

FORD MOTOR CO
Form 10-Q
July 28, 2016

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, 2016

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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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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 21, 2016, Ford had outstanding 3,902,388,793 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, 2016

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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	2015	2016	2015
	Second Quarter		First Half	
	(unaudited)			
Revenues				
Automotive	\$36,932	\$35,105	\$72,189	\$66,905
Financial Services	2,553	2,158	5,014	4,258
Total revenues	39,485	37,263	77,203	71,163
Costs and expenses				
Cost of sales	32,348	30,326	62,629	58,798
Selling, administrative, and other expenses	2,661	2,544	5,223	5,016
Financial Services interest, operating, and other expenses	2,258	1,745	4,318	3,458
Total costs and expenses	37,267	34,615	72,170	67,272
Interest expense on Automotive debt	212	190	412	355
Non-Financial Services interest income and other income/(loss), net (Note 13)	389	272	793	462
Financial Services other income/(loss), net (Note 13)	82	70	173	144
Equity in net income of affiliated companies	398	486	939	923
Income before income taxes	2,875	3,286	6,526	5,065
Provision for/(Benefit from) income taxes	903	1,125	2,099	1,750
Net income	1,972	2,161	4,427	3,315
Less: Income/(Loss) attributable to noncontrolling interests	2	1	5	2
Net income attributable to Ford Motor Company	\$1,970	\$2,160	\$4,422	\$3,313

EARNINGS PER SHARE ATTRIBUTABLE TO FORD MOTOR COMPANY COMMON
AND CLASS B STOCK (Note 15)

Basic income	\$0.50	\$0.54	\$1.11	\$0.83
Diluted income	0.49	0.54	1.11	0.83
Cash dividends declared	0.15	0.15	0.55	0.30

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in millions)

	For the periods ended June 30,			
	2016	2015	2016	2015
	Second Quarter		First Half	
	(unaudited)			
Net income	\$1,972	\$2,161	\$4,427	\$3,315
Other comprehensive income/(loss), net of tax (Note 12)				
Foreign currency translation	(58) (37) (122) 66
Marketable securities	—	—	6	—

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Derivative instruments	111	(76)	357	(166)
Pension and other postretirement benefits	17	16	39	(132)
Total other comprehensive income/(loss), net of tax	70	(97)	280	(232)
Comprehensive income	2,042	2,064	4,707	3,083
Less: Comprehensive income/(loss) attributable to noncontrolling interests	2	—	4	1
Comprehensive income attributable to Ford Motor Company	\$2,040	\$2,064	\$4,703	\$3,082

The accompanying notes are part of the financial statements.

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Item 1. Financial Statements (Continued)

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

	June 30, 2016	December 31, 2015
	(unaudited)	
ASSETS		
Cash and cash equivalents (Note 4)	\$17,063	\$14,272
Marketable securities (Note 4)	22,234	20,904
Financial Services finance receivables, net (Note 5)	47,860	45,137
Trade and other receivables, less allowances of \$366 and \$372	10,728	11,042
Inventories (Note 7)	9,829	8,319
Other assets	3,053	2,913
Total current assets	110,767	102,587
Financial Services finance receivables, net (Note 5)	47,427	45,554
Net investment in operating leases	29,468	27,093
Net property	31,940	30,163
Equity in net assets of affiliated companies	3,349	3,224
Deferred income taxes	9,822	11,509
Other assets	6,905	4,795
Total assets	\$239,678	\$224,925
LIABILITIES		
Payables	\$23,084	\$20,272
Other liabilities and deferred revenue (Note 8)	21,463	19,089
Automotive debt payable within one year (Note 10)	2,417	1,779
Financial Services debt payable within one year (Note 10)	42,444	41,196
Total current liabilities	89,408	82,336
Other liabilities and deferred revenue (Note 8)	23,416	23,457
Automotive long-term debt (Note 10)	10,654	11,060
Financial Services long-term debt (Note 10)	84,399	78,819
Deferred income taxes	552	502
Total liabilities	208,429	196,174
Redeemable noncontrolling interest	95	94
EQUITY		
Common Stock, par value \$.01 per share (3,975 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	21,546	21,421
Retained earnings	16,652	14,414
Accumulated other comprehensive income/(loss)	(5,976)	(6,257)
Treasury stock	(1,122)	(977)
Total equity attributable to Ford Motor Company	31,141	28,642
Equity attributable to noncontrolling interests	13	15
Total equity	31,154	28,657

Total liabilities and equity \$239,678 \$224,925

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.

	June 30, December 31, 2016 2015 (unaudited)	
ASSETS		
Cash and cash equivalents	\$2,418	\$ 3,949
Financial Services finance receivables, net	49,844	45,902
Net investment in operating leases	11,714	13,309
Other assets	2	85
LIABILITIES		
Other liabilities and deferred revenue	\$25	\$ 19
Debt	41,515	43,086

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 2015 First Half (unaudited)	
Cash flows from operating activities		
Net cash provided by/(used in) operating activities	\$11,834	\$7,623
Cash flows from investing activities		
Capital spending	(3,206)	(3,533)
Acquisitions of finance receivables and operating leases	(27,501)	(26,505)
Collections of finance receivables and operating leases	19,732	18,844
Purchases of equity and debt securities	(16,757)	(21,282)
Sales and maturities of equity and debt securities	15,491	23,222
Settlements of derivatives	111	192
Other	21	112
Net cash provided by/(used in) investing activities	(12,109)	(8,950)
Cash flows from financing activities		
Cash dividends	(2,184)	(1,190)
Purchases of Common Stock	(145)	(91)
Net changes in short-term debt	934	176
Proceeds from issuance of other debt	25,574	24,912
Principal payments on other debt	(21,104)	(19,787)
Other	(30)	(279)
Net cash provided by/(used in) financing activities	3,045	3,741
Effect of exchange rate changes on cash and cash equivalents	21	(274)
Net increase/(decrease) in cash and cash equivalents	\$2,791	\$2,140
Cash and cash equivalents at January 1	\$14,272	\$10,757
Net increase/(decrease) in cash and cash equivalents	2,791	2,140
Cash and cash equivalents at June 30	\$17,063	\$12,897

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 Attributable to Non-controlling Interests	Total Equity
	Capital Stock Par Value of Stock	Cap. in Excess of Par Value of Stock	Retained Earnings	Accumulated Other Comprehensive Income/(Loss) (Note 12)	Treasury Stock	Total		
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, 2014	\$40	\$21,089	\$9,422	\$ (5,265)	\$(848)	\$24,438	\$ 27	\$24,465
Net income	—	—	3,313	—	—	3,313	2	3,315
Other comprehensive income/(loss), net of tax	—	—	—	(231)	—	(231)	(1)	(232)
Common stock issued (including share-based compensation impacts)	1	228	—	—	—	229	—	229
Treasury stock/other	—	—	—	—	(91)	(91)	(1)	(92)
Cash dividends declared	—	—	(1,190)	—	—	(1,190)	(6)	(1,196)
Balance at June 30, 2015	\$41	\$21,317	\$11,545	\$ (5,496)	\$(939)	\$26,468	\$ 21	\$26,489

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, 2015 (“2015 Form 10-K Report”).

Change in presentation. Our core Automotive business includes the designing, manufacturing, marketing, and servicing of a full line of Ford cars, trucks, SUVs, and electrified vehicles, as well as Lincoln luxury vehicles. We provide vehicle-related financing and leasing activities through our Ford Credit operation. At the same time, we are pursuing emerging opportunities in connectivity, mobility, autonomous vehicles, the customer experience, and data and analytics.

Prior to the second quarter of 2016, we presented our financial statements on both a consolidated basis and on a “sector” basis for our Automotive and Financial Services sectors. With our expansion into mobility services, including the formation in March 2016 of the Ford Smart Mobility LLC subsidiary, we have reevaluated our disclosures and concluded we should eliminate our two-sector financial presentation and, reflecting the manner in which our Chief Operating Decision Maker now manages our business, change our segment presentation to be Automotive, Financial Services, and All Other. See Note 3 for a description of our new segment presentation.

In addition, as a result of the elimination of our two-sector financial presentation, at June 30, 2016 we changed the presentation of our consolidated balance sheet and certain notes to the consolidated financial statements to classify our assets and liabilities as current or non-current. 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 Standard Update (“ASU”) 2015-17, Income Taxes - Balance Sheet Classification of Deferred Taxes. On April 1, 2016, we retrospectively adopted the new accounting standard which requires deferred tax assets and liabilities to be classified as non-current in the consolidated balance sheet. The impact of the change resulted in the classification of all deferred taxes as non-current.

We also adopted the following standards during 2016, none of which have a material impact to our financial statements or financial statement disclosures:

Standard	Effective Date
2015-16 Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments	January 1, 2016
2015-09 Insurance - Disclosures about Short-Duration Contracts	

		January 1, 2016
2015-05	Internal-Use Software - Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	January 1, 2016
2015-02	Consolidation - Amendments to the Consolidation Analysis	January 1, 2016
2015-01	Extraordinary and Unusual Items - Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items	January 1, 2016
2014-12	Stock Compensation - Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period	January 1, 2016

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. NEW ACCOUNTING STANDARDS (Continued)

Accounting Standards Issued But Not Yet Adopted

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

ASU 2016-09, Stock Compensation - Improvements to Employee Share-Based Payment Accounting. In March 2016, the FASB issued a new accounting standard which simplifies accounting for share-based payment transactions, including income tax consequences and the classification of the tax impact on the statement of cash flows. The new standard is effective as of January 1, 2017, and early adoption is permitted. We are assessing the potential impact to our financial statements and disclosures.

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 present U.S. GAAP guidance on leases and requires substantially all leases to be reported on the balance sheet as right-of-use assets and lease liabilities, as well as additional disclosures. The new standard is effective as of January 1, 2019, and early adoption is permitted. We are assessing the potential impact to our financial statements and disclosures.

ASU 2014-09, Revenue - Revenue from Contracts with Customers. In May 2014, the FASB issued a new accounting standard that requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. The FASB has also issued several updates to ASU 2014-09. The new standard supersedes U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards. It also requires additional disclosures. We plan to adopt the new revenue guidance effective January 1, 2017 and do not expect a material impact to our financial statements or disclosures. Under the new standard, the income statement classification for certain performance obligations will change.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. SEGMENT INFORMATION

In conjunction with our expanded business model to become an automotive, financial services, and mobility company, beginning with the second quarter of 2016, we have changed our reportable segment disclosures. Reflecting the manner in which our Chief Operating Decision Maker manages our businesses, including resource allocation and performance assessment, we have four operating segments that represent the primary businesses reported in our consolidated financial statements. These operating segments are: Automotive, Financial Services, Ford Smart Mobility LLC, and Central Treasury Operations.

Automotive and Financial Services comprise separate reportable segments. Ford Smart Mobility LLC and Central Treasury Operations did not meet the quantitative thresholds in this reporting period to qualify as reportable segments; therefore, these operating segments are combined and disclosed below as All Other. Prior-period amounts have been adjusted retrospectively to reflect the change to our reportable segments.

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 5 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 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 (formerly Other Automotive) 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, 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 new subsidiary formed to design, build, grow, and invest in emerging mobility services. Designed to compete like a start-up company, Ford Smart Mobility LLC will design and build mobility services on its own, and collaborate with start-ups and tech companies.

Special Items

In addition, our results include Special Items that consist of (i) pension and other postretirement employee benefits (“OPEB”) rereasurement 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 3. SEGMENT INFORMATION (Continued)

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

	Automotive	Financial Services	All Other	Special Items	Adjustments	Total
Second Quarter 2016						
Revenues	\$ 36,932	\$ 2,553	\$ —	\$ —	\$ —	\$39,485
Pre-tax results - income/(loss)	2,832	385	(224)	(118)	—	2,875
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
Second Quarter 2015						
Revenues	\$ 35,105	\$ 2,158	\$ —	\$ —	\$ —	\$37,263
Pre-tax results - income/(loss)	2,962	491	(167)	—	—	3,286
Cash, cash equivalents, and marketable securities	20,729	10,573	—	—	—	31,302
Total assets	92,610	126,383	—	—	(2,866)	(a) 216,127
Debt	13,713	109,813	—	—	—	123,526
Operating cash flows	1,887	1,755	—	—	1,568	(b) 5,210
First Half 2016						
Revenues	\$ 72,189	\$ 5,014	\$ —	\$ —	\$ —	\$77,203
Pre-tax results - income/(loss)	6,296	884	(350)	(304)	—	6,526
Operating cash flows	6,871	2,808	—	—	2,155	(b) 11,834
First Half 2015						
Revenues	\$ 66,905	\$ 4,258	\$ —	\$ —	\$ —	\$71,163
Pre-tax results - income/(loss)	4,484	960	(379)	—	—	5,065
Operating cash flows	2,412	3,162	—	—	2,049	(b) 7,623