusive basis to support its growth and liquidity. Any borrowings by Ford Credit under the corporate credit facility would be guaranteed by us.

The corporate credit facility is unsecured and free of material adverse change conditions to borrowing, restrictive financial covenants (for example, interest or fixed charge coverage ratio, debt-to-equity ratio, and minimum net worth requirements), and credit rating triggers that could limit our ability to obtain funding. The corporate credit facility contains a liquidity covenant that requires us to maintain a minimum of \$4 billion in aggregate of domestic cash, cash equivalents, and loaned and marketable securities and/or availability under the facility. If our senior, unsecured, long-term debt does not maintain at least two investment grade ratings from Fitch, Moody's, and S&P (each as defined under "Credit Ratings" below), the guarantees of certain subsidiaries will be required.

Debt. Total Automotive debt at June 30, 2017 was \$16.2 billion, which is \$280 million higher than at December 31, 2016. The increase is more than explained by an increase in local debt in international markets (including the impact of the adoption of ASC 606, Revenue from Contracts with Customers) and foreign currency exchange effects, partially offset by debt repayments.

Leverage. We manage Automotive debt levels with a leverage framework to maintain strong, investment grade credit ratings through a normal business cycle. The leverage framework includes a ratio of Automotive debt, underfunded pension liabilities, operating leases, and other adjustments, divided by Automotive income before income tax, adjusted for depreciation, amortization, interest expense on Automotive debt, and other adjustments. Ford Credit's leverage is calculated as a separate business as described in the Liquidity - Financial Services section of Item 2. Ford Credit is self-funding and its debt, which is used to fund its operations, is separate from our Automotive debt.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Financial Services Segment

Ford Credit

**Funding Overview.** Ford Credit's primary funding and liquidity objective is to be well capitalized with a strong investment grade balance sheet and ample liquidity to support its financing activities and growth under a variety of market conditions, including short-term and long-term market disruptions. Ford Credit's funding strategy remains focused on diversification, and it plans to continue accessing a variety of markets, channels, and investors.

Ford Credit's liquidity profile continues to be diverse, robust, and focused on maintaining liquidity levels that meet its business and funding requirements. Ford Credit annually stress tests its balance sheet and liquidity to ensure that it continues to meet its financial obligations through economic cycles.

**Funding Portfolio.** The chart below shows the trends in funding for Ford Credit's managed receivables:

Managed receivables of \$142 billion as of June 30, 2017, were funded primarily with term debt and term asset-backed securities. Securitized funding as a percent of managed receivables was 34%.

Ford Credit expects the mix of securitized funding to remain around 35%. The calendarization of the funding plan will result in quarterly fluctuations of the securitized funding percentage.

In April 2017, FCE Bank plc launched retail deposits in the United Kingdom backed by the U.K. Financial Service Compensation Scheme, which further diversifies its funding. As of June 30, 2017, retail deposits represented about \$100 million of funding.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

**Public Term Funding Plan.** The following chart shows Ford Credit's issuances for full-year 2015 and 2016, planned issuances for full-year 2017, and its global public term funding issuances through July 25, 2017, excluding short-term funding programs:

For 2017, Ford Credit's full-year forecast for public term funding is in the range of \$26 billion to \$31 billion. Through July 25, 2017, Ford Credit has completed over \$17 billion of public term issuance.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Liquidity. Ford Credit defines gross liquidity as cash, cash equivalents, and marketable securities (excluding amounts related to insurance activities) and committed capacity (which includes its credit and asset-backed facilities and bank lines), less utilization of liquidity. Utilization of liquidity is the amount funded under Ford Credit's liquidity sources and also includes the cash and cash equivalents required to support securitization transactions. Securitization cash is cash held for the benefit of the securitization investors (for example, a reserve fund). Net liquidity available for use is defined as gross liquidity less certain adjustments for asset-backed capacity in excess of eligible receivables and cash related to the Ford Credit Revolving Extended Variable-utilization program ("FordREV"), which can be accessed through future sales of receivables. While not included in available liquidity, these adjustments represent additional funding sources for future originations

The following chart shows Ford Credit's liquidity sources and utilization:

Ford Credit's liquidity available for use will fluctuate quarterly based on factors including near-term debt maturities, receivable growth, and timing of funding transactions. Ford Credit targets liquidity of at least \$25 billion. At June 30, 2017, Ford Credit's liquidity available for use was \$1.5 billion higher than at year-end 2016 and \$0.8 billion lower than at March 31, 2017.

As of June 30, 2017, Ford Credit's liquidity remained strong at \$28.5 billion. Ford Credit's sources of liquidity include cash, committed asset-backed facilities, unsecured credit facilities, and the corporate credit facility allocation. As of June 30, 2017, Ford Credit's liquidity sources totaled \$48.1 billion, down \$2.8 billion from year-end 2016.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Leverage. Ford Credit uses leverage, or the debt-to-equity ratio, to make various business decisions, including evaluating and establishing pricing for finance receivable and operating lease financing, and assessing its capital structure.

The chart below shows the calculation of Ford Credit's financial statement leverage and managed leverage:

Ford Credit plans its managed leverage by considering prevailing market conditions and the risk characteristics of its business. At June 30, 2017, Ford Credit's financial statement leverage was 9.3:1, and its managed leverage was 8.8:1. Ford Credit targets managed leverage in the range of 8:1 to 9:1.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Total Company

Pension Plans - Underfunded Balances. As of June 30, 2017, our total Company pension underfunded status reported on our balance sheet was \$8.3 billion and reflects the net underfunded status at December 31, 2016 updated for service and interest cost, expected return on assets, separation expense, actual benefit payments, and cash contributions. The discount rate and rate of expected return assumptions are unchanged from year-end 2016, and the reported number does not reflect any impact from the changes in interest rates since year-end 2016.

Based on our planning assumptions for asset returns, discount rates, and contributions, we expect our funded status to improve at year-end 2017 compared to the end of last year.

CREDIT RATINGS

Our short-term and long-term debt is rated by four credit rating agencies designated as nationally recognized statistical rating organizations (“NRSROs”) by the U.S. Securities and Exchange Commission:

- DBRS Limited (“DBRS”);
- Fitch, Inc. (“Fitch”);
- Moody’s Investors Service, Inc. (“Moody’s”); and
- Standard & Poor’s Ratings Services, a division of McGraw Hill Financial (“S&P”).

In several markets, locally-recognized rating agencies also rate us. A credit rating reflects an assessment by the rating agency of the credit risk associated with a corporate entity or particular securities issued by that entity. Rating agencies’ ratings of us are based on information provided by us and other sources. Credit ratings are not recommendations to buy, sell, or hold securities, and are subject to revision or withdrawal at any time by the assigning rating agency. Each rating agency may have different criteria for evaluating company risk and, therefore, ratings should be evaluated independently for each rating agency.

There have been no rating actions taken by these NRSROs since the filing of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.

The following chart summarizes certain of the credit ratings and outlook presently assigned by these four NRSROs:

NRSRO RATINGS							
Ford Issuer Default / Corporate / Issuer Rating	Ford Credit			NRSROs			
	Long-Term Senior Unsecured	Outlook / Trend	Long-Term Senior Unsecured	Short-Term Unsecured	Outlook / Trend	Minimum Long-Term Investment Grade Rating	
DBRS	BBB	Stable	BBB	R-2M	Stable	BBB (low)	
Fitch	BBB	Stable	BBB	F2	Stable	BBB-	
Moody’s	N/A	Stable	Baa2	P-2	Stable	Baa3	
S&P	BBB	Stable	BBB	A-2	Stable	BBB-	





Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

GDP AND INDUSTRY PLANNING ASSUMPTIONS

Based on the current environment, our GDP and industry planning assumptions include the following:

Since the filing of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, we have updated our expectations for full year industry sales for the United States, Brazil, Europe, and China.

We are adjusting our 2017 guidance for the United States down to 17.5 million units, primarily because of a weaker fleet industry during the first half of the year. Retail volume remains slightly below our assumptions.

We have raised our outlook for Brazil to 2.3 million units based on second quarter volume, but we are monitoring the political risks.

In Europe, we expect industry volume to be slightly higher compared to our prior guidance for 2017, reflecting gains across most EU20 markets, with the exception of the United Kingdom.

In China, we expect industry volume at 28 million units in 2017 to be supported by a stabilizing economy and the continued tax incentive for vehicles with small displacement engines.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

PRODUCTION VOLUMES

The second quarter 2017 actual and third quarter 2017 forecasted production volumes for our Automotive business units are as follows:

Production volumes above include Ford brand and JMC brand vehicles produced by our unconsolidated affiliates.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

OUTLOOK

Based on the current economic environment, our Company guidance for 2017 includes the following:

Effective this quarter, we are modifying our approach to Company guidance, adopting a range of adjusted earnings per share. For 2017, our full year guidance is for an adjusted EPS range of \$1.65 to \$1.85. This reflects different potential outcomes for market factors and cost performance, including warranty expense, over the balance of the year. It also reflects an adjusted effective tax rate of about 15%, which is substantially more favorable than prior guidance and reflects 2017 planned actions to bring foreign tax credits onto our balance sheet. We would expect to return to a more normal adjusted effective tax rate, about 30%, after this year.

Our prior guidance implied a full year adjusted EPS of \$1.58. The improvement in our range of adjusted EPS versus the implied \$1.58 is more than explained by the lower tax rate.

For the second half of the year, we expect total Company adjusted pre-tax profit to be lower than the first half, consistent with historical experience. The third quarter is expected to be the lowest quarterly profit of the year due to seasonal factors and the launch of the Expedition and Lincoln Navigator.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Our business unit guidance for 2017 includes the following:

The business unit guidance above provides our latest assessment of full year 2017 "puts and takes" for each region or segment compared to results in 2016.

We are reassessing our 2018 guidance and will provide an updated view at a future date.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

NON-GAAP FINANCIAL MEASURE RECONCILIATIONS

The following charts show our Non-GAAP financial measure reconciliations for: Adjusted Pre-Tax Profit, Adjusted Earnings Per Share, Adjusted Effective Tax Rate, and Ford Credit Managed Receivables. The GAAP reconciliation for Ford Credit Managed Leverage can be found in the Financial Services Segment section of "Liquidity and Capital Resources."

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

68

---

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

## Supplemental Financial Information

The tables below provide supplemental consolidating financial information. The data is presented by our reportable segments, Automotive and Financial Services. All Other, Special Items, and Adjustments include our operating segments that did not meet the quantitative threshold to qualify as a reportable segment, special items, eliminations of intersegment transactions, and deferred tax netting.

Selected Income Statement Information. The following table provides supplemental income statement information, by segment (in millions):

	For the period ended June 30, 2017			
	Second Quarter			
	Automotive	Financial Services	All Other, Special Items, & Adjustments	Consolidated
Revenues	\$37,113	\$ 2,738	\$ 2	\$ 39,853
Total costs and expenses	35,815	2,217	290	38,322
Interest expense on Automotive debt	—	—	277	277
Other income/(loss), net	627	74	31	732
Equity in net income of affiliated companies	266	8	(1 )	273
Income/(loss) before income taxes	2,191	603	(535 )	2,259
Provision for/(Benefit from) income taxes	181	174	(146 )	209
Net income/(loss)	2,010	429	(389 )	2,050
Less: Income/(Loss) attributable to noncontrolling interests	8	—	—	8
Net income attributable to Ford Motor Company	\$2,002	\$ 429	\$ (389 )	\$ 2,042

	For the period ended June 30, 2017			
	First Half			
	Automotive	Financial Services	All Other, Special Items, & Adjustments	Consolidated
Revenues	\$73,588	\$ 5,407	\$ 4	\$ 78,999
Total costs and expenses	71,295	4,449	282	76,026
Interest expense on Automotive debt	—	—	556	556
Other income/(loss), net	1,258	96	112	1,466
Equity in net income of affiliated companies	605	15	(1 )	619
Income/(loss) before income taxes	4,156	1,069	(723 )	4,502
Provision for/(Benefit from) income taxes	741	322	(205 )	858
Net income/(loss)	3,415	747	(518 )	3,644
Less: Income/(Loss) attributable to noncontrolling interests	15	—	—	15
Net income attributable to Ford Motor Company	\$3,400	\$ 747	\$ (518 )	\$ 3,629





## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Selected Balance Sheet Information. The following tables provide supplemental balance sheet information, by segment (in millions):

Assets	June 30, 2017			Consolidated
	Automotive	Financial Services	All Other, Special Items, & Adjustments	
Cash and cash equivalents	\$8,853	\$7,366	\$ 4	\$ 16,223
Marketable securities	19,575	3,311	—	22,886
Financial Services finance receivables, net	—	49,888	—	49,888
Trade and other receivables, less allowances	4,274	5,884	1	10,159
Inventories	11,092	—	—	11,092
Other assets	2,317	974	—	3,291
Receivable from other segments	20	1,730	(1,750)	—
Total current assets	46,131	69,153	(1,745)	113,539
Financial Services finance receivables, net	—	51,551	—	51,551
Net investment in operating leases	1,904	26,693	—	28,597
Net property	33,620	166	8	33,794
Equity in net assets of affiliated companies	3,048	180	13	3,241
Deferred income taxes	14,008	218	(4,081)	10,145
Other assets	4,872	1,676	54	6,602
Receivable from other segments	—	1,156	(1,156)	—
Total assets	\$ 103,583	\$ 150,793	\$ (6,907)	\$ 247,469
Liabilities	Automotive	Financial Services	All Other, Special Items, & Adjustments	Consolidated
Payables	\$ 22,441	\$ 1,122	\$ 5	\$ 23,568
Other liabilities and deferred revenue	18,707	1,239	12	19,958
Automotive debt payable within one year	2,911	—	—	2,911
Financial Services debt payable within one year	—	47,862	—	47,862
Payable to other segments	1,730	—	(1,730)	—
Total current liabilities	45,789	50,223	(1,713)	94,299
Other liabilities and deferred revenue	23,858	980	2	24,840
Automotive long-term debt	13,277	—	—	13,277
Financial Services long-term debt	—	81,959	—	81,959
Deferred income taxes	158	4,658	(4,081)	735
Payable to other segments	1,147	—	(1,147)	—
Total liabilities	\$ 84,229	\$ 137,820	\$ (6,939)	\$ 215,110

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Selected Cash Flow Information. The following tables provide supplemental cash flow information, by segment (in millions):

	For the period ended June 30, 2017			
	First Half			
	Automotive	Financial Services	All Other, Special Items, & Adjustments	Consolidated
Cash flows from operating activities				
Net cash provided by/(used in) operating activities	\$5,748	\$ 4,236	\$ (33 )	\$ 9,951

Reconciling Adjustments to Automotive Segment

Operating Cash Flows*	
Automotive capital spending	(3,242 )
Net cash flows from non-designated derivatives	200
Funded pension contributions	456
Separation payments	59
Other	65
Automotive Segment Operating Cash Flows	\$3,286

We measure and evaluate our Automotive segment operating cash flow on a different basis than Net cash provided by/(used in) operating activities in our consolidated statement of cash flows. Automotive segment operating cash flow includes additional elements management considers to be related to our Automotive operating activities, \*primarily capital spending and non-designated derivatives, and excludes outflows for funded pension contributions, separation payments, and other items that are considered operating cash flows under U.S. GAAP. The table above quantifies the reconciling adjustments to Net cash provided by/(used in) operating activities for the period ended June 30, 2017.

	For the period ended June 30, 2017			
	First Half			
	Automotive	Financial Services	All Other, Special Items, & Adjustments	Consolidated
Cash flows from investing activities				
Capital spending	\$(3,242)	\$(22 )	\$ —	\$ (3,264 )
Acquisitions of finance receivables and operating leases	—	(27,379 )	—	(27,379 )
Collections of finance receivables and operating leases	—	21,636	—	21,636
Purchases of equity and debt securities	(13,578 )	(3,351 )	(2 )	(16,931 )
Sales and maturities of equity and debt securities	13,570	3,336	—	16,906
Settlements of derivatives	200	(46 )	—	154
Other	10	12	(6 )	16
Investing activity (to)/from other segments	(38 )	(11 )	49	—
Net cash provided by/(used in) investing activities	\$(3,078)	\$(5,825 )	\$ 41	\$ (8,862 )

	For the period ended June 30, 2017			
	First Half			
	Automotive	Financial Services	All Other, Special Items, & Adjustments	Consolidated
Cash flows from financing activities				

Edgar Filing: FORD MOTOR CO - Form 10-Q

Cash dividends	\$ (1,392 )	\$ —	\$ —	\$ (1,392 )
Purchases of common stock	(131 )	—	—	(131 )
Net changes in short-term debt	216	(144 )	—	72
Proceeds from issuance of other debt	507	19,960	—	20,467
Principal payments on other debt	(881 )	(19,071 )	—	(19,952 )
Other	(50 )	(52 )	—	(102 )
Financing activity to/(from) other segments	—	12	(12 )	—
Net cash provided by/(used in) financing activities	\$ (1,731 )	\$ 705	\$ (12 )	\$ (1,038 )
Effect of exchange rate changes on cash and cash equivalents	\$ 94	\$ 173	\$ —	\$ 267

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Risk Factors

Statements included or incorporated by reference herein may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on expectations, forecasts, and assumptions by our management and involve a number of risks, uncertainties, and other factors that could cause actual results to differ materially from those stated, including, without limitation:

- Decline in industry sales volume, particularly in the United States, Europe, or China, due to financial crisis, recession, geopolitical events, or other factors;
- Lower-than-anticipated market acceptance of Ford's new or existing products or services, or failure to achieve expected growth;
- Market shift away from sales of larger, more profitable vehicles beyond Ford's current planning assumption, particularly in the United States;
- Continued or increased price competition resulting from industry excess capacity, currency fluctuations, or other factors;
- Fluctuations in foreign currency exchange rates, commodity prices, and interest rates;
- Adverse effects resulting from economic, geopolitical, protectionist trade policies, or other events;
- Work stoppages at Ford or supplier facilities or other limitations on production (whether as a result of labor disputes, natural or man-made disasters, tight credit markets or other financial distress, production constraints or difficulties, or other factors);
- Single-source supply of components or materials;
- Labor or other constraints on Ford's ability to maintain competitive cost structure;
- Substantial pension and other postretirement liabilities impairing liquidity or financial condition;
- Worse-than-assumed economic and demographic experience for pension and other postretirement benefit plans (e.g., discount rates or investment returns);
- Restriction on use of tax attributes from tax law "ownership change;"
- The discovery of defects in vehicles resulting in delays in new model launches, recall campaigns, or increased warranty costs;
- Increased safety, emissions, fuel economy, or other regulations resulting in higher costs, cash expenditures, and/or sales restrictions;
- Unusual or significant litigation, governmental investigations, or adverse publicity arising out of alleged defects in products, perceived environmental impacts, or otherwise;
- Adverse effects on results from a decrease in or cessation or clawback of government incentives related to investments;
- Cybersecurity risks to operational systems, security systems, or infrastructure owned by Ford, Ford Credit, or a third-party vendor or supplier;
- Failure of financial institutions to fulfill commitments under committed credit and liquidity facilities;
- Inability of Ford Credit to access debt, securitization, or derivative markets around the world at competitive rates or in sufficient amounts, due to credit rating downgrades, market volatility, market disruption, regulatory requirements, or other factors;
- Higher-than-expected credit losses, lower-than-anticipated residual values, or higher-than-expected return volumes for leased vehicles;
- Increased competition from banks, financial institutions, or other third parties seeking to increase their share of financing Ford vehicles; and
- New or increased credit regulations, consumer or data protection regulations, or other regulations resulting in higher costs and/or additional financing restrictions.

We cannot be certain that any expectation, forecast, or assumption made in preparing forward-looking statements will prove accurate, or that any projection will be realized. It is to be expected that there may be differences between projected and actual results. Our forward-looking statements speak only as of the date of their initial issuance, and we do not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events, or otherwise. For additional discussion, see “Item 1A. Risk Factors” in our 2016 Form 10-K Report, as updated by our subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

## ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The Financial Accounting Standards Board ("FASB") has issued the following standards, which are not expected to have a material impact (with the exception of standards 2016-02 and 2016-13) to our financial statements or financial statement disclosures:

Standard	Effective Date (a)
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
2016-01 Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities	January 1, 2018
2017-08 Nonrefundable Fees and Other Costs - Premium Amortization on Purchased Callable Debt Securities	January 1, 2019
2016-02 Leases	January 1, 2019 (b)
2016-13 Credit Losses - Measurement of Credit Losses on Financial Instruments	January 1, 2020 (b)

(a) Early adoption for each of the standards, except standard 2016-01, is permitted.

(b) For additional information, see Note 2 of the Notes to the Financial Statements.

## OTHER FINANCIAL INFORMATION

The interim financial information included in this Quarterly Report on Form 10-Q for the periods ended June 30, 2017 and 2016 has not been audited by PricewaterhouseCoopers LLP ("PwC"). In reviewing such information, PwC has applied limited procedures in accordance with professional standards for reviews of interim financial information. Readers should restrict reliance on PwC's reports on such information accordingly. PwC is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for its reports on interim financial information, because such reports do not constitute "reports" or "parts" of registration statements prepared or certified by PwC within the meaning of Sections 7 and 11 of the Securities Act of 1933.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

Automotive Segment

Foreign Currency Risk. The net fair value of foreign exchange forward contracts (including adjustments for credit risk), as of December 31, 2016, was an asset of \$528 million compared with an asset of \$227 million as of June 30, 2017. The potential decrease in fair value from a 10% adverse change in the underlying exchange rates, in U.S. dollar terms, was \$2.7 billion at both December 31, 2016 and June 30, 2017.

Commodity Price Risk. The net fair value of commodity forward contracts (including adjustments for credit risk) as of December 31, 2016 was an asset of \$5 million, compared with an asset of \$9 million as of June 30, 2017. The potential decrease in fair value from a 10% adverse change in the underlying commodity prices, in U.S. dollar terms, was \$54 million at December 31, 2016, compared with \$56 million at June 30, 2017.

Financial Services Segment

Interest Rate Risk. To provide a quantitative measure of the sensitivity of its pre-tax cash flow to changes in interest rates, Ford Credit uses interest rate scenarios that assume a hypothetical, instantaneous increase or decrease of one percentage point in all interest rates across all maturities (a “parallel shift”), as well as a base case that assumes that all interest rates remain constant at existing levels. The differences in pre-tax cash flow between these scenarios and the base case over a 12-month period represent an estimate of the sensitivity of Ford Credit’s pre-tax cash flow. Under this model, Ford Credit estimates that at June 30, 2017, all else constant, such an increase in interest rates would increase its pre-tax cash flow by \$5 million over the next 12 months, compared with an increase of \$21 million at December 31, 2016. In reality, interest rate changes are rarely instantaneous or parallel and rates could move more or less than the one percentage point assumed in Ford Credit’s analysis. As a result, the actual impact to pre-tax cash flow could be higher or lower than the results detailed above.



## ITEM 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. James P. Hackett, our Chief Executive Officer (“CEO”), and Bob Shanks, our Chief Financial Officer (“CFO”), have performed an evaluation of the Company’s disclosure controls and procedures, as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (“Exchange Act”), as of June 30, 2017, and each has concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by SEC rules and forms, and that such information is accumulated and communicated to the CEO and CFO to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting. Mark Fields, President and Chief Executive Officer, retired effective May 22, 2017. He was succeeded by James P. Hackett, formerly chairman of Ford Smart Mobility LLC.

## PART II. OTHER INFORMATION

## ITEM 1. Legal Proceedings.

Notice of Violation to Ford Dearborn Truck Plant. As reported in our 2016 Form 10-K Report, on December 26, 2015, the U.S. Environmental Protection Agency (“EPA”) issued a notice of violation to our Dearborn Truck Plant. EPA alleges that the plant violated several requirements related to its air permit. We have reached an agreement with EPA to resolve the matter for \$389,000.

## ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In the second quarter of 2017, we completed a modest anti-dilutive share repurchase program to offset the dilutive effect of share-based compensation granted during 2017. The plan authorized repurchases of up to 11.8 million shares of Ford Common Stock.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly- Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
May 1, 2017 through May 31, 2017	11,800,000	\$ 11.11	—	—
Total/Average	11,800,000	\$ 11.11		

## ITEM 6. Exhibits.

Please see exhibit index below.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FORD MOTOR COMPANY

By: /s/ John Lawler  
John Lawler, Vice President and Controller  
(principal accounting officer)

Date: July 26, 2017

EXHIBIT INDEX

Designation	Description	Method of Filing
Exhibit 10	Executive Separation Waiver and Release Agreement between Ford Motor Company and Mark Fields dated May 21, 2017.	Filed with this Report.
Exhibit 12	Calculation of Ratio of Earnings to Fixed Charges.	Filed with this Report.
Exhibit 15	Letter of PricewaterhouseCoopers LLP, dated July 26, 2017, relating to financial information.	Filed with this Report.
Exhibit 31.1	Rule 15d-14(a) Certification of CEO.	Filed with this Report.
Exhibit 31.2	Rule 15d-14(a) Certification of CFO.	Filed with this Report.
Exhibit 32.1	Section 1350 Certification of CEO.	Furnished with this Report.
Exhibit 32.2	Section 1350 Certification of CFO.	Furnished with this Report.
Exhibit 101.INS	XBRL Instance Document.	*
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document.	*
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	*
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	*
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	*
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	*

\* Submitted electronically with this Report in accordance with the provisions of Regulation S-T.