

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 ☐

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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

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

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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 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

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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.

Item 1. Financial Statements (Continued)

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

	December 31, 2016	June 30, 2017 (unaudited)
ASSETS		
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
LIABILITIES		
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
EQUITY		
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	June 30, 2017
	(unaudited)	
ASSETS		
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
LIABILITIES		
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						Equity	Total
	Capital	Cap. in	Retained	Accumulated	Treasury	Total	Attributable	Equity
	Stock	Excess	Earnings	Other	Stock		to	
	Par	Value		Comprehensive			Non-controlling	
	Value	of Stock		Income/(Loss)			Interests	
	of Stock			(Note 15)				
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

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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. 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
Balance Sheet				
Assets				
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
Liabilities				
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
Equity				
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		
	Balances			Balances		
	As	Without	Effect of	As	Without	Effect of
	Reported	Adoption	Change	Reported	Adoption	Change
		of ASC	Higher/(Lower)		of ASC	Higher/(Lower)
		606			606	
Income statement						
Revenues						
Automotive	\$37,113	\$36,898	\$ 215	\$73,588	\$73,040	\$ 548
Financial Services	2,738	2,641	97	5,407	5,221	186
Costs and expenses						
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						
	Balances					
	As	Without	Effect of			
	Reported	Adoption	Change			
		of ASC	Higher/(Lower)			
		606				
Balance Sheet						
Assets						
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)			
Liabilities						
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	—			
Equity						
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	

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	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			
	Automotive	Financial Services	All Other	Consolidated
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