

FORD MOTOR CO  
Form 10-Q  
April 26, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-3950

Ford Motor Company  
(Exact name of Registrant as specified in its charter)

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

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

Indicate by check mark if the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Emerging growth company ☐

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 April 20, 2018, Ford had outstanding 3,914,101,588 shares of Common Stock and 70,852,076 shares of Class B Stock.

Exhibit Index begins on page

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FORD MOTOR COMPANY

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended March 31, 2018

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## 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 March 31, 2017    2018 First Quarter (unaudited)	
Revenues		
Automotive	\$36,475	\$39,012
Ford Credit	2,669	2,943
Mobility	2	4
Total revenues (Note 3)	39,146	41,959
Costs and expenses		
Cost of sales	32,700	35,753
Selling, administrative, and other expenses	2,764	2,747
Ford Credit interest, operating, and other expenses	2,218	2,338
Total costs and expenses	37,682	40,838
Interest expense on Automotive debt	279	275
Interest expense on Other debt	14	14
Other income/(loss), net (Note 4)	734	863
Equity in net income of affiliated companies	346	224
Income before income taxes	2,251	1,919
Provision for/(Benefit from) income taxes	652	174
Net income	1,599	1,745
Less: Income/(Loss) attributable to noncontrolling interests	7	9
Net income attributable to Ford Motor Company	\$1,592	\$1,736

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

Basic income	\$0.40	\$0.44
Diluted income	0.40	0.43
Cash dividends declared	0.20	0.28

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions)

	For the periods ended March 31, 2017    2018 First Quarter (unaudited)	
Net income	\$1,599	\$1,745
Other comprehensive income/(loss), net of tax (Note 16)		

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Foreign currency translation	242	295
Marketable securities	(1 )	(47 )
Derivative instruments	(168 )	33
Pension and other postretirement benefits	9	8
Total other comprehensive income/(loss), net of tax	82	289
Comprehensive income	1,681	2,034
Less: Comprehensive income/(loss) attributable to noncontrolling interests	5	8
Comprehensive income attributable to Ford Motor Company	\$1,676	\$2,026
The accompanying notes are part of the financial statements.		

## Item 1. Financial Statements (Continued)

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

	December 31, 2017	March 31, 2018 (unaudited)
<b>ASSETS</b>		
Cash and cash equivalents (Note 7)	\$ 18,492	\$ 17,940
Marketable securities (Note 7)	20,435	22,131
Ford Credit finance receivables, net (Note 8)	52,210	54,680
Trade and other receivables, less allowances of \$392 and \$411	10,599	12,386
Inventories (Note 10)	11,176	12,371
Other assets	3,889	3,756
Total current assets	116,801	123,264
Ford Credit finance receivables, net (Note 8)	56,182	57,121
Net investment in operating leases	28,235	28,331
Net property	35,327	36,118
Equity in net assets of affiliated companies	3,085	3,213
Deferred income taxes	10,762	10,637
Other assets	8,104	8,546
Total assets	\$ 258,496	\$ 267,230
<b>LIABILITIES</b>		
Payables	\$ 23,282	\$ 25,480
Other liabilities and deferred revenue (Note 12)	19,697	21,415
Automotive debt payable within one year (Note 14)	3,356	3,751
Ford Credit debt payable within one year (Note 14)	48,265	49,232
Total current liabilities	94,600	99,878
Other liabilities and deferred revenue (Note 12)	24,711	24,845
Automotive long-term debt (Note 14)	12,575	12,071
Ford Credit long-term debt (Note 14)	89,492	92,681
Other long-term debt (Note 14)	599	599
Deferred income taxes	815	622
Total liabilities	222,792	230,696
Redeemable noncontrolling interest	98	98
<b>EQUITY</b>		
Common Stock, par value \$.01 per share (3,998 million shares issued of 6 billion authorized)	40	40
Class B Stock, par value \$.01 per share (71 million shares issued of 530 million authorized)	1	1
Capital in excess of par value of stock	21,843	21,841
Retained earnings	21,906	22,529
Accumulated other comprehensive income/(loss) (Note 16)	(6,959)	(6,669)
Treasury stock	(1,253)	(1,342)
Total equity attributable to Ford Motor Company	35,578	36,400
Equity attributable to noncontrolling interests	28	36
Total equity	35,606	36,436

Total liabilities and equity \$258,496 \$267,230

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

	December 31, 2017	March 31, 2018 (unaudited)
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**ASSETS**

Cash and cash equivalents	\$3,479	\$ 2,866
Ford Credit finance receivables, net	56,250	59,145
Net investment in operating leases	11,503	11,984
Other assets	64	63

**LIABILITIES**

Other liabilities and deferred revenue	\$2	\$ 5
Debt	46,437	50,366

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 March 31, 2017      2018 First Quarter (unaudited)	
Cash flows from operating activities		
Net cash provided by/(used in) operating activities	\$4,336	\$3,514
Cash flows from investing activities		
Capital spending	(1,706 )	(1,779 )
Acquisitions of finance receivables and operating leases	(13,467 )	(15,683 )
Collections of finance receivables and operating leases	10,695	12,956
Purchases of equity and debt securities	(8,878 )	(7,867 )
Sales and maturities of equity and debt securities	9,551	6,040
Settlements of derivatives	156	(61 )
Other	(3 )	(150 )
Net cash provided by/(used in) investing activities	(3,652 )	(6,544 )
Cash flows from financing activities		
Cash dividends	(795 )	(1,113 )
Purchases of common stock	—	(89 )
Net changes in short-term debt	658	(909 )
Proceeds from issuance of other debt	13,253	16,953
Principal payments on other debt	(11,911 )	(12,360 )
Other	(85 )	(68 )
Net cash provided by/(used in) financing activities	1,120	2,414
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	101	115
Net increase/(decrease) in cash, cash equivalents, and restricted cash	\$1,905	\$(501 )
Cash, cash equivalents, and restricted cash at January 1 (Note 7)	\$16,019	\$18,638
Net increase/(decrease) in cash, cash equivalents, and restricted cash	1,905	(501 )
Cash, cash equivalents, and restricted cash at March 31 (Note 7)	\$17,924	\$18,137

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						Equity	Total
	Capital Stock	Cap. in Excess of Par Value of Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss) (Note 16)	Treasury Stock	Total	Attributable to Non-controlling Interests	Equity
Balance at December 31, 2016	\$41	\$21,630	\$16,193	\$ (7,013 )	\$(1,122)	\$29,729	\$ 17	\$29,746
Adoption of accounting standards	—	6	566	—	—	572	—	572
Net income	—	—	1,592	—	—	1,592	7	1,599
Other comprehensive income/(loss), net of tax	—	—	—	84	—	84	(2 )	82
Common stock issued (including share-based compensation impacts)	—	1	—	—	—	1	—	1
Treasury stock/other	—	—	—	—	—	—	—	—
Cash dividends declared	—	—	(795 )	—	—	(795 )	—	(795 )
Balance at March 31, 2017	\$41	\$21,637	\$17,556	\$ (6,929 )	\$(1,122)	\$31,183	\$ 22	\$31,205
Balance at December 31, 2017	\$41	\$21,843	\$21,906	\$ (6,959 )	\$(1,253)	\$35,578	\$ 28	\$35,606
Net income	—	—	1,736	—	—	1,736	9	1,745
Other comprehensive income/(loss), net of tax	—	—	—	290	—	290	(1 )	289
Common stock issued (including share-based compensation impacts)	—	(2 )	—	—	—	(2 )	—	(2 )
Treasury stock/other	—	—	—	—	(89 )	(89 )	—	(89 )
Cash dividends declared	—	—	(1,113 )	—	—	(1,113 )	—	(1,113 )
Balance at March 31, 2018	\$41	\$21,841	\$22,529	\$ (6,669 )	\$(1,342)	\$36,400	\$ 36	\$36,436

The accompanying notes are part of the financial statements.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

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## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1. PRESENTATION

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

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

## Change in Presentation

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

## Change in Accounting

We carry inventory on our consolidated balance sheet that is comprised of finished products, raw materials, work-in-process, and supplies. As of January 1, 2018, we changed our accounting method for U.S. inventories to a first-in, first-out basis from a last-in, first-out basis. We believe this change in accounting method is preferable as it is consistent with how we manage our business, results in a uniform method to value our inventory across all regions in our business, and improves comparability with our peers. The effect of this change was immaterial on our consolidated income statement, balance sheet, and statement of cash flow amounts for the interim period ended March 31, 2018.

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

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

		For the period ended March 31, 2017	
	Previously Reported	As Revised	Effect of Change Higher/(Lower)

## Income Statement

Cost of Sales	\$32,708	\$32,700	\$ (8 )
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Income before income taxes	2,243	2,251	8
Provision for/ (Benefit from) income taxes	649	652	3
Net income	1,594	1,599	5
Net income attributable to Ford Motor Company	1,587	1,592	5
Basic earning per share attributable to Ford Motor Company	0.40	0.40	—
Diluted earning per share attributable to Ford Motor Company	0.40	0.40	—

December 31, 2017

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

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

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2. NEW ACCOUNTING STANDARDS

## Adoption of New Accounting Standards

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

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

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

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

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

## Accounting Standards Issued But Not Yet Adopted

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

ASU 2016-13, Credit Losses - Measurement of Credit Losses on Financial Instruments. In June 2016, the Financial Accounting Standards Board ("FASB") issued a new accounting standard which replaces the current incurred loss impairment method with a method that reflects expected credit losses. The new standard is effective as of January 1, 2020, and early adoption is permitted as of January 1, 2019. We will adopt the new credit loss guidance by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of Retained earnings. We anticipate adoption will increase the amount of expected credit losses reported in Ford Credit finance receivables, net on our consolidated balance sheet and do not expect a material impact to our consolidated income statement.

## 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 on its effective date of January 1, 2019. We anticipate adoption of the standard will add between \$1.5 billion and \$2 billion in right-of-use assets and lease obligations to our consolidated balance sheet and will not significantly impact results. We plan to elect the practical expedients upon transition that will retain the lease classification and initial direct costs for any leases that exist prior to adoption of the standard. We will not reassess whether any contracts entered into prior to adoption are leases. We are in the process of cataloging our existing lease contracts and implementing changes to our systems.

## NOTE 3. REVENUE

The following table disaggregates our revenue by major source for the periods ended March 31 (in millions):

	First Quarter 2017			
	Automotive	Mobility	Ford Credit	Consolidated
Vehicles, parts, and accessories	\$34,996	\$ —	\$ —	\$ 34,996
Used vehicles	873	—	—	873
Extended service contracts	275	—	—	275
Other revenue	224	2	49	275
Revenues from sales and services	36,368	2	49	36,419
Leasing income	107	—	1,366	1,473
Financing income	—	—	1,214	1,214
Insurance income	—	—	40	40
Total revenues	\$36,475	\$ 2	\$2,669	\$ 39,146

	First Quarter 2018			
	Automotive	Mobility	Ford Credit	Consolidated
Vehicles, parts, and accessories	\$37,417	\$ —	\$ —	\$ 37,417
Used vehicles	928	—	—	928
Extended service contracts	329	—	—	329
Other revenue	219	4	55	278
Revenues from sales and services	38,893	4	55	38,952
Leasing income	119	—	1,415	1,534
Financing income	—	—	1,432	1,432
Insurance income	—	—	41	41
Total revenues	\$39,012	\$ 4	\$2,943	\$ 41,959





Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. REVENUE (Continued)

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

Automotive Segment

**Vehicles, Parts, and Accessories.** For the majority of vehicles, parts, and accessories, we transfer control and recognize a sale when we ship the product from our manufacturing facility to our customer (dealers and distributors). We receive cash equal to the invoice price for most vehicle sales at the time of wholesale. When the vehicle sale is financed by our wholly-owned subsidiary Ford Credit, the dealer pays Ford Credit when it sells the vehicle to the retail customer. Payment terms on part sales to dealers, distributors, and retailers range from 30 days to 120 days. The amount of consideration we receive and revenue we recognize varies with changes in marketing incentives and returns we offer to our customers and their customers. When we give our dealers the right to return eligible parts and accessories, we estimate the expected returns based on an analysis of historical experience. We adjust our estimate of revenue at the earlier of when the most likely amount of consideration we expect to receive changes or when the consideration becomes fixed. As a result, we recorded a decrease to revenue recognized in prior periods of \$610 million and \$718 million in the first quarter of 2017 and 2018, respectively.

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

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

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

**Extended Service Contracts.** We sell separately-priced service contracts that extend mechanical and maintenance coverages beyond our base warranty agreements to vehicle owners. The separately priced service contracts range from 12 months to 120 months. We receive payment at contract inception and recognize revenue over the term of the agreement in proportion to the costs we expect to incur in satisfying the contract obligations. At January 1, 2017 and December 31, 2017, \$3.5 billion and \$3.8 billion, respectively, of unearned revenue associated with outstanding contracts was reported in Other Liabilities and deferred revenue. We recognized \$270 million and \$298 million of the unearned amounts as revenue during the first quarter of 2017 and 2018, respectively. At March 31, 2018, the unearned

amount was \$3.9 billion. We expect to recognize approximately \$900 million of the unearned amount in the remainder of 2018, \$1 billion in 2019, and \$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 \$232 million and \$244 million in deferred costs as of December 31, 2017 and March 31, 2018, respectively, and recognized \$15 million and \$18 million of amortization during the first quarter of 2017 and 2018, respectively.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 3. REVENUE (Continued)

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

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

**Ford Credit Segment**

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

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

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

## NOTE 4. OTHER INCOME/(LOSS)

The amounts included in Other income/(loss), net for the periods ended March 31 were as follows (in millions):

	First Quarter	
	2017	2018
Net periodic pension and OPEB income/(cost), excluding service cost	\$390	\$477
Investment-related interest income	92	146
Interest income/(expense) on income taxes	1	1
Realized and unrealized gains/(losses) on cash equivalents and marketable securities	51	(5 )
Gains/(Losses) on changes in investments in affiliates	(1 )	58
Royalty income	154	143
Other	47	43

Total	\$734	\$863
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## 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 first quarter of 2018, our effective tax rate was 9.1%. During the first quarter of 2018, we recognized \$235 million of benefit for non-U.S. capital loss carryforwards expected to be realized in the foreseeable future.

## NOTE 6. CAPITAL STOCK AND EARNINGS PER SHARE

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

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

	First Quarter	
	2017	2018
Basic and Diluted Income Attributable to Ford Motor Company		
Basic income	\$1,592	\$1,736
Diluted income	1,592	1,736
Basic and Diluted Shares		
Basic shares (average shares outstanding)	3,976	3,974
Net dilutive options, unvested restricted stock units, and restricted stock	23	23
Diluted shares	3,999	3,997

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 7. CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES

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

		December 31, 2017			
	Fair Value Level	Automotive	Mobility	Ford Credit	Consolidated
Cash and cash equivalents					
U.S. government	1	\$913	\$ —	\$—	\$ 913
U.S. government agencies	2	433	—	300	733
Non-U.S. government and agencies	2	—	—	703	703
Corporate debt	2	55	—	25	80
Total marketable securities classified as cash equivalents		1,401	—	1,028	2,429
Cash, time deposits, and money market funds		7,529	4	8,530	16,063
Total cash and cash equivalents		\$8,930	\$ 4	\$9,558	\$ 18,492

Marketable securities					
U.S. government	1	\$5,580	\$ —	\$966	\$ 6,546
U.S. government agencies	2	2,484	—	384	2,868
Non-U.S. government and agencies	2	5,270	—	660	5,930
Corporate debt	2	4,031	—	848	4,879
Equities	1	138	—	—	138
Other marketable securities	2	51	—	23	74
Total marketable securities		\$17,554	\$ —	\$2,881	\$ 20,435

		March 31, 2018			
	Fair Value Level	Automotive	Mobility	Ford Credit	Consolidated
Cash and cash equivalents					
U.S. government	1	\$55	\$ —	\$44	\$ 99
U.S. government agencies	2	150	—	50	200
Non-U.S. government and agencies	2	225	—	556	781
Corporate debt	2	54	—	274	328
Total marketable securities classified as cash equivalents		484	—	924	1,408
Cash, time deposits, and money market funds		8,675	15	7,842	16,532
Total cash and cash equivalents		\$9,159	\$ 15	\$8,766	\$ 17,940

Marketable securities					
U.S. government	1	\$4,808	\$ —	\$1,116	\$ 5,924
U.S. government agencies	2	2,511	—	265	2,776
Non-U.S. government and agencies	2	5,548	—	1,517	7,065
Corporate debt	2	5,198	—	680	5,878
Equities	1	154	—	—	154
Other marketable securities	2	204	—	130	334

Total marketable securities	\$18,423	\$ —	\$3,708	\$ 22,131
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## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

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

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

December 31, 2017

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Fair Value of Securities with Contractual Maturities		
					Within 1 Year	After 1 Year through 5 Years	After 5 Years through 10 Years
Automotive							
U.S. government	\$3,669	\$ —	\$ (18 )	\$3,651	\$1,377	\$2,274	\$ —
U.S. government agencies	1,915	—	(15 )	1,900	265	1,620	15
Non-U.S. government and agencies	4,021	—	(28 )	3,993	197	3,771	25
Corporate debt	1,716	1	(8 )	1,709	194	1,509	6
Other marketable securities	17	—	—	17	—	16	1
Total	\$11,338	\$ 1	\$ (69 )	\$11,270	\$2,033	\$9,190	\$ 47

March 31, 2018

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Fair Value of Securities with Contractual Maturities		
					Within 1 Year	After 1 Year through 5 Years	After 5 Years through 10 Years
Automotive							
U.S. government	\$3,120	\$ —	\$ (23 )	\$3,097	\$2,168	\$929	\$ —
U.S. government agencies	2,010	—	(24 )	1,986	385	1,583	18
Non-U.S. government and agencies	4,047	—	(56 )	3,991	2	3,989	—
Corporate debt	2,189	1	(29 )	2,161	198	1,954	9
Other marketable securities	168	—	(1 )	167	—	110	57
Total	\$11,534	\$ 1	\$ (133 )	\$11,402	\$2,753	\$8,565	\$ 84

Sales proceeds and gross realized gains/(losses) from the sale of AFS debt securities prior to maturity, recorded in the income statement for the periods ended March 31 were as follows (in millions):

First Quarter

2017    2018

Automotive		
Sales proceeds	\$1,301	\$1,339
Gross realized gains	1	—
Gross realized losses	2	6





## 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 debt 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, 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	\$2,382	\$ (9 )	\$903	\$ (9 )	\$3,285	\$ (18 )
U.S. government agencies	1,625	(12 )	260	(3 )	1,885	(15 )
Non-U.S. government and agencies	3,148	(20 )	510	(8 )	3,658	(28 )
Corporate debt	1,396	(8 )	—	—	1,396	(8 )
Total	\$8,551	\$ (49 )	\$1,673			