

FORD MOTOR CO
Form 10-Q
November 02, 2012

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 September 30, 2012

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 Act).

Yes ☐ No ☒

As of October 26, 2012, Ford had outstanding 3,741,809,920 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 September 30, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

FORD MOTOR COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

For the Periods Ended September 30, 2012 and 2011

(in millions, except per share amounts)

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
	(unaudited)			
Revenues				
Automotive	\$30,247	\$31,043	\$92,100	\$95,557
Financial Services	1,925	2,004	5,728	6,131
Total revenues	32,172	33,047	97,828	101,688
Costs and expenses				
Automotive cost of sales	26,543	27,617	81,166	83,646
Selling, administrative and other expenses	2,909	2,861	8,774	8,502
Interest expense	962	1,096	2,959	3,397
Financial Services provision for credit and insurance losses	57	5	24	(28)
Total costs and expenses	30,471	31,579	92,923	95,517
Automotive interest income and other income/(loss), net (Note 15)	320	98	387	337
Financial Services other income/(loss), net (Note 15)	96	176	262	314
Equity in net income/(loss) of affiliated companies	129	104	325	406
Income/(Loss) before income taxes	2,246	1,846	5,879	7,228
Provision for/(Benefit from) income taxes (Note 16)	613	194	1,810	620
Net income/(loss)	1,633	1,652	4,069	6,608
Less: Income/(Loss) attributable to noncontrolling interests	2	3	2	10
Net income/(loss) attributable to Ford Motor Company	\$1,631	\$1,649	\$4,067	\$6,598

AMOUNTS PER SHARE ATTRIBUTABLE TO FORD MOTOR COMPANY COMMON AND CLASS B STOCK
(Note 18)

Basic income/(loss)	\$0.43	\$0.43	\$1.07	\$1.74
Diluted income/(loss)	\$0.41	\$0.41	\$1.02	\$1.62
Cash dividends declared	\$0.05	\$—	\$0.10	\$—

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Periods Ended September 30, 2012 and 2011

(in millions)

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
	(unaudited)			
Net income/(loss)	\$1,633	\$1,652	\$4,069	\$6,608
Other comprehensive income/(loss), net of tax (Note 14)				
Foreign currency translation	440	(1,317)	185	(481)
Derivative instruments	1	43	(151)	177

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Pension and other postretirement benefits	(54) 241	159	346
Total other comprehensive income/(loss), net of tax	387	(1,033) 193	42
Comprehensive income/(loss)	2,020	619	4,262	6,650
Less: Comprehensive income/(loss) attributable to noncontrolling interests	2	3	2	8
Comprehensive income/(loss) attributable to Ford Motor Company	\$2,018	\$616	\$4,260	\$6,642

The accompanying notes are part of the financial statements.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

SECTOR STATEMENT OF OPERATIONS

For the Periods Ended September 30, 2012 and 2011

(in millions, except per share amounts)

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
	(unaudited)			
AUTOMOTIVE				
Revenues	\$30,247	\$31,043	\$92,100	\$95,557
Costs and expenses				
Cost of sales	26,543	27,617	81,166	83,646
Selling, administrative and other expenses	2,092	2,202	6,460	6,690
Total costs and expenses	28,635	29,819	87,626	90,336
Interest expense	198	181	571	634
Interest income and other income/(loss), net (Note 15)	320	98	387	337
Equity in net income/(loss) of affiliated companies	124	100	298	391
Income/(Loss) before income taxes — Automotive	1,858	1,241	4,588	5,315
FINANCIAL SERVICES				
Revenues	1,925	2,004	5,728	6,131
Costs and expenses				
Interest expense	764	915	2,388	2,763
Depreciation	653	481	1,852	1,289
Operating and other expenses	164	178	462	523
Provision for credit and insurance losses	57	5	24	(28)
Total costs and expenses	1,638	1,579	4,726	4,547
Other income/(loss), net (Note 15)	96	176	262	314
Equity in net income/(loss) of affiliated companies	5	4	27	15
Income/(Loss) before income taxes — Financial Services	388	605	1,291	1,913
TOTAL COMPANY				
Income/(Loss) before income taxes	2,246	1,846	5,879	7,228
Provision for/(Benefit from) income taxes (Note 16)	613	194	1,810	620
Net income/(loss)	1,633	1,652	4,069	6,608
Less: Income/(Loss) attributable to noncontrolling interests	2	3	2	10
Net income/(loss) attributable to Ford Motor Company	\$1,631	\$1,649	\$4,067	\$6,598

The accompanying notes are part of the financial statements.

Item 1. Financial Statements (Continued)

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

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash and cash equivalents	\$ 13,539	\$ 17,148
Marketable securities	21,996	18,618
Finance receivables, net (Note 5)	68,332	69,976
Other receivables, net	10,737	8,565
Net investment in operating leases	16,117	12,838
Inventories (Note 7)	8,208	5,901
Equity in net assets of affiliated companies	2,716	2,936
Net property	24,347	22,371
Deferred income taxes	13,526	15,125
Net intangible assets	89	100
Other assets	5,073	4,770
Total assets	\$ 184,680	\$ 178,348
LIABILITIES		
Payables	\$ 20,793	\$ 17,724
Accrued liabilities and deferred revenue (Note 9)	43,484	45,369
Debt (Note 11)	100,604	99,488
Deferred income taxes	593	696
Total liabilities	165,474	163,277
Redeemable noncontrolling interest (Note 13)	320	—
EQUITY		
Capital stock		
Common Stock, par value \$.01 per share (3,766 million shares issued)	38	37
Class B Stock, par value \$.01 per share (71 million shares issued)	1	1
Capital in excess of par value of stock	20,931	20,905
Retained earnings/(Accumulated deficit)	16,670	12,985
Accumulated other comprehensive income/(loss) (Note 14)	(18,541)	(18,734)
Treasury stock	(258)	(166)
Total equity/(deficit) attributable to Ford Motor Company	18,841	15,028
Equity/(Deficit) attributable to noncontrolling interests	45	43
Total equity/(deficit)	18,886	15,071
Total liabilities and equity	\$ 184,680	\$ 178,348

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. See Note 8 for additional information on our VIEs.

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		

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Cash and cash equivalents	\$2,904	\$3,402
Finance receivables, net	44,365	49,795
Net investment in operating leases	5,079	6,354
Other assets	3	157
LIABILITIES		
Accrued liabilities and deferred revenue	139	97
Debt	37,563	41,421

The accompanying notes are part of the financial statements.

Item 1. Financial Statements (Continued)

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

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Automotive		
Cash and cash equivalents	\$6,220	\$7,965
Marketable securities	17,885	14,984
Total cash and marketable securities	24,105	22,949
Receivables, less allowances of \$120 and \$126	5,077	4,219
Inventories (Note 7)	8,208	5,901
Deferred income taxes	2,384	1,791
Net investment in operating leases	1,828	1,356
Other current assets	849	1,053
Current receivable from Financial Services	667	878
Total current assets	43,118	38,147
Equity in net assets of affiliated companies	2,579	2,797
Net property	24,213	22,229
Deferred income taxes	12,097	13,932
Net intangible assets	89	100
Non-current receivable from Financial Services	—	32
Other assets	2,288	1,549
Total Automotive assets	84,384	78,786
Financial Services		
Cash and cash equivalents	7,319	9,183
Marketable securities	4,111	3,835
Finance receivables, net (Note 5)	72,598	73,330
Net investment in operating leases	14,289	11,482
Equity in net assets of affiliated companies	137	139
Other assets	3,689	3,605
Total Financial Services assets	102,143	101,574
Intersector elimination	(667)	(1,112)
Total assets	\$185,860	\$179,248
LIABILITIES		
Automotive		
Trade payables	\$16,975	\$14,015
Other payables	2,757	2,734
Accrued liabilities and deferred revenue (Note 9)	15,060	15,003
Deferred income taxes	12	40
Debt payable within one year (Note 11)	1,254	1,033
Total current liabilities	36,058	32,825
Long-term debt (Note 11)	12,944	12,061
Other liabilities (Note 9)	24,773	26,910
Deferred income taxes	252	255
Total Automotive liabilities	74,027	72,051
Financial Services		
Payables	1,061	975
Debt (Note 11)	86,406	86,595

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Deferred income taxes	1,509	1,301
Other liabilities and deferred income (Note 9)	3,651	3,457
Payable to Automotive	667	910
Total Financial Services liabilities	93,294	93,238
Intersector elimination	(667	) (1,112
Total liabilities	166,654	164,177
Redeemable noncontrolling interest (Note 13)	320	—
EQUITY		
Capital stock		
Common Stock, par value \$.01 per share (3,766 million shares issued)	38	37
Class B Stock, par value \$.01 per share (71 million shares issued)	1	1
Capital in excess of par value of stock	20,931	20,905
Retained earnings/(Accumulated deficit)	16,670	12,985
Accumulated other comprehensive income/(loss) (Note 14)	(18,541	) (18,734
Treasury stock	(258	) (166
Total equity/(deficit) attributable to Ford Motor Company	18,841	15,028
Equity/(Deficit) attributable to noncontrolling interests	45	43
Total equity/(deficit)	18,886	15,071
Total liabilities and equity	\$185,860	\$179,248

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
 For the Periods Ended September 30, 2012 and 2011
 (in millions)

	First Nine Months	
	2012	2011
	(unaudited)	
Cash flows from operating activities of continuing operations		
Net cash provided by/(used in) operating activities	\$9,406	\$10,019
Cash flows from investing activities of continuing operations		
Capital expenditures	(3,603	) (3,135)
Acquisitions of retail and other finance receivables and operating leases	(29,034	) (26,150)
Collections of retail and other finance receivables and operating leases	23,933	25,626
Purchases of securities	(66,232	) (58,365)
Sales and maturities of securities	63,119	62,440
Cash change due to consolidation of joint venture	191	—
Proceeds from sale of business	65	150
Settlements of derivatives	(681	) 50
Other	(381	) 375
Net cash provided by/(used in) investing activities	(12,623	) 991
Cash flows from financing activities of continuing operations		
Cash dividends	(572) —
Purchases of Common Stock	(92) —
Changes in short-term debt	(2,111	) 1,552
Proceeds from issuance of other debt	25,272	25,070
Principal payments on other debt	(23,041	) (35,915)
Other	162	79
Net cash provided by/(used in) financing activities	(382	) (9,214)
Effect of exchange rate changes on cash and cash equivalents	(10	) (72)
Net increase/(decrease) in cash and cash equivalents	\$(3,609	) \$1,724
Cash and cash equivalents at January 1	\$17,148	\$14,805
Cash and cash equivalents of held-for-sale operations at January 1	—	—
Net increase/(decrease) in cash and cash equivalents	(3,609	) 1,724
Less: Cash and cash equivalents of held-for-sale operations at September 30	—	69
Cash and cash equivalents at September 30	\$13,539	\$16,460

The accompanying notes are part of the financial statements.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
 CONDENSED SECTOR STATEMENT OF CASH FLOWS
 For the Periods Ended September 30, 2012 and 2011
 (in millions)

	First Nine Months 2012		First Nine Months 2011	
	Automotive	Financial Services	Automotive	Financial Services
	(unaudited)			
Cash flows from operating activities of continuing operations				
Net cash provided by/(used in) operating activities	\$4,113	\$3,624	\$6,783	\$3,194
Cash flows from investing activities of continuing operations				
Capital expenditures	(3,580)	(23)	(3,121)	(14)
Acquisitions of retail and other finance receivables and operating leases	—	(29,036)	—	(26,082)
Collections of retail and other finance receivables and operating leases	—	23,933	—	25,626
Net collections/(acquisitions) of wholesale receivables	—	1,671	—	(26)
Purchases of securities	(50,166)	(16,066)	(36,261)	(22,104)
Sales and maturities of securities	47,534	15,786	37,830	24,610
Settlements of derivatives	(634)	(47)	140	(90)
Cash change due to consolidation of joint venture	191	—	—	—
Proceeds from sale of business	54	11	135	15
Investing activity (to)/from Financial Services	794	—	2,589	—
Other	(279)	(102)	196	179
Net cash provided by/(used in) investing activities	(6,086)	(3,873)	1,508	2,114
Cash flows from financing activities of continuing operations				
Cash dividends	(572)	—	—	—
Purchases of Common Stock	(92)	—	—	—
Changes in short-term debt	26	(2,137)	(325)	1,877
Proceeds from issuance of other debt	1,502	23,770	1,963	23,107
Principal payments on other debt	(647)	(22,595)	(7,982)	(27,933)
Financing activity to/(from) Automotive	—	(794)	—	(2,589)
Other	16	146	68	11
Net cash provided by/(used in) financing activities	233	(1,610)	(6,276)	(5,527)
Effect of exchange rate changes on cash and cash equivalents	(5)	(5)	(158)	86
Net increase/(decrease) in cash and cash equivalents	\$(1,745)	\$(1,864)	\$1,857	\$(133)
Cash and cash equivalents at January 1	\$7,965	\$9,183	\$6,301	\$8,504
Cash and cash equivalents of held-for-sale operations at January 1	—	—	—	—
Net increase/(decrease) in cash and cash equivalents	(1,745)	(1,864)	1,857	(133)
Less: Cash and cash equivalents of held-for-sale operations at September 30	—	—	69	—
Cash and cash equivalents at September 30	\$6,220	\$7,319	\$8,089	\$8,371

The accompanying notes are part of the financial statements.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY

For the Periods Ended September 30, 2012 and 2011

(in millions, unaudited)

	Equity/(Deficit) Attributable to Ford Motor Company						Equity/(Deficit)	
	Capital Stock	Cap. in Excess of Par Value of Stock	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss) (Note 14)	Treasury Stock	Total	to Non-controlling Interests	Total Equity/ (Deficit)
Balance at December 31, 2011	\$38	\$20,905	\$12,985	\$ (18,734)	\$(166)	\$15,028	\$ 43	\$15,071
Net income/(loss)	—	—	4,067	—	—	4,067	2	4,069
Other comprehensive income/(loss), net of tax	—	—	—	193	—	193	—	193
Common stock issued (including share-based compensation impacts)	1	26	—	—	—	27	—	27
Treasury stock/other	—	—	—	—	(92)	(92)	—	(92)
Cash dividends declared	—	—	(382)	—	—	(382)	—	(382)
Balance at September 30, 2012	\$39	\$20,931	\$16,670	\$ (18,541)	\$(258)	\$18,841	\$ 45	\$18,886
Balance at December 31, 2010	\$38	\$20,803	\$ (7,038)	\$ (14,313)	\$(163)	\$(673)	\$ 31	\$(642)
Net income/(loss)	—	—	6,598	—	—	6,598	10	6,608
Other comprehensive income/(loss), net of tax	—	—	—	44	—	44	(2)	42
Common stock issued (including share-based compensation impacts)	—	22	—	—	—	22	—	22
Treasury stock/other	—	(6)	—	—	(3)	(9)	5	(4)
Cash dividends declared	—	—	—	—	—	—	—	—
Balance at September 30, 2011	\$38	\$20,819	\$ (440)	\$ (14,269)	\$(166)	\$5,982	\$ 44	\$6,026

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

Our financial statements are presented in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and instructions to the Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. We show certain of our financial statements on both a consolidated and a sector basis for our Automotive and Financial Services sectors. Intercompany items and transactions have been eliminated in both the consolidated and sector balance sheets. Where the presentation of these intercompany eliminations or consolidated adjustments differs between the consolidated and sector financial statements, reconciliations of certain line items are explained below in this Note or in related footnotes.

In the opinion of management, these unaudited financial statements reflect a fair statement of the results of operations and financial condition of Ford Motor Company, its consolidated subsidiaries, and consolidated VIEs of which we are the primary beneficiary for the periods and at the dates presented. The operating 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, 2011 ("2011 Form 10-K Report"). 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 reclassified certain prior year amounts in our consolidated financial statements to conform to current year presentation.

Adoption of New Accounting Standards

Fair Value Measurement. On January 1, 2012, we adopted the new accounting standard that requires us to report the level in the fair value hierarchy of assets and liabilities not measured at fair value in the balance sheet but for which the fair value is disclosed, and to expand existing disclosures. See Note 3 for further disclosure regarding our fair value measurements.

Comprehensive Income - Presentation. On January 1, 2012, we adopted the new accounting standard that modifies the options for presentation of other comprehensive income. The new accounting standard requires us to present comprehensive income either in a single continuous statement or two separate but consecutive statements. We have elected to present comprehensive income in two separate but consecutive statements.

On January 1, 2012, we also adopted the new accounting standards Intangibles - Goodwill and Other, Transfers and Servicing - Repurchase Agreements, and Financial Services - Insurance. The adoption of these new accounting standards did not impact our financial condition or results of operations.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. PRESENTATION (Continued)

Reconciliations between Consolidated and Sector Financial Statements

Deferred Tax Assets and Liabilities. The difference between the total assets and total liabilities as presented in our sector balance sheet and consolidated balance sheet is the result of netting deferred income tax assets and liabilities. The reconciliation between the totals for the sector and consolidated balance sheets was as follows (in millions):

	September 30, 2012	December 31, 2011
Sector balance sheet presentation of deferred income tax assets		
Automotive sector current deferred income tax assets	\$2,384	\$1,791
Automotive sector non-current deferred income tax assets	12,097	13,932
Financial Services sector deferred income tax assets (a)	225	302
Total	14,706	16,025
Reclassification for netting of deferred income taxes	(1,180	) (900
Consolidated balance sheet presentation of deferred income tax assets	\$13,526	\$15,125
Sector balance sheet presentation of deferred income tax liabilities		
Automotive sector current deferred income tax liabilities	\$12	\$40
Automotive sector non-current deferred income tax liabilities	252	255
Financial Services sector deferred income tax liabilities	1,509	1,301
Total	1,773	1,596
Reclassification for netting of deferred income taxes	(1,180	) (900
Consolidated balance sheet presentation of deferred income tax liabilities	\$593	\$696

(a) Financial Services deferred income tax assets are included in Financial Services other assets on our sector balance sheet.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. PRESENTATION (Continued)

Sector to Consolidated Cash Flow. We present certain cash flows from wholesale receivables, finance receivables and the acquisition of intersector debt differently on our sector and consolidated statements of cash flows. The reconciliation between totals for the sector and consolidated cash flows for the periods ended September 30 was as follows (in millions):

	First Nine Months	
	2012	2011
Automotive net cash provided by/(used in) operating activities	\$4,113	\$6,783
Financial Services net cash provided by/(used in) operating activities	3,624	3,194
Total sector net cash provided by/(used in) operating activities	7,737	9,977
Reclassifications from investing to operating cash flows		
Wholesale receivables (a)	1,671	(26)
Finance receivables (b)	(2)	68)
Consolidated net cash provided by/(used in) operating activities	\$9,406	\$10,019
Automotive net cash provided by/(used in) investing activities	\$(6,086)	\$1,508
Financial Services net cash provided by/(used in) investing activities	(3,873)	2,114
Total sector net cash provided by/(used in) investing activities	(9,959)	3,622
Reclassifications from investing to operating cash flows		
Wholesale receivables (a)	(1,671)	26
Finance receivables (b)	2	(68)
Reclassifications from investing to financing cash flows		
Maturity of Financial Services sector debt held by Automotive sector	(201)	—
Elimination of investing activity to/(from) Financial Services in consolidation	(794)	(2,589)
Consolidated net cash provided by/(used in) investing activities	\$(12,623)	\$991
Automotive net cash provided by/(used in) financing activities	\$233	\$(6,276)
Financial Services net cash provided by/(used in) financing activities	(1,610)	(5,527)
Total sector net cash provided by/(used in) financing activities	(1,377)	(11,803)
Reclassifications from investing to financing cash flows		
Maturity of Financial Services sector debt held by Automotive sector	201	—
Elimination of investing activity to/(from) Financial Services in consolidation	794	2,589
Consolidated net cash provided by/(used in) financing activities	\$(382)	\$(9,214)

- In addition to the cash flow from vehicles sold by us, the cash flow from wholesale finance receivables (being reclassified from investing to operating) includes financing by Ford Credit of used and non-Ford vehicles. 100% of cash flows from wholesale finance receivables have been reclassified for consolidated presentation as the portion of these cash flows from used and non-Ford vehicles is impracticable to separate.
- (a) Includes cash flows of finance receivables purchased/collected by the Financial Services sector from certain divisions and subsidiaries of the Automotive sector.
- (b)

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. PRESENTATION (Continued)

Venezuelan Operations

At September 30, 2012 and December 31, 2011, we had \$540 million and \$301 million, respectively, in net monetary assets (primarily cash and receivables partially offset by payables and accrued liabilities) denominated in Venezuelan bolivars. These net monetary assets included \$627 million and \$331 million in cash and cash equivalents at September 30, 2012 and December 31, 2011, respectively. As a result of regulation of foreign currency exchange in Venezuela, the official exchange rate of 4.3 bolivars to the U.S. dollar is used to re-measure the assets and liabilities of our Venezuelan operations for GAAP financial statement presentation. The Venezuelan government also controls securities transactions in the parallel exchange market. Our ability to obtain funds in the parallel exchange market has been limited. For any U.S. dollars that we obtain at a rate less favorable than the official rate, we realize a loss for the difference in the exchange rates at the time of the transaction. Based on our net monetary position at September 30, 2012, a devaluation equal to a 50% change in the official bolivar exchange rate would have resulted in a balance sheet translation loss of approximately \$180 million. Continuing restrictions on the foreign currency exchange market could affect our Venezuelan operations' ability to pay obligations denominated in U.S. dollars as well as our ability to benefit from those operations.

Long-Lived Asset Impairment Testing

During the third quarter of 2012, operating profits and cash flow from operations outside of North America remained under pressure. In particular, industry sales volume for the markets we track in Europe declined significantly in recent years with only modest improvement expected by mid-decade, suggesting that current changes in the European business environment are more structural than cyclical in nature. Against this backdrop, we determined that it was appropriate to test for impairment the long-lived assets of our Ford Europe segment. Using our economic and business projections, including an assumption of an 8% operating margin for Ford Europe over the longer term, we determined that the carrying value of our long-lived assets at September 30, 2012 did not exceed fair value. If in future quarters our economic or business projections were to change as a result of our plans or changes in the business environment, we would undertake additional testing as appropriate, which could result in an impairment of long-lived assets.

NOTE 2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

Balance Sheet - Offsetting. In December 2011, the Financial Accounting Standards Board ("FASB") issued a new accounting standard that requires disclosures about offsetting and related arrangements for recognized financial instruments and derivative instruments. The new accounting standard is effective for us as of January 1, 2013.

Intangibles - Goodwill and Other. In July 2012, the FASB issued a new accounting standard that provides the option to evaluate qualitative factors to determine whether a calculated impairment test for indefinite-lived intangible assets is necessary. The new accounting standard is effective for us as of January 1, 2013.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. FAIR VALUE MEASUREMENTS

Cash equivalents, marketable securities, and derivative instruments are presented in our financial statements on a recurring basis at fair value, while other assets and liabilities are measured at fair value on a nonrecurring basis such as when we have an asset impairment.

Fair Value Measurements

In measuring fair value, we use various valuation methodologies and prioritize the use of observable inputs. The use of observable and unobservable inputs and their significance in measuring fair value are reflected in our fair value hierarchy assessment.

Level 1 - inputs include quoted prices for identical instruments and are the most observable

Level 2 - inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates, and yield curves

Level 3 - inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments

We review the inputs to the fair value measurements to ensure they are appropriately categorized within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

Valuation Methodologies

Cash and Cash Equivalents. Included in Cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rate, market price, or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has a remaining time to maturity of 90 days or less from the date of acquisition. Amounts on deposit and available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as Cash and cash equivalents. Time deposits, certificates of deposit, and money market accounts that meet the above criteria are reported at par value on our balance sheet and are excluded from the tables below.

Marketable Securities. Investments in securities with a maturity date greater than 90 days at the date of purchase and other securities for which there is more than an insignificant risk of change in value due to interest rate, market price, or penalty on withdrawal are classified as Marketable securities. We generally measure fair value using prices obtained from pricing services. Pricing methodologies and inputs to valuation models used by the pricing services depend on the security type (i.e., asset class). Where possible, fair values are generated using market inputs including quoted prices (the closing price in an exchange market), bid prices (the price at which a buyer stands ready to purchase), and other market information. For fixed income securities that are not actively traded, the pricing services use alternative methods to determine fair value for the securities, including: quotes for similar fixed-income securities, matrix pricing, discounted cash flow using benchmark curves, or other factors to determine fair value. In certain cases, when market data are not available, we use broker quotes to determine fair value.

A review is performed on the security prices received from our pricing services, which includes discussion and analysis of the inputs used by the pricing services to value our securities. We also compare the price of certain securities sold close to the quarter end to the price of the same security at the balance sheet date to ensure the reported

fair value is reasonable.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

Derivative Financial Instruments. Our derivatives are over-the-counter customized derivative transactions and are not exchange traded. We estimate the fair value of these instruments using industry-standard valuation models such as a discounted cash flow. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates, foreign exchange rates, commodity prices, and the contractual terms of the derivative instruments. The discount rate used is the relevant interbank deposit rate (e.g., LIBOR) plus an adjustment for non-performance risk. The adjustment reflects the full credit default swap ("CDS") spread applied to a net exposure, by counterparty, considering the master netting agreements and posted collateral. We use our counterparty's CDS spread when we are in a net asset position and our own CDS spread when we are in a net liability position. In certain cases, market data are not available and we use broker quotes and models (e.g., Black Scholes) to determine fair value. This includes situations where there is illiquidity for a particular currency or commodity or for longer-dated instruments.

Ford Credit's two Ford Upgrade Exchange Linked securitization transactions ("FUEL Notes") had derivative features that included a mandatory exchange to Ford Credit unsecured notes when Ford Credit's senior unsecured debt received two investment grade credit ratings among Fitch, Moody's, and S&P, and a make-whole provision. Ford Credit estimated the fair value of these features by comparing the market value of the FUEL Notes to the value of a hypothetical debt instrument without these features. In the second quarter of 2012, Ford Credit received two investment grade credit ratings, thereby triggering the mandatory exchange feature and the FUEL Notes derivatives were extinguished.

Finance Receivables. The fair value of finance receivables is measured for purposes of disclosure (see Note 5). We measure the fair value of finance receivables using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest). The projected cash flows are discounted to a present value based on assumptions regarding credit losses, pre-payment speed, and our discount rate. Our assumptions regarding pre-payment speed and credit losses are based on historical performance. The fair value of finance receivables is categorized within Level 3 of the hierarchy.

On a nonrecurring basis, when retail contracts are greater than 120 days past due or deemed to be uncollectible, or if individual dealer loans are probable of foreclosure, we use the fair value of collateral, adjusted for estimated costs to sell, to determine the fair value adjustment to our receivables. The collateral for retail receivables is the vehicle financed, and for dealer loans is real estate or other property.

The fair value measurements for retail receivables are based on the number of contracts multiplied by the loss severity and the probability of default ("POD") percentage, or the outstanding receivable balances multiplied by the average recovery value ("ARV") percentage to determine the fair value adjustment.

The fair value measurements for dealer loans are based on an assessment of the estimated market value of collateral. The assessment is performed by reviewing various appraisals, which include total adjusted appraised value of land and improvements, alternate use appraised value, broker's opinion of value, and purchase offers. The fair value adjustment is determined by comparing the net carrying value of the dealer loan and the estimated market value of collateral.

Debt. We measure debt at fair value for purposes of disclosure (see Note 11) using quoted market prices for our own debt with approximately the same remaining maturities, where possible. Where market prices are not available, we estimate fair value using discounted cash flows and market-based expectations for interest rates, our own credit risk,

and the contractual terms of the debt instruments. For certain short-term debt with an original maturity date of one year or less, we assume that book value is a reasonable approximation of the debt's fair value. For asset-backed debt issued in securitization transactions, the principal payments are based on projected payments for specific assets securing the underlying debt considering historical pre-payment speeds. The fair value of debt is categorized within Level 2 of the hierarchy.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

Input Hierarchy of Items Measured at Fair Value on a Recurring Basis

The following tables categorize the fair values of items measured at fair value on a recurring basis on our balance sheet (in millions):

	September 30, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Automotive Sector								
Assets								
Cash equivalents – financial instruments								
U.S. government	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
U.S. government-sponsored enterprises	—	384	—	384	—	319	—	319
Non-U.S. government	—	86	—	86	—	168	—	168
Non-U.S. government agencies (a)	—	165	—	165	—	820	—	820
Corporate debt	—	19	—	19	—	2	—	2
Total cash equivalents – financial instruments (b)	—	654	—	654	—	1,309	—	1,309
Marketable securities (c)								
U.S. government	6,226	—	—	6,226	2,960	—	—	2,960
U.S. government-sponsored enterprises	—	3,813	—	3,813	—	4,852	—	4,852
Non-U.S. government agencies (a)	—	4,161	—	4,161	—	4,558	—	4,558
Corporate debt	—	2,004	—	2,004	—	1,631	—	1,631
Mortgage-backed and other asset-backed	—	25	—	25	—	38	—	38
Equities	89	—	—	89	129	—	—	129
Non-U.S. government	—	1,539	—	1,539	—	598	—	598
Other liquid investments (d)	—	28	—	28	—	17	—	17
Total marketable securities	6,315	11,570	—	17,885	3,089	11,694	—	14,783
Derivative financial instruments								
Foreign currency exchange contracts	—	137	—	137	—	198	14	212
Commodity contracts	—	21	2	23	—	1	1	2
Other – warrants	—	—	—	—	—	—	4	4
Total derivative financial instruments (e)	—	158	2	160	—	199	19	218
Total assets at fair value	\$6,315	\$12,382	\$2	\$18,699	\$3,089	\$13,202	\$19	\$16,310
Liabilities								
Derivative financial instruments								
Foreign currency exchange contracts	\$—	\$589	\$—	\$589	\$—	\$442	\$6	\$448

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Commodity contracts	—	127	33	160	—	289	83	372
Total derivative financial instruments (e)	—	716	33	749	—	731	89	820
Total liabilities at fair value	\$—	\$716	\$33	\$749	\$—	\$731	\$89	\$820

(a) Includes notes issued by non-U.S. government agencies, as well as notes issued by supranational institutions.

Excludes time deposits, certificates of deposit, money market accounts, and other cash equivalents reported at par value on our balance sheet totaling \$3.7 billion and \$4.6 billion at September 30, 2012 and December 31, 2011, respectively, for the Automotive sector. In addition to these cash equivalents, our Automotive sector also had cash on hand totaling \$1.8 billion and \$2.1 billion at September 30, 2012 and December 31, 2011, respectively.

(b) Excludes an investment in Ford Credit debt securities held by the Automotive sector with a carrying value of \$201 million and an estimated fair value of \$201 million at December 31, 2011.

(c) Includes certificates of deposit and time deposits subject to changes in value.

(d) See Note 12 for additional information regarding derivative financial instruments.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

	September 30, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial Services Sector								
Assets								
Cash equivalents – financial instruments								
U.S. government	\$1	\$—	\$—	\$1	\$1	\$—	\$—	\$1
U.S. government-sponsored enterprises	—	167	—	167	—	75	—	75
Non-U.S. government	—	16	—	16	—	15	—	15
Non-U.S. government agencies (a)	—	5	—	5	—	150	—	150
Corporate debt	—	18	—	18	—	—	—	—
Total cash equivalents – financial instruments (b)	1	206	—	207	1	240	—	241
Marketable securities								
U.S. government	2,071	—	—	2,071	619	—	—	619
U.S. government-sponsored enterprises	—	449	—	449	—	713	—	713
Non-U.S. government agencies (a)	—	175	—	175	—	778	—	778
Corporate debt	—	1,206	—	1,206	—	1,186	—	1,186
Mortgage-backed and other asset-backed	—	73	—	73	—	88	—	88
Non-U.S. government	—	121	—	121	—	444	—	444
Other liquid investments (c)	—	16	—	16	—	7	—	7
Total marketable securities	2,071	2,040	—	4,111	619	3,216	—	3,835
Derivative financial instruments								
Interest rate contracts	—	1,495						