

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

Edgar Filing: FORD MOTOR CO - Form 10-Q

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

80

---

FORD MOTOR COMPANY  
 QUARTERLY REPORT ON FORM 10-Q  
 For the Quarter Ended September 30, 2012

	Page
	<u>Table of Contents</u>
	<u>Part I - Financial Information</u>
Item 1	<u>Financial Statements</u> 1
	<u>Consolidated Statement of Operations</u> 1
	<u>Consolidated Statement of Comprehensive Income</u> 1
	<u>Sector Statement of Operations</u> 2
	<u>Consolidated Balance Sheet</u> 3
	<u>Sector Balance Sheet</u> 4
	<u>Condensed Consolidated Statement of Cash Flows</u> 5
	<u>Condensed Sector Statement of Cash Flows</u> 6
	<u>Consolidated Statement of Equity</u> 7
	<u>Notes to the Financial Statements</u> 8
	<u>Report of Independent Registered Public Accounting Firm</u> 51
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 52
	<u>Results of Operations</u> 52
	<u>Automotive Sector</u> 54
	<u>Financial Services Sector</u> 61
	<u>Liquidity and Capital Resources</u> 65
	<u>Outlook</u> 73
	<u>Accounting Standards Issued But Not Yet Adopted</u> 77
	<u>Other Financial Information</u> 77
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 77
	<u>Automotive Sector</u> 77
	<u>Financial Services Sector</u> 77
Item 4	<u>Controls and Procedures</u> 77
	<u>Part II - Other Information</u>
Item 1	<u>Legal Proceedings</u> 78
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 78
Item 6	<u>Exhibits</u> 78
	<u>Signature</u> 79
	<u>Exhibit Index</u> 80

## 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

Edgar Filing: FORD MOTOR CO - Form 10-Q

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.

1

---

## 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)			
<b>AUTOMOTIVE</b>				
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
<b>FINANCIAL SERVICES</b>				
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
<b>TOTAL COMPANY</b>				
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
<b>ASSETS</b>		
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
<b>LIABILITIES</b>		
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	—
<b>EQUITY</b>		
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
<b>ASSETS</b>		

Edgar Filing: FORD MOTOR CO - Form 10-Q

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.

3

---



## Item 1. Financial Statements (Continued)

## FORD MOTOR COMPANY AND SUBSIDIARIES

## SECTOR BALANCE SHEET

(in millions)

	September 30, 2012	December 31, 2011
	(unaudited)	
<b>ASSETS</b>		
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
<b>LIABILITIES</b>		
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

Edgar Filing: FORD MOTOR CO - Form 10-Q

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	—
<b>EQUITY</b>		
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

## Table of Contents

	Page
Footnote	<u>9</u>
Note 1 Presentation	<u>9</u>
Note 2 Accounting Standards Issued But Not Yet Adopted	<u>12</u>
Note 3 Fair Value Measurements	<u>13</u>
Note 4 Restricted Cash	<u>19</u>
Note 5 Finance Receivables	<u>20</u>
Note 6 Allowance for Credit Losses	<u>26</u>
Note 7 Inventories	<u>29</u>
Note 8 Variable Interest Entities	<u>29</u>
Note 9 Accrued Liabilities and Deferred Revenue	<u>33</u>
Note 10 Retirement Benefits	<u>34</u>
Note 11 Debt and Commitments	<u>35</u>
Note 12 Derivative Financial Instruments and Hedging Activities	<u>36</u>
Note 13 Redeemable Noncontrolling Interest	<u>41</u>
Note 14 Accumulated Other Comprehensive Income/(Loss)	<u>42</u>
Note 15 Other Income/(Loss)	<u>43</u>
Note 16 Income Taxes	<u>43</u>
Note 17 Dispositions and Acquisitions	<u>44</u>
Note 18 Amounts Per Share Attributable to Ford Motor Company Common and Class B Stock	<u>45</u>
Note 19 Segment Information	<u>47</u>
Note 20 Commitments and Contingencies	<u>49</u>

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 (a) 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.

(b) Includes cash flows of finance receivables purchased/collected by the Financial Services sector from certain divisions and subsidiaries of the Automotive sector.

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.

13

---

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



Edgar Filing: FORD MOTOR CO - Form 10-Q

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,

(b) 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.

(c) 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.

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

(e) 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	—	1,495	—	1,196	—	1,196
Foreign currency exchange contracts	—	6	—	6	—	30	—	30
Cross-currency interest rate swap contracts	—	—	—	—	—	12	—	12
Other (d)	—	—	—	—	—	—	137	137
Total derivative financial instruments (e)	—	1,501	—	1,501	—	1,238	137	1,375
Total assets at fair value	\$2,072	\$3,747	\$—	\$5,819	\$620	\$4,694	\$137	\$5,451
Liabilities								
Derivative financial instruments								
Interest rate contracts	\$—	\$284	\$—	\$284	\$—	\$237	\$—	\$237
Foreign currency exchange contracts	—	33	—	33	—	50	—	50
Cross-currency interest rate swap contracts	—	83	—	83	—	12	—	12
	—	400	—	400	—	299	—	299

Total derivative financial instruments (e)

Total liabilities at fair value	\$—	\$400	\$—	\$400	\$—	\$299	\$—	\$299
---------------------------------	-----	-------	-----	-------	-----	-------	-----	-------

- 
- (a) Includes notes issued by non-U.S. government agencies, as well as notes issued by supranational institutions. Excludes time deposits, certificates of deposit, and money market accounts reported at par value on our balance sheet totaling \$4.9 billion and \$6 billion at September 30, 2012 and December 31, 2011, respectively,
  - (b) Financial Services sector. In addition to these cash equivalents, our Financial Services sector also had cash on hand totaling \$2.2 billion and \$3 billion at September 30, 2012 and December 31, 2011, respectively.
  - (c) Includes certificates of deposit and time deposits subject to changes in value.
  - (d) Represents derivative features included in the FUEL Notes.
  - (e) 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)

## Reconciliation of Changes in Level 3 Balances

The following table summarizes the changes recorded through income in Level 3 items measured at fair value on a recurring basis and reported on our balance sheet for the periods ended September 30 (in millions):

	First Nine Months 2012			2011		
	Marketable Securities	Derivative Financial Instruments, Net	Total Level 3 Fair Value	Marketable Securities	Derivative Financial Instruments, Net	Total Level 3 Fair Value
<b>Automotive Sector</b>						
Beginning balance	\$—	\$ (70 )	\$ (70 )	\$ 2	\$ 38	\$ 40
Realized/unrealized gains/(losses)						
Cost of sales	—	1	1	—	(86 )	(86 )
Interest income and other income/(loss), net	—	(4 )	(4 )	(1 )	(2 )	(3 )
Other comprehensive income/(loss) (a)	—	—	—	—	—	—
Total realized/unrealized gains/(losses)	—	(3 )	(3 )	(1 )	(88 )	(89 )
Purchases, issues, sales, and settlements						
Purchases	—	—	—	7	—	7
Issues	—	—	—	—	—	—
Sales	—	—	—	(1 )	—	(1 )
Settlements	—	52	52	—	(29 )	(29 )
Total purchases, issues, sales, and settlements	—	52	52	6	(29 )	(23 )
Transfers into Level 3	—	—	—	—	—	—
Transfers out of Level 3 (b)	—	(10 )	(10 )	(6 )	2	(4 )
Ending balance	\$—	\$ (31 )	\$ (31 )	\$ 1	\$ (77 )	\$ (76 )
Unrealized gains/(losses) on instruments still held	\$—	\$ (2 )	\$ (2 )	\$—	\$ (79 )	\$ (79 )
<b>Financial Services Sector</b>						
Beginning balance	\$—	\$ 137	\$ 137	\$ 1	\$ (89 )	\$ (88 )
Realized/unrealized gains/(losses)						
Other income/(loss), net	—	(81 )	(81 )	—	398	398
Other comprehensive income/(loss) (a)	—	—	—	—	(1 )	(1 )
Interest income/(expense) (c)	—	—	—	—	65	65
Total realized/unrealized gains/(losses)	—	(81 )	(81 )	—	462	462
Purchases, issues, sales, and settlements						
Purchases	—	—	—	5	—	5
Issues (d)	—	—	—	—	73	73
Sales	—	—	—	—	—	—
Settlements (e)	—	(56 )	(56 )	—	108	108
	—	(56 )	(56 )	5	181	186

## Total purchases, issues, sales, and settlements

Transfers into Level 3	—	—	—	—	—	—
Transfers out of Level 3 (b)	—	—	—	(6	) (13	) (19
Ending balance	\$—	\$—	\$—	\$—	\$ 541	\$541
Unrealized gains/(losses) on instruments still held	\$—	\$—	\$—	\$—	\$ 481	\$481

(a) Represents foreign currency translation on derivative asset and liability balances held by non-U.S. dollar foreign affiliates.

(b) Represents transfers out due to the increase in availability of observable data.

(c) Recorded in Interest expense.

(d) Represents derivative features included in the FUEL Notes.

(e) Reflects \$56 million due to the extinguishment of the derivative features included in the FUEL Notes as a result of the mandatory exchange of the FUEL Notes to unsecured notes in the second quarter of 2012.

## 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 Nonrecurring Basis

The following table summarizes the items measured at fair value subsequent to initial recognition on a nonrecurring basis by input hierarchy at September 30, 2012 and December 31, 2011 that were still held on our balance sheet at those dates (in millions):

	September 30, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial Services Sector								
North America								
Retail receivables	\$—	\$—	\$55	\$55	\$—	\$—	\$70	\$70
Dealer loans	—	—	2	2	—	—	6	6
Total North America	—	—	57	57	—	—	76	76
International								
Retail receivables	—	—	27	27	—	—	39	39
Total International	—	—	27	27	—	—	39	39
Total Financial Services sector	\$—	\$—	\$84	\$84	\$—	\$—	\$115	\$115

## Nonrecurring Fair Value Changes

The following table summarizes the total change in value of items for which a nonrecurring fair value adjustment has been included in our statement of operations for the periods ended September 30, related to items still held on our balance sheet at those dates (in millions):

	Total Gains/(Losses)			
	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Financial Services Sector				
North America				
Retail receivables	\$(6	) \$(8	) \$(14	) \$(19
Dealer loans	—	—	—	—
Total North America	(6	) (8	) (14	) (19
International				
Retail receivables	(6	) (3	) (11	) (11
Total International	(6	) (3	) (11	) (11
Total Financial Services sector	\$(12	) \$(11	) \$(25	) \$(30

Fair value changes related to retail and dealer loan finance receivables that have been written down based on the fair value of collateral adjusted for estimated costs to sell are recorded in Financial Services provision for credit and insurance losses.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

## Information About Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The following table summarizes significant unobservable inputs and the variability of those inputs to alternate methodologies at September 30, 2012 (in millions):

	Fair Value	Valuation Technique	Unobservable Input	Fair Value Range
Automotive Sector				
Recurring basis				
Net commodity contracts	\$(31)	Income Approach	Forward commodity prices for certain commodity types. A lower forward price will result in a lower fair value.	\$(32) - \$(30)
Financial Services Sector				
Nonrecurring basis				
Retail receivables				
North America	\$55	Income Approach	POD percentage	\$44 - \$55
International	\$27	Income Approach	ARV percentage	\$22 - \$33
Dealer loans	\$2	Income Approach	Estimated market value	\$2 - \$4

## NOTE 4. RESTRICTED CASH

Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements are recorded in Other assets on our balance sheet.

Our Automotive sector restricted cash balances primarily include cash collateral required to be held against loans from the European Investment Bank ("EIB"). Additionally, restricted cash includes various escrow agreements related to legal, insurance, customs, and environmental matters. Our Financial Services sector restricted cash balances primarily include cash held to meet certain local governmental and regulatory reserve requirements and cash held under the terms of certain contractual agreements.

Restricted cash does not include required minimum balances or cash securing debt issued through securitization transactions.

Restricted cash balances were as follows (in millions):

September 30,	December 31,
2012	2011

Edgar Filing: FORD MOTOR CO - Form 10-Q

Automotive sector	\$ 167	\$ 330
Financial Services sector	266	149
Total Company	\$433	\$479

19

---



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5. FINANCE RECEIVABLES

Finance receivable balances were as follows (in millions):

	September 30, 2012	December 31, 2011
Automotive sector (a)	\$733	\$355
Financial Services sector	72,598	73,330
Reclassification of receivables purchased by Financial Services sector from Automotive sector to Other receivables, net	(4,999	) (3,709
Finance receivables, net	\$68,332	\$69,976

(a) Finance receivables are reported on our sector balance sheet in Receivables, less allowances and Other assets.

## Automotive Sector

Our Automotive sector notes receivable consist primarily of amounts loaned to Ford Romania SA, Geely Sweden AB, and Ford Sollers. Performance of this group of receivables is evaluated based on payment activity and the financial stability of the debtor. Notes receivable initially are recorded at fair value and subsequently measured at amortized cost.

Notes receivable, net were as follows (in millions):

	September 30, 2012	December 31, 2011
Notes receivable	\$760	\$384
Less: Allowance for credit losses	(27	) (29
Notes receivable, net	\$733	\$355

## Financial Services Sector

Our Financial Services sector finance receivables primarily relate to Ford Credit, but also include the Other Financial Services segment and certain intersector eliminations.

Our Financial Services sector segments the North America and International portfolio of finance receivables into "consumer" and "non-consumer" receivables. The receivables are secured by the vehicles, inventory, or other property being financed.

Consumer Segment. Receivables in this portfolio segment relate to products offered to individuals and businesses that finance the acquisition of Ford vehicles from dealers for personal or commercial use. The products include:

• Retail financing – retail installment contracts for new and used vehicles

• Direct financing leases – direct financing leases with retail customers, government entities, daily rental companies, and fleet customers

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5. FINANCE RECEIVABLES (Continued)

Non-Consumer Segment. Receivables in this portfolio segment relate to products offered to automotive dealers. The products include:

- Wholesale financing – loans to dealers to finance the purchase of vehicle inventory, also known as floorplan financing
- Dealer loans – loans to dealers to finance working capital, and to finance the purchase of dealership real estate and/or make improvements to dealership facilities
- Other financing – receivables related to the sale of parts and accessories to dealers

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

	September 30, 2012			December 31, 2011		
	North America	International	Total Finance Receivables	North America	International	Total Finance Receivables
Consumer						
Retail, gross	\$39,279	\$ 8,261	\$ 47,540	\$38,406	\$ 8,400	\$ 46,806
Less: Unearned interest supplements	(1,326 )	(215 )	(1,541 )	(1,407 )	(219 )	(1,626 )
Retail	37,953	8,046	45,999	36,999	8,181	45,180
Direct financing leases, gross	31	2,265	2,296	4	2,683	2,687
Less: Unearned interest supplements	—	(88 )	(88 )	—	(116 )	(116 )
Direct financing leases	31	2,177	2,208	4	2,567	2,571
Consumer finance receivables	\$37,984	\$ 10,223	\$ 48,207	\$37,003	\$ 10,748	\$ 47,751
Non-Consumer						
Wholesale	\$15,517	\$ 6,792	\$ 22,309	\$15,413	\$ 8,416	\$ 23,829
Dealer loans	1,146	58	1,204	1,088	63	1,151
Other	878	394	1,272	723	377	1,100
Non-Consumer finance receivables	17,541	7,244	24,785	17,224	8,856	26,080
Total recorded investment	\$55,525	\$ 17,467	\$ 72,992	\$54,227	\$ 19,604	\$ 73,831
Recorded investment in finance receivables	\$55,525	\$ 17,467	\$ 72,992	\$54,227	\$ 19,604	\$ 73,831
Less: Allowance for credit losses	(298 )	(96 )	(394 )	(388 )	(113 )	(501 )
Finance receivables, net	\$55,227	\$ 17,371	\$ 72,598	\$53,839	\$ 19,491	\$ 73,330
Net finance receivables subject to fair value (a)			\$ 70,388			\$ 70,754
Fair value			72,296			72,294

At September 30, 2012 and December 31, 2011, excludes \$2.2 billion and \$2.6 billion, respectively, of certain (a) receivables (primarily direct financing leases) that are not subject to fair value disclosure requirements. All finance receivables are categorized within Level 3 of the fair value hierarchy. See Note 3 for additional information.

Our Financial Services sector excluded in the recorded investment in finance receivables at September 30, 2012 and December 31, 2011 \$173 million and \$180 million, respectively, of accrued uncollected interest receivable, which we report in Other assets on the balance sheet.

Included in the recorded investment in finance receivables at September 30, 2012 and December 31, 2011 were North America consumer receivables of \$23.9 billion and \$29.4 billion and non-consumer receivables of \$14.2 billion and \$14.2 billion, respectively, and International consumer receivables of \$6.1 billion and \$7.1 billion and non-consumer receivables of \$4.3 billion and \$5.6 billion, respectively, that secure certain debt obligations. The receivables are available only for payment of the debt and other obligations issued or arising in securitization transactions; they are not available to pay the other obligations of our Financial Services sector or the claims of our other creditors. We hold the right to receive the excess cash flows not needed to pay the debt and other obligations issued or arising in securitization transactions (see Note 8).

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5. FINANCE RECEIVABLES (Continued)

Aging. For all classes of finance receivables, we define "past due" as any payment, including principal and interest, that has not been collected and is at least 31 days past the contractual due date. The aging analysis of our Financial Services sector finance receivables balances at September 30, 2012 was as follows (in millions):

	31-60 Days Past Due	61-90 Days Past Due	91-120 Days Past Due	Greater Than 120 Days Past Due	Total Past Due	Current	Total Finance Receivables
North America							
Consumer							
Retail	\$625	\$72	\$20	\$55	\$772	\$37,181	\$ 37,953
Direct financing leases	—	—	—	—	—	31	31
Non-Consumer							
Wholesale	—	1	1	2	4	15,513	15,517
Dealer loans	3	4	4	11	22	1,124	1,146
Other	—	—	—	—	—	878	878
Total North America recorded investment	628	77	25	68	798	54,727	55,525
International							
Consumer							
Retail	34	18	10	28	90	7,956	8,046
Direct financing leases	6	3	2	3	14	2,163	2,177
Non-Consumer							
Wholesale	1	—	—	4	5	6,787	6,792
Dealer loans	—	—	—	1	1	57	58
Other	—	—	—	2	2	392	394
Total International recorded investment	41	21	12	38	112	17,355	17,467
Total recorded investment	\$669	\$98	\$37	\$106	\$910	\$72,082	\$ 72,992

Consumer Credit Quality. When originating all classes of consumer receivables, we use a proprietary scoring system that measures the credit quality of the receivables using several factors, such as credit bureau information, consumer credit risk scores (e.g., FICO score), and customer and contract characteristics. In addition to our proprietary scoring system, we consider other individual consumer factors, such as employment history, financial stability, and capacity to pay.

Subsequent to origination, we review the credit quality of retail and direct financing lease receivables based on customer payment activity. As each customer develops a payment history, we use an internally-developed behavioral scoring model to assist in determining the best collection strategies. Based on data from this scoring model, contracts are categorized by collection risk. Our collection models evaluate several factors, including origination characteristics, updated credit bureau data, and payment patterns. These models allow for more focused collection activity on higher-risk accounts and are used to refine our risk-based staffing model to ensure collection resources are aligned with portfolio risk.

Credit quality ratings for our consumer receivables are categorized as follows:

Pass – current to 60 days past due

- Special Mention – 61 to 120 days past due and in intensified collection status
- Substandard – greater than 120 days past due and for which the uncollectible portion of the receivables has already been charged-off, as measured using the fair value of collateral

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5. FINANCE RECEIVABLES (Continued)

The credit quality analysis of our Financial Services sector consumer receivables portfolio was as follows (in millions):

	September 30, 2012		December 31, 2011	
	Retail	Direct Financing Leases	Retail	Direct Financing Leases
North America				
Pass	\$37,806	\$31	\$36,839	\$4
Special Mention	92	—	90	—
Substandard	55	—	70	—
Total North America recorded investment	37,953	31	36,999	4
International				
Pass	7,990	2,169	8,107	2,559
Special Mention	28	5	34	5
Substandard	28	3	40	3
Total International recorded investment	8,046	2,177	8,181	2,567
Total recorded investment	\$45,999	\$2,208	\$45,180	\$2,571

**Non-Consumer Credit Quality.** For all classes of non-consumer receivables, we extend commercial credit to dealers primarily in the form of approved lines of credit to purchase new Ford and Lincoln vehicles as well as used vehicles. Each commercial lending request is evaluated by taking into consideration the borrower's financial condition and the underlying collateral securing the loan. We use a proprietary model to assign each dealer a risk rating. This model uses historical performance data to identify key factors about a dealer that we consider significant in predicting a dealer's ability to meet its financial obligations. We also consider numerous other financial and qualitative factors including capitalization and leverage, liquidity and cash flow, profitability, and credit history with ourselves and other creditors. A dealer's risk rating does not reflect any guarantees or a dealer owner's net worth.

Dealers are assigned to one of four groups according to their risk rating as follows:

- Group I – strong to superior financial metrics
- Group II – fair to favorable financial metrics
- Group III – marginal to weak financial metrics
- Group IV – poor financial metrics, including dealers classified as uncollectible

We suspend credit lines and extends no further funding to dealers classified in Group IV.

We regularly review our model to confirm the continued business significance and statistical predictability of the factors and update the model to incorporate new factors or other information that improves its statistical predictability. In addition, we verify the existence of the assets collateralizing the receivables by physical audits of vehicle inventories, which are performed with increased frequency for higher-risk (i.e., Group III and Group IV) dealers. We perform a credit review of each dealer at least annually and adjust the dealer's risk rating, if necessary.



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5. FINANCE RECEIVABLES (Continued)

Performance of non-consumer receivables is evaluated based on our internal dealer risk rating analysis, as payment for wholesale receivables generally is not required until the dealer has sold the vehicle. Wholesale and dealer loan receivables with the same dealer share the same risk rating. The credit quality analysis of wholesale and dealer loan receivables was as follows (in millions):

	September 30, 2012		December 31, 2011	
	Wholesale	Dealer Loan	Wholesale	Dealer Loan
North America				
Group I	\$12,934	\$943	\$12,645	\$861
Group II	2,322	149	2,489	165
Group III	247	48	273	58
Group IV	14	6	6	4
Total North America recorded investment	15,517	1,146	15,413	1,088
International				
Group I	4,356	38	5,115	42
Group II	1,352	10	1,965	10
Group III	1,080	9	1,327	10
Group IV	4	1	9	1
Total International recorded investment	6,792	58	8,416	63
Total recorded investment	\$22,309	\$1,204	\$23,829	\$1,151

**Non-Accrual Status.** The accrual of revenue is discontinued at the earlier of the time a receivable is determined to be uncollectible, at bankruptcy status notification, or greater than 120 days past due. Finance receivable accounts may be restored to accrual status only when a customer settles all past-due deficiency balances and future payments are reasonably assured. For receivables in non-accrual status, subsequent financing revenue is recognized only to the extent a payment is received. Payments are generally applied first to outstanding interest and then to the unpaid principal balance.

The recorded investment of consumer receivables in non-accrual status was \$323 million, or 0.7% of our consumer receivables, at September 30, 2012, and \$402 million, or 0.9% of our consumer receivables, at December 31, 2011.

The recorded investment of non-consumer receivables in non-accrual status was \$28 million, or 0.1% of our non-consumer receivables, at September 30, 2012, and \$27 million, or 0.1% of our non-consumer receivables, at December 31, 2011.

Finance receivables greater than 90 days past due and still accruing interest included \$15 million and \$14 million of non-bankrupt consumer accounts at September 30, 2012 and December 31, 2011, respectively, and were \$14 million and de minimis for non-consumer loans at September 30, 2012 and December 31, 2011, respectively.



Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. FINANCE RECEIVABLES (Continued)

**Consumer Impairment.** Our Financial Services sector finance receivables are evaluated both collectively and specifically for impairment. Impaired consumer receivables include accounts that have been re-written or modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code that are considered to be Troubled Debt Restructurings ("TDRs"), as well as all accounts greater than 120 days past due. The recorded investment of consumer receivables that were impaired at September 30, 2012 and December 31, 2011 was \$411 million, or 0.9% of consumer receivables, and \$382 million, or 0.8% of consumer receivables, respectively.

**Non-Consumer Impairment.** Impaired non-consumer receivables represent accounts with dealers that have weak or poor financial metrics or dealer loans that have been modified in TDRs. The following factors (not necessarily in order of importance or probability of occurrence) are considered in determining whether a non-consumer receivable is impaired:

- Delinquency in contractual payments of principal or interest
- Deterioration of the borrower's competitive position
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of dealer bankruptcy or other insolvency proceedings
- Fraud or criminal conviction

The recorded investment of non-consumer receivables that were impaired at September 30, 2012 and December 31, 2011, was \$61 million, or 0.2% of non-consumer receivables, and \$64 million, or 0.2% of the non-consumer receivables, respectively.

**Troubled Debt Restructurings**

Effective July 1, 2011, we applied the requirements of the new accounting standard related to TDRs to restructurings occurring on or after January 1, 2011.

A restructuring of debt constitutes a TDR if we grant a concession to a customer or borrower for economic or legal reasons related to the debtor's financial difficulties that we otherwise would not consider.

**Consumer.** Payment extensions are granted to consumers in the normal course of business. Payment extensions result in a short-term deferral of the customer's normal monthly payment and do not constitute TDRs because payment concessions are not granted on the principal amount of the account or the interest rate charged and are not granted to consumers considered to be in financial difficulty.

Consumer receivable contracts may be modified to lower the customer's payment by extending the term of the contract or lowering the interest rate as a remedy to avoid or cure delinquency. We do not grant concessions on the principal balance for re-written contracts. Contracts that are modified at an interest rate that is below the market rate are considered to be TDRs. In addition, consumer receivables modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code are considered to be TDRs.

The outstanding recorded investment at time of modification for consumer receivables that are considered to be TDRs was \$185 million, or 0.4% of our consumer receivables during the period ended September 30, 2012 and

\$297 million, or 0.6% during the period ended September 30, 2011. A subsequent default occurs when contracts that were previously modified in TDRs within the last twelve months and subsequently had past due payments that resulted in repossession. The subsequent annualized default rate for consumer contracts was 5.7% of TDRs during the period ended September 30, 2012.

Consumer receivables involved in TDRs are specifically assessed for impairment. A specific allowance is estimated based on the present value of the expected future cash flows of the receivable discounted at the loan's original effective interest rate or the fair value of any collateral adjusted for estimated costs to sell. For loans where foreclosure is probable, the fair value of collateral is used to estimate the specific impairment. The allowance for credit losses related to consumer TDRs was \$18 million and \$13 million at September 30, 2012 and at September 30, 2011, respectively.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5. FINANCE RECEIVABLES (Continued)

Non-Consumer. Within our Financial Services sector non-consumer receivables segment, only dealer loans subject to forbearance, moratoriums, extension agreements, or other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral are classified as TDRs. We do not grant concessions on the principal balance of dealer loans. The recorded investment of dealer loans modified as TDRs during the periods ended September 30, 2012 and September 30, 2011 were de minimis.

Dealer loans involved in TDRs are assessed for impairment and included in our allowance for credit losses based on either the present value of the expected future cash flows of the receivable discounted at the loan's original effective interest rate, or the fair value of collateral adjusted for estimated costs to sell. For loans where foreclosure is probable, the fair value of collateral is used to estimate the specific impairment. An impairment charge is recorded as part of the provision to the allowance for credit losses for the amount by which the recorded investment of the receivable exceeds its estimated fair value. The allowance for credit losses related to non-consumer TDRs for both periods ended September 30, 2012 and September 30, 2011 were de minimis.

## NOTE 6. ALLOWANCE FOR CREDIT LOSSES

## Automotive Sector

Following is an analysis of the allowance for credit losses for the periods ended September 30 (in millions):

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Allowance for credit losses				
Beginning balance	\$34	\$57	\$29	\$120
Charge-offs	(7	) —	(7	) —
Recoveries	(4	) (20	) (6	) (79
Provision for credit losses	3	—	5	2
Other	1	(2	) 6	(8
Ending balance	\$27	\$35	\$27	\$35

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 6. ALLOWANCE FOR CREDIT LOSSES (Continued)

## Financial Services Sector

Following is an analysis of the allowance for credit losses related to finance receivables and net investment in operating leases for the periods ended September 30 (in millions):

	Third Quarter 2012			Net Investment in Operating Leases	Total Allowance
	Consumer	Non-Consumer	Total		
Allowance for credit losses					
Beginning balance	\$365	\$ 19	\$384	\$26	\$410
Charge-offs	(78	) (1	) (79	) (11	) (90
Recoveries	41	3	44	11	55
Provision for credit losses	45	(2	) 43	(1	) 42
Other (a)	3	(1	) 2	1	3
Ending balance	\$376	\$ 18	\$394	\$26	\$420
	First Nine Months 2012			Net Investment in Operating Leases	Total Allowance
	Consumer	Non-Consumer	Total		
Allowance for credit losses					
Beginning balance	\$457	\$ 44	\$501	\$40	\$541
Charge-offs	(230	) (8	) (238	) (35	) (273
Recoveries	135	10	145	39	184
Provision for credit losses	13	(28	) (15	) (18	) (33
Other (a)	1	—	1	—	1
Ending balance	\$376	\$ 18	\$394	\$26	\$420
Analysis of ending balance of allowance for credit losses					
Collective impairment allowance	\$358	\$ 16	\$374	\$26	\$400
Specific impairment allowance	18	2	20	—	20
Ending balance	\$376	\$ 18	\$394	\$26	\$420
Analysis of ending balance of finance receivables and net investment in operating leases					
Collectively evaluated for impairment	\$47,796	\$ 24,724	\$72,520	\$14,315	
Specifically evaluated for impairment	411	61	472	—	
Recorded investment (b)	\$48,207	\$ 24,785	\$72,992	\$14,315	

Ending balance, net of allowance for credit losses	\$47,831	\$ 24,767	\$72,598	\$14,289
--	----------	-----------	----------	----------

---

(a) Represents amounts related to translation adjustments.

(b) Represents finance receivables and net investment in operating leases before allowance for credit losses.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 6. ALLOWANCE FOR CREDIT LOSSES (Continued)

	Third Quarter 2011 Finance Receivables			Net Investment in Operating Leases	Total Allowance
	Consumer	Non-Consumer	Total		
Allowance for credit losses					
Beginning balance	\$570	\$ 49	\$619	\$64	\$683
Charge-offs	(98	) (2	) (100	) (20	) (120
Recoveries	51	2	53	20	73
Provision for credit losses	(3	) (4	) (7	) (13	) (20
Other (a)	(8	) (2	) (10	) —	) (10
Ending balance	\$512	\$ 43	\$555	\$51	\$606
	First Nine Months 2011 Finance Receivables			Net Investment in Operating Leases	Total Allowance
	Consumer	Non-Consumer	Total		
Allowance for credit losses					
Beginning balance	\$707	\$ 70	\$777	\$87	\$864
Charge-offs	(304	) (9	) (313	) (75	) (388
Recoveries	162	4	166	70	236
Provision for credit losses	(54	) (22	) (76	) (32	) (108
Other (a)	1	—	1	1	2
Ending balance	\$512	\$ 43	\$555	\$51	\$606
Analysis of ending balance of allowance for credit losses					
Collective impairment allowance	\$499	\$ 34	\$533	\$51	\$584
Specific impairment allowance	13	9	22	—	22
Ending balance	\$512	\$ 43	\$555	\$51	\$606
Analysis of ending balance of finance receivables and net investment in operating leases					
Collectively evaluated for impairment	\$47,652	\$ 24,243	\$71,895	\$10,844	
Specifically evaluated for impairment	352	68	420	—	
Recorded investment (b)	\$48,004	\$ 24,311	\$72,315	\$10,844	
Ending balance, net of allowance for credit losses	\$47,492	\$ 24,268	\$71,760	\$10,793	

(a) Represents amounts related to translation adjustments.

- (b) Represents finance receivables and net investment in operating leases before allowance for credit losses.

28

---

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 7. INVENTORIES

All inventories are stated at the lower of cost or market. Cost for a substantial portion of U.S. inventories is determined on a last-in, first-out ("LIFO") basis. LIFO was used for approximately 22% and 17% of total inventories at September 30, 2012 and December 31, 2011, respectively. Cost of other inventories is determined by costing methods that approximate a first-in, first-out ("FIFO") basis.

Inventories were as follows (in millions):

	September 30, 2012	December 31, 2011
Raw materials, work-in-process and supplies	\$3,891	\$2,847
Finished products	5,271	3,982
Total inventories under FIFO	9,162	6,829
Less: LIFO adjustment	(954	) (928
Total inventories	\$8,208	\$5,901

## NOTE 8. VARIABLE INTEREST ENTITIES

A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary. The primary beneficiary has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE.

We have the power to direct the activities of an entity when our management has the ability to make key operating decisions, such as decisions regarding capital or product investment or manufacturing production schedules. We have the power to direct the activities of our special purpose entities when we have the ability to exercise discretion in the servicing of financial assets, issue additional debt, exercise a unilateral call option, add assets to revolving structures, or control investment decisions.

Assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against our general assets. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs.

## Automotive Sector

## VIEs of Which We are Not the Primary Beneficiary

Getrag Ford Transmissions GmbH ("GFT") is a joint venture that constitutes a significant VIE of which we are not the primary beneficiary, and which was not consolidated as of September 30, 2012 or December 31, 2011. GFT is a 50/50 joint venture with Getrag Deutsche Venture GmbH and Co. KG. Ford and its related parties purchase substantially all of the joint venture's output. We do not, however, have the power to direct economically-significant activities of the joint venture.



We also have suppliers that are VIEs of which we are not the primary beneficiary. Although we have provided certain suppliers guarantees and other financial support, we do not have any key decision making power related to their businesses.

Our maximum exposure to loss from VIEs of which we are not the primary beneficiary was as follows (in millions):

	September 30, 2012	December 31, 2011	Change in Maximum Exposure
Investments	\$223	\$229	\$(6 )
Guarantees and other supplier arrangements	11	6	5
Total maximum exposure	\$234	\$235	\$(1 )

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. VARIABLE INTEREST ENTITIES (Continued)

Financial Services Sector

VIEs of Which We are the Primary Beneficiary

Our Financial Services sector uses special purpose entities to issue asset-backed securities in transactions to public and private investors, bank conduits, and government-sponsored entities or others who obtain funding from government programs. We have deemed most of these special purpose entities to be VIEs. The asset-backed securities are secured by finance receivables and interests in net investments in operating leases. The assets continue to be consolidated by our Financial Services sector. We retain interests in our securitization VIEs, including subordinated securities issued by the VIEs, rights to cash held for the benefit of the securitization investors, and rights to the excess cash flows not needed to pay the debt and other obligations issued or arising in the securitization transactions.

The transactions create and pass along risks to the variable interest holders, depending on the assets securing the debt and the specific terms of the transactions. Our Financial Services sector aggregates and analyzes the asset-backed securitization transactions based on the risk profile of the product and the type of funding structure, including:

• Retail - consumer credit risk and pre-payment risk

• Wholesale - dealer credit risk

• Net investments in operating lease - vehicle residual value risk, consumer credit risk, and pre-payment risk

As a residual interest holder, we are exposed to the underlying residual and credit risk of the collateral, and are exposed to interest rate risk in some transactions. The amount of risk absorbed by our residual interests generally is represented by and limited to the amount of overcollateralization of the assets securing the debt and any cash reserves.

We have no obligation to repurchase or replace any securitized asset that subsequently becomes delinquent in payment or otherwise is in default, except under standard representations and warranties such as good and marketable title to the assets, or when certain changes are made to the underlying asset contracts. Securitization investors have no recourse to our Financial Services sector or our other assets and have no right to require our Financial Services sector to repurchase the investments. We generally have no obligation to provide liquidity or contribute cash or additional assets to the VIEs and do not guarantee any asset-backed securities. Ford Credit may be required to support the performance of certain securitization transactions, however, by increasing cash reserves.

VIEs that are exposed to interest rate or currency risk have reduced their risks by entering into derivative transactions. In certain instances, Ford Credit has entered into offsetting derivative transactions with the VIE to protect the VIE from the risks that are not mitigated through the derivative transactions between the VIE and its external counterparty. In other instances, Ford Credit has entered into derivative transactions with the counterparty to protect the counterparty from risks absorbed through derivative transactions with the VIEs. See Note 3 and Note 12 for additional information regarding derivatives.

Although not contractually required, Ford Credit regularly supports its wholesale securitization programs by repurchasing receivables of a dealer from a VIE when the dealer's performance is at risk, which transfers the corresponding risk of loss from the VIE to Ford Credit. In order to continue to fund the wholesale receivables, Ford Credit also may contribute additional cash or wholesale receivables if the collateral falls below required levels. The balances of cash related to these contributions were \$0 at September 30, 2012 and December 31, 2011, and ranged

from \$0 to \$373 million during the first nine months of 2012. In addition, while not contractually required, Ford Credit may purchase the commercial paper issued by Ford Credit's FCAR Owner Trust asset-backed commercial paper program.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 8. VARIABLE INTEREST ENTITIES (Continued)

The following table includes assets to be used to settle the liabilities of the consolidated VIEs. We may retain debt issued by consolidated VIEs and this debt is excluded from the table below. We hold the right to the excess cash flows from the assets that are not needed to pay liabilities of the consolidated VIEs. The assets and debt reflected on our consolidated balance sheet were as follows (in billions):

	September 30, 2012		
	Cash and Cash Equivalents	Finance Receivables, Net and Net Investment in Operating Leases	Debt
Finance receivables			
Retail	\$2.3	\$27.3	\$22.8
Wholesale	0.3	17.1	11.4
Total finance receivables	2.6	44.4	34.2
Net investment in operating leases	0.3	5.1	3.4
Total (a)	\$2.9	\$49.5	\$37.6

(a) Certain notes issued by the VIEs to affiliated companies served as collateral for accessing the European Central Bank ("ECB") open market operations program. This external funding of \$168 million at September 30, 2012 was not reflected as debt of the VIEs and is excluded from the table above, but was included in our consolidated debt. The finance receivables backing this external funding are included in the table above.

	December 31, 2011		
	Cash and Cash Equivalents	Finance Receivables, Net and Net Investment in Operating Leases	Debt
Finance receivables			
Retail	\$2.5	\$31.9	\$26.0
Wholesale	0.5	17.9	11.2
Total finance receivables	3.0	49.8	37.2
Net investment in operating leases	0.4	6.4	4.2
Total (a)	\$3.4	\$56.2	\$41.4

(a) Certain notes issued by the VIEs to affiliated companies served as collateral for accessing the ECB open market operations program. This external funding of \$246 million at December 31, 2011 was not reflected as debt of the VIEs and is excluded from the table above, but was included in our consolidated debt. The finance receivables backing this external funding are included in the table above.

Interest expense on securitization debt related to consolidated VIEs was \$172 million and \$248 million for the third quarter of 2012 and 2011, respectively, and \$600 million and \$763 million for the first nine months of 2012 and 2011, respectively.

Ford Credit's exposure based on the fair value of derivative instruments related to consolidated VIEs that support its securitization transactions was as follows (in millions):

	September 30, 2012		December 31, 2011	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
VIE – Securitization entities	\$3	\$139	\$157	\$97
Ford Credit related to VIE	85	70	81	63
Total including Ford Credit related to VIE (a)	\$88	\$209	\$238	\$160

(a) Ford Credit derivative assets and liabilities are included in Other assets and Accrued liabilities and deferred revenue, respectively, on our consolidated balance sheet.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 8. VARIABLE INTEREST ENTITIES (Continued)

Derivative expense/(income) related to consolidated VIEs that support Ford Credit's securitization programs for the periods ended September 30 was as follows (in millions):

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
VIE - Securitization entities	\$58	\$(46)	) \$209	\$(13)
Ford Credit related to VIE	8	(18)	) (7	) 20
Total including Ford Credit related to VIE	\$66	\$(64)	) \$202	\$7

## VIEs of Which We are Not the Primary Beneficiary

We have an investment in Forso Nordic AB, a joint venture determined to be a VIE of which we are not the primary beneficiary. The joint venture provides consumer and dealer financing in its local markets and is financed by external debt and additional subordinated debt provided by the joint venture partner. The operating agreement indicates that the power to direct economically significant activities is shared with the joint venture partner, and the obligation to absorb losses or right to receive benefits resides primarily with the joint venture partner. Our investment in the joint venture is accounted for as an equity method investment and is included in Other assets. Our maximum exposure to any potential losses associated with this VIE is limited to our equity investment, and amounted to \$77 million and \$71 million at September 30, 2012 and December 31, 2011, respectively.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 9. ACCRUED LIABILITIES AND DEFERRED REVENUE

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

	September 30, 2012	December 31, 2011
Automotive Sector		
Current		
Dealer and customer allowances and claims	\$6,614	\$6,971
Deferred revenue	3,012	2,216
Employee benefit plans	1,529	1,552
Accrued interest	252	253
Other postretirement employee benefits ("OPEB")	442	439
Pension (a)	379	388
Other	2,832	3,184
Total Automotive accrued liabilities and deferred revenue	15,060	15,003
Non-current		
Pension (a)	12,741	15,091
OPEB	6,202	6,152
Dealer and customer allowances and claims	2,368	2,453
Deferred revenue	1,942	1,739
Employee benefit plans	694	709
Other	826	766
Total Automotive other liabilities	24,773	26,910
Total Automotive sector	39,833	41,913
Financial Services Sector	3,651	3,457
Total sectors	43,484	45,370
Intersector elimination (b)	—	(1 )
Total Company	\$43,484	\$45,369

Balances at September 30, 2012 reflect net pension liabilities at December 31, 2011, updated for year-to-date (a) service and interest cost, expected return on assets, separation expense, actual benefit payments, and cash contributions. The discount rate and rate of expected return assumptions are unchanged from year-end 2011. (b) Accrued interest related to Ford's acquisition of Ford Credit debt securities.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 10. RETIREMENT BENEFITS

We provide pension benefits and OPEB, such as health care and life insurance, to employees in many of our operations around the world.

The expense for our defined benefit pension and OPEB plans for the periods ended September 30 was as follows (in millions):

	Third Quarter					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Worldwide OPEB	
	2012	2011	2012	2011	2012	2011
Service cost	\$130	\$116	\$92	\$83	\$17	\$16
Interest cost	552	594	293	312	72	83
Expected return on assets	(718	) (757	) (332	) (356	) —	—
Amortization of						
Prior service costs/(credits)	55	86	18	18	(137	) (151
(Gains)/Losses	106	49	102	75	33	28
Separation programs/other	(1	) —	9	80	—	8
(Gains)/Losses from curtailments and settlements	—	—	—	—	—	(23
Net expense/(income)	\$124	\$88	\$182	\$212	\$(15	) \$(39
						)
	First Nine Months					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Worldwide OPEB	
	2012	2011	2012	2011	2012	2011
Service cost	\$390	\$350	\$278	\$247	\$51	\$47
Interest cost	1,656	1,782	889	929	216	248
Expected return on assets	(2,154	) (2,271	) (1,001	) (1,062	) —	—
Amortization of						
Prior service costs/(credits)	165	257	54	54	(409	) (454
(Gains)/Losses	318	145	308	228	97	85
Separation programs/other	4	(1	) 54	140	1	9
(Gains)/Losses from curtailments and settlements	—	—	—	104	(10	) (23
Net expense/(income)	\$379	\$262	\$582	\$640	\$(54	) \$(88
						)

## Pension Plan Contributions

In the first nine months of 2012, we contributed about \$2.5 billion to our worldwide funded pension plans (including \$1.5 billion in discretionary contributions to our U.S. plans), and made about \$300 million of benefit payments directly by the Company for unfunded plans. We expect to contribute from Automotive cash and cash equivalents an additional \$900 million to our worldwide funded plans in 2012 (including discretionary contributions to our U.S. plans of \$500 million), and to make an additional \$100 million of benefit payments directly by the Company for unfunded plans, for a total of about \$3.8 billion this year.



Based on current assumptions and regulations, we do not expect to have a legal requirement to fund our major U.S. pension plans in 2012 or 2013.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 11. DEBT AND COMMITMENTS

The carrying value of our debt was as follows (in millions):

	September 30, 2012	December 31, 2011
Automotive Sector		
Debt payable within one year		
Short-term with non-affiliates	\$ 365	\$ 559
Short-term with unconsolidated affiliates	—	18
Long-term payable within one year		
U.S. Department of Energy ("DOE") loans	591	240
Other debt	298	216
Total debt payable within one year	1,254	1,033
Long-term debt payable after one year		
Public unsecured debt securities	5,419	5,260
Unamortized discount	(73	) (77
Convertible notes	908	908
Unamortized discount	(151	) (172
DOE loans	5,162	4,556
EIB loan	729	698
Other debt	950	888
Total long-term debt payable after one year	12,944	12,061
Total Automotive sector	\$ 14,198	\$ 13,094
Fair value of Automotive sector debt (a)	\$ 14,613	\$ 13,451
Financial Services Sector		
Short-term debt		
Asset-backed commercial paper	\$ 5,824	\$ 6,835
Other asset-backed short-term debt	934	2,987
Floating rate demand notes	4,962	4,713
Unsecured commercial paper	1,176	156
Other short-term debt	1,627	1,905
Total short-term debt	14,523	16,596
Long-term debt		
Unsecured debt		
Notes payable within one year	3,296	6,144
Notes payable after one year	33,343	26,167
Asset-backed debt		
Notes payable within one year	14,829	16,538
Notes payable after one year	19,689	20,621
Unamortized discount	(141	) (152
Fair value adjustments (b)	867	681
Total long-term debt	71,883	69,999
Total Financial Services sector	\$ 86,406	\$ 86,595
Fair value of Financial Services sector debt (a)	\$ 90,004	\$ 88,823
Total Automotive and Financial Services sectors	\$ 100,604	\$ 99,689
Intersector elimination (c)	—	(201
Total Company	\$ 100,604	\$ 99,488

- 
- The fair value of debt includes \$365 million and \$326 million of Automotive sector short-term debt and \$7.9 billion and \$7 billion of Financial Services sector short-term debt at September 30, 2012 and December 31, 2011, respectively, carried at cost which approximates fair value. All debt is categorized within Level 2 of the fair value hierarchy. See Note 3 for additional information.
- (a)
  - (b) Adjustments related to designated fair value hedges of unsecured debt.
  - (c) Debt related to Ford's acquisition of Ford Credit debt securities.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

In the normal course of business, our operations are exposed to global market risks, including the effect of changes in foreign currency exchange rates, certain commodity prices, and interest rates. To manage these risks, we enter into various derivatives contracts:

- Foreign currency exchange contracts that are used to manage foreign exchange exposure;
- Commodity contracts, including forwards and options, that are used to manage commodity price risk;
- Interest rate contracts including swaps, caps, and floors that are used to manage the effects of interest rate fluctuations; and
- Cross-currency interest rate swap contracts that are used to manage foreign currency and interest rate exposures on foreign-denominated debt.

Our derivatives are over-the-counter customized derivative transactions and are not exchange-traded. We review our hedging program, derivative positions, and overall risk management strategy on a regular basis.

**Derivative Financial Instruments and Hedge Accounting.** All derivatives are recognized on the balance sheet at fair value. We do not net our derivative position by counterparty for purposes of balance sheet presentation and disclosure. We do, however, consider our net position for determining fair value.

We have elected to apply hedge accounting to certain derivatives. Derivatives that are designated in hedging relationships are evaluated for effectiveness using regression analysis at the time they are designated and throughout the hedge period. Cash flows and the profit impact associated with designated hedges are reported in the same category as the underlying hedged item.

Some derivatives do not qualify for hedge accounting; for others, we elect not to apply hedge accounting. Regardless, we only enter into transactions that we believe will be highly effective at offsetting the underlying economic risk. We report changes in the fair value of derivatives not designated as hedging instruments through Automotive cost of sales, Automotive interest income and other income/(loss), net, or Financial Services other income/(loss), net depending on the sector and underlying exposure. Cash flows associated with non-designated or de-designated derivatives are reported in Net cash provided by/(used in) investing activities in our statements of cash flows.

**Cash Flow Hedges.** Our Automotive sector has designated certain forward contracts as cash flow hedges of forecasted transactions with exposure to foreign currency exchange risk.

The effective portion of changes in the fair value of cash flow hedges is deferred in Accumulated other comprehensive income/(loss) and is recognized in Automotive cost of sales when the hedged item affects earnings. The ineffective portion is reported in Automotive cost of sales. Our policy is to de-designate cash flow hedges prior to the time forecasted transactions are recognized as assets or liabilities on the balance sheet and report subsequent changes in fair value through Automotive cost of sales. If it becomes probable that the originally-forecasted transaction will not occur, the related amount also is reclassified from Accumulated other comprehensive income/(loss) and recognized in earnings. The majority of our cash flow hedges mature in two years or less.

**Fair Value Hedges.** Our Financial Services sector uses derivatives to reduce the risk of changes in the fair value of liabilities. We have designated certain receive-fixed, pay-float interest rate swaps as fair value hedges of fixed-rate debt. The risk being hedged is the risk of changes in the fair value of the hedged debt attributable to changes in the

benchmark interest rate. If the hedge relationship is deemed to be highly effective, we record the changes in the fair value of the hedged debt related to the risk being hedged in Financial Services debt with the offset in Financial Services other income/(loss), net. The change in fair value of the related derivative (excluding accrued interest) also is recorded in Financial Services other income/(loss), net. Consequently, hedge ineffectiveness (the difference between the change in fair value of the derivative and the change in the value of the hedged debt that is attributable to the changes in the benchmark interest rate) is reflected in Financial Services other income/(loss), net.

Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

For our Financial Services sector, net interest settlements and accruals on fair value hedges are excluded from the assessment of hedge effectiveness. We report net interest settlements and accruals on fair value hedges in Interest expense, with the exception of foreign currency revaluation on accrued interest, which is reported in Selling, administrative, and other expenses. Ineffectiveness on fair value hedges and gains and losses on interest rate contracts not designated as hedging instruments are reported in Financial Services other income/(loss), net. Gains and losses on foreign exchange and cross-currency interest rate swap contracts not designated as hedging instruments are reported in Selling, administrative, and other expenses. The cash flows associated with fair value hedges are reported in Net cash provided by/(used in) operating activities on our statement of cash flows.

When a fair value hedge is de-designated, or when the derivative is terminated before maturity, the fair value adjustment to the hedged debt continues to be reported as part of the carrying value of the debt and is amortized over its remaining life.

Net Investment Hedges. We have used foreign currency exchange derivatives to hedge the net assets of certain foreign entities to offset the translation and economic exposures related to our investment in these entities. The effective portion of changes in the value of designated instruments is included in Accumulated other comprehensive income/(loss) as a foreign currency translation adjustment until the hedged investment is sold or liquidated. When the investment is sold or liquidated, the hedge gains and losses previously reported in Accumulated other comprehensive income/(loss) are recognized in Automotive interest income and other income/(loss), net as part of the gain or loss on sale. Presently, we have had no derivative instruments in an active net investment hedging relationship. We have elected the spot-to-spot method.

Normal Purchases and Normal Sales Classification. We have elected to apply the normal purchases and normal sales classification for physical supply contracts that are entered into for the purpose of procuring commodities to be used in production over a reasonable period in the normal course of our business.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

## Income Effect of Derivative Financial Instruments

The following tables summarize by hedge designation the pre-tax gains/(losses) recorded in Other comprehensive income/(loss) ("OCI"), reclassified from Accumulated other comprehensive income/(loss) ("AOCI") to income and/or recognized directly in income for the periods ended September 30 (in millions):

	Third Quarter 2012		First Nine Months 2012			
	Gain/(Loss) Recorded in OCI	Gain/(Loss) Reclassified from AOCI to Income	Gain/(Loss) Recognized in Income	Gain/(Loss) Recorded in OCI	Gain/(Loss) Reclassified from AOCI to Income	Gain/(Loss) Recognized in Income
<b>Automotive Sector</b>						
Cash flow hedges						
Foreign currency exchange contracts	\$(131 )	\$(129 )	\$(2 )	\$(500 )	\$(279 )	\$(2 )
Derivatives not designated as hedging instruments						
Foreign currency exchange contracts - operating exposures			\$(75 )			\$(110 )
Commodity contracts			96			(19 )
Other – warrants			—			(4 )
Total			\$ 21			\$(133 )
<b>Financial Services Sector</b>						
Fair value hedges						
Interest rate contracts						
Net interest settlements and accruals excluded from the assessment of hedge effectiveness			\$ 44			\$ 126
Ineffectiveness (a)			6			8
Total			\$ 50			\$ 134
Derivatives not designated as hedging instruments						
Interest rate contracts			\$(8 )			\$(12 )
Foreign currency exchange contracts			(16 )			(70 )
Cross-currency interest rate swap contracts			(61 )			(109 )
Other (b)			—			(81 )
Total			\$(85 )			\$(272 )

For the third quarter and first nine months of 2012, hedge ineffectiveness reflects change in fair value on (a) derivatives of \$118 million gain and \$276 million gain, respectively, and change in fair value on hedged debt of \$112 million loss and \$268 million loss, respectively.

(b) Reflects gains/(losses) for derivative features included in the FUEL Notes (see Note 3).





## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

	Third Quarter 2011		First Nine Months 2011			
	Gain/(Loss) Recorded in OCI	Gain/(Loss) Reclassified from AOCI to Income	Gain/(Loss) Recognized in Income	Gain/(Loss) Recorded in OCI	Gain/(Loss) Reclassified from AOCI to Income	Gain/(Loss) Recognized in Income
<b>Automotive Sector</b>						
Cash flow hedges						
Foreign currency exchange contracts	\$60	\$45	\$ (4 )	\$254	\$81	\$ (2 )
Derivatives not designated as hedging instruments						
Foreign currency exchange contracts - operating exposures			\$48			\$61
Commodity contracts			(344 )			(356 )
Other – warrants			(3 )			(2 )
Total			\$ (299 )			\$ (297 )
<b>Financial Services Sector</b>						
Fair value hedges						
Interest rate contracts						
Net interest settlements and accruals excluded from the assessment of hedge effectiveness			\$45			\$178
Ineffectiveness (a)			(6 )			(22 )
Total			\$39			\$156
Derivatives not designated as hedging instruments						
Interest rate contracts			\$11			\$7
Foreign currency exchange contracts			12			(26 )
Cross-currency interest rate swap contracts			33			2
Other (b)			83			85
Total			\$139			\$68

For the third quarter and first nine months of 2011, hedge ineffectiveness reflects change in fair value on (a) derivatives of \$372 million gain and \$418 million gain, respectively, and change in fair value on hedged debt of \$378 million loss and \$440 million loss, respectively.

(b) Reflects gains/(losses) for derivative features included in the FUEL Notes (see Note 3).

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

## Balance Sheet Effect of Derivative Financial Instruments

The following table summarizes the notional amount and estimated fair value of our derivative financial instruments (in millions):

	September 30, 2012			December 31, 2011		
	Notional	Fair Value of Assets	Fair Value of Liabilities	Notional	Fair Value of Assets	Fair Value of Liabilities
<b>Automotive Sector</b>						
Cash flow hedges						
Foreign currency exchange contracts	\$14,911	\$61	\$493	\$14,535	\$120	\$368
Derivatives not designated as hedging instruments						
Foreign currency exchange contracts	7,777	76	96	5,692	92	80
Commodity contracts	1,858	23	160	2,396	2	372
Other – warrants	12	—	—	12	4	—
Total derivatives not designated as hedging instruments	9,647	99	256	8,100	98	452
Total Automotive sector derivative financial instruments	\$24,558	\$160	\$749	\$22,635	\$218	\$820
<b>Financial Services Sector</b>						
Fair value hedges						
Interest rate contracts	\$14,431	\$820	\$5	\$7,786	\$526	\$—
Derivatives not designated as hedging instruments						
Interest rate contracts	63,214	675	279	70,639	670	237
Foreign currency exchange contracts	2,723	6	33	3,582	30	50
Cross-currency interest rate swap contracts	2,614	—	83	987	12	12
Other (a)	—	—	—	2,500	137	—
Total derivatives not designated as hedging instruments	68,551	681	395	77,708	849	299
Total Financial Services sector derivative financial instruments	\$82,982	\$1,501	\$400	\$85,494	\$1,375	\$299

Represents derivative features included in the FUEL Notes (see Note 3). The derivative features included in the (a) FUEL Notes were extinguished as a result of the mandatory exchange of the FUEL Notes to unsecured notes in the second quarter of 2012.

On our consolidated balance sheet, derivative assets are reported in Other assets for Automotive and Financial Services sectors, and derivative liabilities are reported in Payables for our Automotive sector and in Accrued liabilities and deferred revenue for our Financial Services sector.

The notional amounts of the derivative financial instruments do not represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. Notional amounts are presented on a gross basis with no netting of offsetting exposure positions. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, foreign currency exchange rates or commodity volumes and prices.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

## Counterparty Risk and Collateral

Use of derivatives exposes us to the risk that a counterparty may default on a derivative contract. We establish exposure limits for each counterparty to minimize this risk and provide counterparty diversification. Substantially all of our derivative exposures are with counterparties that have an investment grade rating. The aggregate fair value of derivative instruments in asset positions on September 30, 2012 was \$1.7 billion, representing the maximum loss that we would recognize at that date if all counterparties failed to perform as contracted. We enter into master agreements with counterparties that generally allow for netting of certain exposures; therefore, the actual loss we would recognize if all counterparties failed to perform as contracted would be lower.

We include an adjustment for non-performance risk in the fair value of derivative instruments. Our adjustment for non-performance risk is relative to a measure based on an unadjusted inter-bank deposit rate (e.g., LIBOR). For our Automotive sector, at September 30, 2012 and December 31, 2011, our adjustment decreased derivative assets by \$1 million and \$3 million, respectively, and decreased derivative liabilities by \$3 million and \$10 million, respectively. For our Financial Services sector, at September 30, 2012 and December 31, 2011, our adjustment decreased derivative assets by \$32 million and \$54 million, respectively, and decreased derivative liabilities by \$8 million and \$7 million, respectively. See Note 3 for more detail on valuation methodologies.

We post cash collateral with certain counterparties based on our net position with regard to foreign currency and commodity derivative contracts. We posted \$23 million and \$70 million as of September 30, 2012 and December 31, 2011, respectively, which is reported in Other assets on our consolidated balance sheet.

## NOTE 13. REDEEMABLE NONCONTROLLING INTEREST

On September 1, 2012, with respect to the business combination of Auto Alliance International ("AAI"), we recognized a redeemable noncontrolling interest related to Mazda Motor Corporation's ("Mazda's") 50% equity interest in AAI. Mazda's share in AAI is redeemable by Ford or Mazda for a three year period commencing on September 1, 2015 (see Note 17). The following table summarizes the changes in our redeemable noncontrolling interest for the period ended September 30 (in millions):

	2012
Balance on September 1, 2012	\$319
Accretion to the redemption value of noncontrolling interest (recognized in Interest expense)	1
Ending balance	\$320

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 14. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The following table summarizes the changes in the accumulated balances for each component of AOCI attributable to Ford Motor Company for the periods ended September 30 (in millions):

	First Nine Months	
	2012	2011
Foreign currency translation		
Beginning balance	\$(1,383 )	\$(665 )
Net gain/(loss) on foreign currency translation (net of tax of \$0 and \$0)	185	(471 )
Reclassifications to net income (net of tax of \$0 and \$0) (a)	—	(8 )
Other comprehensive income/(loss), net of tax (b)	185	(479 )
Ending balance	\$(1,198 )	\$(1,144 )
Derivative instruments		
Beginning balance	\$(181 )	\$(29 )
Net gain/(loss) on derivative instruments (net of tax benefit of \$153 and tax of \$21)	(347 )	233
Reclassifications to net income (net of tax of \$83 and tax benefit of \$25) (c)	196	(56 )
Other comprehensive income/(loss), net of tax	(151 )	177
Ending balance	\$(332 )	\$148
Pension and other postretirement benefits		
Beginning balance	\$(17,170 )	\$(13,617 )
Prior service cost arising during the period (net of tax of \$0 and \$0)	—	(45 )
Net gain/(loss) arising during the period (net of tax of \$0 and \$0)	—	(57 )
Amortization of prior service cost included in net income (net of tax benefit of \$84 and tax of \$7) (d)	(116 )	(173 )
Amortization of (gain)/loss included in net income (net of tax of \$225 and \$26) (d)	498	536
Translation impact on non-U.S. plans (net of tax of \$0 and \$0)	(223 )	85
Other comprehensive income/(loss), net of tax	159	346
Ending balance	\$(17,011 )	\$(13,271 )
Net holding gain/(loss)		
Beginning balance	\$—	\$(2 )
Reclassifications to net income (net of tax of \$0 and \$0)	—	—
Ending balance	\$—	\$(2 )
Total AOCI ending balance at September 30	\$(18,541 )	\$(14,269 )

The accumulated translation adjustments related to an investment in a foreign subsidiary are reclassified to net (a) income upon sale or liquidation of the entity and are recognized in Automotive interest income and other income/(loss), net or Financial Services other income/(loss), net.

(b) For 2011, there were \$2 million of losses attributable to noncontrolling interests.

(c) Gain/(loss) on cash flow hedges is reclassified from AOCI to income when the hedged item affects earnings and is recognized in Automotive cost of sales.

(d) These AOCI components are included in the computation of net periodic pension cost. See Note 10 for additional details.



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 15. OTHER INCOME/(LOSS)

## Automotive Sector

The following table summarizes amounts included in Automotive interest income and other income/(loss), net for the periods ended September 30 (in millions):

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Interest income	\$68	\$101	\$220	\$291
Realized and unrealized gains/(losses) on cash equivalents and marketable securities	23	(41)	) 28	(35)
Gains/(Losses) on the sale of held-for-sale operations, equity and cost investments, business combinations, and other dispositions	154	1	(32)	) 34
Gains/(Losses) on extinguishment of debt	—	—	—	(60)
Other	75	37	171	107
Total	\$320	\$98	\$387	\$337

## Financial Services Sector

The following table summarizes the amounts included in Financial Services other income/(loss), net for the periods ended September 30 (in millions):

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Interest income (investment-related)	\$17	\$29	\$54	\$66
Realized and unrealized gains/(losses) on cash equivalents and marketable securities	4	(4)	) 17	21
Gains/(Losses) on the sale of held-for-sale operations, equity and cost investments, business combinations, and other dispositions	1	(9)	) 1	(9)
Gains/(Losses) on extinguishment of debt	(3)	) (31)	) (12)	) (67)
Investment and other income related to sales of receivables	—	1	1	1
Insurance premiums earned, net	24	31	75	77
Other	53	159	126	225
Total	\$96	\$176	\$262	\$314

## NOTE 16. 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 extraordinary items are excluded from the estimated annual effective tax rate calculation and recognized in the interim period in which they occur.





Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 17. DISPOSITIONS AND ACQUISITIONS

Automotive Sector

Dispositions

Automotive Components Holdings, LLC ("ACH"). On June 1, 2012, ACH completed the sale of its automotive interior trim components business located at its Saline, Michigan plant to Faurecia. Faurecia will continue to supply Ford with interior trim components from the Saline facility as well as other Faurecia facilities. As a result of this transaction, we recognized a second quarter pre-tax loss of \$96 million reported in Automotive interest income and other income/(loss), net. Additionally, Ford assumed contractual obligations of \$182 million associated with the pricing of products to be purchased over the six-year term of the Purchase and Supply Agreement.

On June 30, 2012, ACH completed the sale of its automotive lighting business located at its Ohio facilities to Ventra Sandusky, a Flex-N-Gate group affiliate. Ventra Sandusky will continue to supply Ford with automotive lighting components and service parts from the Sandusky and Bellevue facilities. As a result of this transaction, we recognized a second quarter pre-tax loss of \$77 million reported in Automotive interest income and other income/(loss), net. Additionally, Ford assumed a contractual obligation of \$15 million associated with the pricing of products to be purchased over the four and one-half-year term of the Purchase and Supply Agreement.

Business Combinations

AAI. AAI is a 50/50 joint venture between Ford and Mazda that operates an automobile assembly plant in Flat Rock, Michigan. In September 2011, we signed a Memorandum of Understanding ("MOU") with Mazda to change our future business relationship with respect to AAI. Pursuant to the terms of the MOU, in the third quarter of 2012 the assembly plant ceased production of Mazda vehicles and on September 1, 2012 we acquired full management control of AAI.

In exchange, beginning on September 1, 2015 for a three year period, we have granted to Mazda a put option to sell, and received a call option to purchase from Mazda, the 50% equity interest in AAI that is held by Mazda ("the Option"). The Option is exercisable at a price of \$338 million and is determined by a formula based on AAI's expected December 31, 2012 closing balance sheet.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 17. DISPOSITIONS AND ACQUISITIONS (Continued)

The change in management control resulted in a business combination on September 1, 2012 and we consolidated AAI under the acquisition method of accounting. We measured the fair value of AAI using the income approach and used cash flows that reflect our approved business plan for AAI. We assumed a discount rate of 10% based on an appropriate weighted average cost of capital adjusted for perceived business risks. The fair value of 100% of AAI's identifiable net assets was \$868 million, as shown below:

	September 1, 2012
Assets	
Cash and cash equivalents	\$ 191
Marketable securities	321
Receivables	202
Inventories	99
Property, plant and equipment	487
Deferred tax assets	119
Total assets of AAI (a)	\$1,419
Liabilities	
Trade payables	\$ 150
Other payables	185
Accrued liabilities	41
Debt payable to Ford	51
Deferred tax liabilities	124
Total liabilities of AAI (a)	\$551

(a) As of September 1, 2012, intercompany assets of \$121 million and intercompany liabilities of \$306 million have been eliminated in both consolidated and sector balance sheets.

As part of the business combination, the Option was recorded as a redeemable noncontrolling interest in the mezzanine section of our balance sheet at the then fair value of \$319 million (see Note 13). This represents the discounted cash flow of the option price using Ford's incremental borrowing rate of 2.75%.

As a result, the fair value attributable to our investment in AAI at September 1, 2012 was \$549 million. The excess of this fair value over the carrying value of our previously recorded 50% unconsolidated equity interest resulted in a third quarter 2012 pre-tax gain of \$155 million in Automotive interest income and other income/(loss), net.

## NOTE 18. AMOUNTS PER SHARE ATTRIBUTABLE TO FORD MOTOR COMPANY COMMON AND CLASS B STOCK

We present both basic and diluted earnings per share ("EPS") amounts in our financial reporting. EPS is computed independently each quarter for income from continuing operations, income/(loss) from discontinued operations, and net income; as a result, the sum of per-share amounts from continuing operations and discontinued operations may not equal the total per-share amount for net earnings. Basic EPS excludes dilution and is computed by dividing income available to Common and Class B Stock holders by the weighted-average number of Common and Class B Stock outstanding for the period. Diluted EPS, on the other hand, reflects the maximum potential dilution that could occur if all of our equity-linked securities and other share-based compensation, including stock options, warrants, and rights under our convertible notes, were exercised. Potential dilutive shares are excluded from the calculation if they have

an anti-dilutive effect in the period.

#### Warrants

All warrants outstanding expire January 1, 2013. The net dilutive effect for warrants, included below, is approximately 19 million and 60 million dilutive shares for the third quarter and first nine months of 2012, respectively, representing the net share settlement methodology for the 362 million warrants outstanding as of September 30, 2012.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 18. AMOUNTS PER SHARE ATTRIBUTABLE TO FORD MOTOR COMPANY COMMON AND CLASS B STOCK (Continued)

## Effect of Dividends on Convertible Notes and Warrants

As a result of dividends totaling \$0.15 per share (\$0.05 per share in each of the first three quarters of 2012) paid on our Common Stock, the conversion rates for our outstanding convertible notes have been adjusted and the exercise price and number of underlying shares with respect to our outstanding warrants have been adjusted pursuant to their terms as follows:

Security	Prior to Adjustment	After Adjustment	Effective Date
4.25% Senior Convertible Notes Due November 15, 2016	107.5269 shares of Ford Common Stock for each \$1,000 principal amount	109.3202 shares of Ford Common Stock for each \$1,000 principal amount	August 1, 2012
4.25% Senior Convertible Notes Due 2036	108.6957 shares of Ford Common Stock for each \$1,000 principal amount	110.5085 shares of Ford Common Stock for each \$1,000 principal amount	August 6, 2012
Warrants to purchase Ford Common Stock, expiring January 1, 2013	\$9.20 to purchase one share	\$9.05 to purchase 1.0167 shares	August 6, 2012

## Dividend Declaration

On October 11, 2012, our Board of Directors declared a fourth quarter 2012 dividend on our Common and Class B Stock of \$0.05 per share payable on December 3, 2012 to stockholders of record on November 2, 2012.

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

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

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Basic and Diluted Income/(Loss) Attributable to Ford Motor Company				
Basic income/(loss) from continuing operations	\$1,631	\$1,649	\$4,067	\$6,598
Effect of dilutive 2016 Convertible Notes (a)	12	15	33	45
Effect of dilutive 2036 Convertible Notes (a)	—	—	1	1
Effect of dilutive Trust Preferred Securities (a) (b)	—	—	—	38
Diluted income/(loss) from continuing operations	\$1,643	\$1,664	\$4,101	\$6,682
Basic and Diluted Shares				
Basic shares (average shares outstanding)	3,814	3,800	3,811	3,790
Net dilutive options and warrants	59	133	108	202
Dilutive 2016 Convertible Notes	96	95	95	95
Dilutive 2036 Convertible Notes	3	3	3	3
Dilutive Trust Preferred Securities (b)	—	—	—	44
Diluted shares	3,972	4,031	4,017	4,134

- 
- (a) As applicable, includes interest expense, amortization of discount, amortization of fees, and other changes in income or loss that would result from the assumed conversion.
- (b) The Trust Preferred Securities, which were convertible into Ford Common Stock, were fully redeemed on March 15, 2011.

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 19. SEGMENT INFORMATION

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

	Automotive Sector Operating Segments				Reconciling Items		Total
	Ford North America	Ford South America	Ford Europe	Ford Asia Pacific Africa	Other Automotive	Special Items	
Third Quarter 2012							
Revenues							
External customer	\$19,438	\$2,314	\$5,828	\$2,667	\$—	\$—	\$30,247
Intersegment	241	—	120	—	—	—	361
Income							
Income/(Loss) before income taxes	2,328	9	(468 )	45	(139 )	83	1,858
Total assets at September 30	51,718	6,351	19,079	7,236	—	—	84,384
Third Quarter 2011							
Revenues							
External customer	\$17,927	\$2,979	\$7,787	\$2,350	\$—	\$—	\$31,043
Intersegment	57	—	193	—	—	—	250
Income							
Income/(Loss) before income taxes	1,550	276	(306 )	(43 )	(138 )	(98 )	1,241
Total assets at September 30	31,733	6,667	22,204	6,210	—	—	66,814
First Nine Months 2012							
Revenues							
External customer	\$57,747	\$7,047	\$20,110	\$7,196	\$—	\$—	\$92,100
Intersegment	532	—	524	—	—	—	1,056
Income							
Income/(Loss) before income taxes	6,471	68	(1,021 )	(116 )	(408 )	(406 )	4,588
Total assets at September 30	51,718	6,351	19,079	7,236	—	—	84,384
First Nine Months 2011							
Revenues							
External customer	\$55,330	\$8,229	\$25,492	\$6,506	\$—	\$—	\$95,557
Intersegment	194	—	710	—	—	—	904
Income							
Income/(Loss) before income taxes	5,302	753	163	(9 )	(463 )	(431 )	5,315
Total assets at September 30	31,733	6,667	22,204	6,210	—	—	66,814



## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 19. SEGMENT INFORMATION (Continued)

	Financial Services Sector				Total Company	
	Operating Segments		Reconciling Item		Elims (a)	Total
	Ford Credit	Other Financial Services	Elims	Total		
Third Quarter 2012						
Revenues						
External customer	\$1,861	\$64	\$—	\$1,925	\$—	\$32,172
Intersegment	99	1	—	100	(461)	—
Income						
Income/(Loss) before income taxes	393	(5)	) —	388	—	2,246
Total assets at September 30	101,327	8,005	(7,189)	) 102,143	(1,847)	) 184,680
Third Quarter 2011						
Revenues						
External customer	\$1,918	\$86	\$—	\$2,004	\$—	\$33,047
Intersegment	135	—	—	135	(385)	—
Income						
Income/(Loss) before income taxes	581	24	—	605	—	1,846
Total assets at September 30	97,483	8,928	(7,199)	) 99,212	(3,286)	) 162,740
First Nine Months 2012						
Revenues						
External customer	\$5,525	\$203	\$—	\$5,728	\$—	\$97,828
Intersegment	349	3	—	352	(1,408)	—
Income						
Income/(Loss) before income taxes	1,283	8	—	1,291	—	5,879
Total assets at September 30	101,327	8,005	(7,189)	) 102,143	(1,847)	) 184,680
First Nine Months 2011						
Revenues						
External customer	\$5,880	\$251	\$—	\$6,131	\$—	\$101,688
Intersegment	423	3	—	426	(1,330)	—
Income						
Income/(Loss) before income taxes	1,898	15	—	1,913	—	7,228
Total assets at September 30	97,483	8,928	(7,199)	) 99,212	(3,286)	) 162,740



---

(a) Includes intersector transactions and deferred tax netting.

48

---

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 20. COMMITMENTS AND CONTINGENCIES

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

## Guarantees

At September 30, 2012 and December 31, 2011, the following guarantees and indemnifications were issued and outstanding:

Guarantees related to affiliates and third parties. We guarantee debt and lease obligations of certain joint ventures, as well as certain financial obligations of outside third parties, including suppliers, to support our business and economic growth. Expiration dates vary through 2019, and guarantees will terminate on payment and/or cancellation of the obligation. A payment by us would be triggered by failure of the joint venture or other third party to fulfill its obligation covered by the guarantee. In some circumstances, we are entitled to recover from the third party amounts paid by us under the guarantee. However, our ability to enforce these rights is sometimes stayed until the guaranteed party is paid in full, and may be limited in the event of insolvency of the third party or other circumstances. The maximum potential payments under guarantees and the carrying value of recorded liabilities related to guarantees were as follows(in millions):

	September 30, 2012	December 31, 2011
Maximum potential payments	\$403	\$444
Carrying value of recorded liabilities related to guarantees	25	31

We regularly review our performance risk under these guarantees, which has resulted in no changes to our initial valuations.

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

## Litigation and Claims

Various legal actions, proceedings, and claims (generally, "matters") are pending or may be instituted or asserted against us. These include but are not limited to matters arising out of alleged defects in our products; product warranties; governmental regulations relating to safety, emissions, and fuel economy or other matters; government incentives; tax matters; alleged illegal acts resulting in fines or penalties; financial services; employment-related matters; dealer, supplier, and other contractual relationships; intellectual property rights; environmental matters; shareholder or investor matters; and financial reporting matters. Certain of the pending legal actions are, or purport to be, class actions. Some of the matters involve or may involve claims for compensatory, punitive, or antitrust or other

treble damages in very large amounts, or demands for recall campaigns, environmental remediation programs, sanctions, loss of government incentives, assessments, or other relief, which, if granted, would require very large expenditures.

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

## Item 1. Financial Statements (Continued)

FORD MOTOR COMPANY AND SUBSIDIARIES  
NOTES TO THE FINANCIAL STATEMENTS

## NOTE 20. COMMITMENTS AND CONTINGENCIES (Continued)

In evaluating for accrual and disclosure purposes matters filed against us, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, and the severity of any potential loss. We reevaluate and update our accruals as matters progress over time.

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

For the remaining matters, where our historical experience with similar matters is of more limited value (i.e., "non-pattern matters"), we evaluate matters primarily based on the individual facts and circumstances. For non-pattern matters, we evaluate whether there is a reasonable possibility of material loss in excess of any accrual. Our estimate of reasonably possible loss in excess of our accruals for all material matters currently reflects non-U.S. indirect tax matters, for which we estimate this aggregate risk to be a range of up to about \$2.3 billion.

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

## Warranty

Included in warranty cost accruals are the costs for basic warranty coverages and field service actions (i.e., product recalls and owner notification programs) on products sold. These costs are estimates based primarily on historical warranty claim experience. Warranty accruals accounted for in Accrued liabilities and deferred revenue for the periods ended September 30 were as follows (in millions):

	First Nine Months	
	2012	2011
Beginning balance	\$3,915	\$3,855
Payments made during the period	(1,675)	(2,205)
Changes in accrual related to warranties issued during the period	1,402	1,575
Changes in accrual related to pre-existing warranties	(17)	426
Foreign currency translation and other	23	(26)
Ending balance	\$3,648	\$3,625

Excluded from the table above are costs accrued for customer satisfaction actions.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Ford Motor Company:

We have reviewed the accompanying consolidated balance sheet of Ford Motor Company and its subsidiaries as of September 30, 2012, and the related consolidated statements of operations, comprehensive income, and equity for the three-month and nine-month periods ended September 30, 2012 and 2011 and the condensed consolidated statement of cash flows for the nine-month periods ended September 30, 2012 and 2011. These interim financial statements are the responsibility of the Company's management.

The accompanying sector balance sheets and the related sector statements of operations and of cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the review procedures applied in the review of the basic financial statements.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2011, and the related consolidated statements of operations, equity, and cash flows for the year then ended (not presented herein), and in our report dated February 21, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Detroit, Michigan  
November 2, 2012

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

## RESULTS OF OPERATIONS

## TOTAL COMPANY

As shown in the table below, third quarter 2012 net income was essentially unchanged from a year ago, reflecting higher operating results offset by a higher provision for income taxes related to the release of the tax valuation allowance in the fourth quarter of 2011. The decrease in net income for the first nine months of 2012 compared with a year ago primarily reflected lower operating results and higher tax expense related to the tax valuation allowance release.

	Third Quarter		First Nine Months	
	2012	Better/(Worse) 2011	2012	Better/(Worse) 2011
	(Mils.)	(Mils.)	(Mils.)	(Mils.)
Income/(Loss)				
Pre-tax results (excl. special items)	\$2,163	\$ 219	\$6,285	\$(1,374 )
Special items	83	181	(406 )	25
Pre-tax results (incl. special items)	2,246	400	5,879	(1,349 )
(Provision for)/Benefit from income taxes	(613 )	(419 )	(1,810 )	(1,190 )
Net income/(loss)	1,633	(19 )	4,069	(2,539 )
Less: Income/(Loss) attributable to noncontrolling interests	2	(1 )	2	(8 )
Net income/(loss) attributable to Ford	\$1,631	\$(18 )	\$4,067	\$(2,531 )

Income/(Loss) before income taxes includes certain items ("special items") that we have grouped into "Personnel and Dealer-Related Items" and "Other Items" to provide useful information to investors about the nature of the special items. The first category includes items related to our efforts to match production capacity and cost structure to market demand and changing model mix and therefore helps investors track amounts related to those activities. The second category includes items that we do not generally consider to be indicative of our ongoing operating activities, and therefore allows investors analyzing our pre-tax results to identify certain infrequent significant items that they may wish to exclude when considering the trend of ongoing operating results.

As detailed in Note 19 of the Notes to the Financial Statements, we allocate special items to a separate reconciling item, as opposed to allocating them among the operating segments and Other Automotive, reflecting the fact that management excludes these items from its review of operating segment results for purposes of measuring segment profitability and allocating resources among the segments.

The following table details Automotive sector special items in each category:

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
	(Mils.)	(Mils.)	(Mils.)	(Mils.)
Personnel and Dealer-Related Items				
Personnel-reduction actions	\$(23 )	\$(81 )	\$(313 )	\$(213 )
Mercury discontinuation/Other dealer actions	(18 )	(42 )	(47 )	(104 )
Job Security Benefits/Other	5	29	23	33
Total Personnel and Dealer-Related Items	(36 )	(94 )	(337 )	(284 )
Other Items				
AAI consolidation (a)	136	—	136	—

Edgar Filing: FORD MOTOR CO - Form 10-Q

Loss on sale of two component businesses	(1	) —	(174	) —
Belgium pension settlement	—	—	—	(104 )
Trust Preferred redemption	—	—	—	(60 )
Other	(16	) (4	) (31	) 17
Total Other Items	119	(4	) (69	) (147 )
Total Special Items	\$83	\$(98	) \$(406	) \$(431 )

The special item of \$136 million is comprised of the \$155 million gain from the consolidation of AAI (see Note 17 (a) of the Notes to the Financial Statements), less a related \$19 million adjustment for sales in September 2012 of Ford-brand vehicles produced by AAI.

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

Discussion of Automotive sector, Financial Services sector, and total Company results of operations below is on a pre-tax basis and excludes special items unless otherwise specifically noted.

The chart below details third quarter 2012 pre-tax results by sector:

The increase in total Company pre-tax profit for third quarter 2012 compared with a year ago reflected higher Automotive sector profit, offset partially by lower Financial Services sector profit, as discussed below.



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

AUTOMOTIVE SECTOR

In general, we measure year-over-year change in Automotive pre-tax operating profit for our total Automotive sector and reportable segments using the causal factors listed below, with revenue and cost variances calculated at present-year volume and mix and exchange:

Market Factors:

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

Net Pricing - Primarily measures profit variance driven by changes in wholesale prices to dealers and marketing incentive programs such as rebate programs, low-rate financing offers, and special lease offers

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

Other Costs - Primarily measures profit variance driven by absolute change in cost categories that typically do not have a directly proportionate relationship to production volume. These include mainly structural costs, described below, as well as all other costs, which include items such as litigation costs and costs related to our after-market parts, accessories, and service business. Structural costs include the following cost categories:

Manufacturing and Engineering - consists primarily of costs for hourly and salaried manufacturing- and engineering-related personnel, plant overhead (such as utilities and taxes), new product launch expense, prototype materials, and outside engineering services

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

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

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

Pension and OPEB - consists primarily of past service pension cost and other post-retirement employee benefit costs

Exchange - Primarily measures profit variance driven by one or more of the following: (i) impact of gains or losses arising from transactions denominated in currencies other than the functional currency of the locations, (ii) effect of remeasuring income, assets, and liabilities of foreign subsidiaries using U.S. dollars as the functional currency, or (iii) results of our foreign currency hedging activities

Net Interest and Other - Primarily measures profit variance driven by changes in our Automotive sector's centrally-managed net interest (primarily interest expense, interest income, and other adjustments) and related fair value market adjustments in our investment portfolio and marketable securities as well as other items not included in the causal factors defined above

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

Total Automotive. The charts below detail key metrics, and the change in pre-tax results for the third quarter of 2012 compared with the third quarter of 2011 by causal factor. Automotive operating margin is defined as Automotive pre-tax results, excluding special items and Other Automotive, divided by Automotive revenue.

As shown above, third quarter 2012 wholesales and revenue for the total Automotive sector decreased slightly from a year ago, more than explained by Europe, while pre-tax results and operating margin increased. As shown in the memo above, all four key metrics -- wholesales, revenue, pre-tax results, and operating margin -- were lower for the first nine months of 2012 compared with a year ago.

The increase in third quarter 2012 total Automotive pre-tax profit compared with a year ago primarily reflected higher net pricing and lower contribution cost, offset partially by higher structural costs and unfavorable exchange. During the quarter, we incurred a favorable absolute commodity hedge adjustment of about \$100 million, compared with an unfavorable absolute hedge adjustment of about \$350 million a year ago. The difference in the adjustments between these two periods was the primary factor driving improved contribution cost in the present quarter compared with a year ago.

The increase in pre-tax profit for the third quarter of 2012 compared with the second quarter of 2012 (shown in the memo above) reflected higher net pricing and lower costs, offset partially by lower volume.

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

Total costs and expenses for our Automotive sector for third quarter 2012 and 2011 was \$28.6 billion and \$29.8 billion, respectively, a difference of \$1.2 billion; for first nine months 2012 and 2011 these were \$87.6 billion and \$90.3 billion, respectively, a difference of \$2.7 billion. An explanation of the changes, as reconciled to our statement of operations, is shown below (in billions):

Explanation of change:	2012 Better/(Worse) 2011	
	Third Quarter	First Nine Months
Volume and mix, exchange, and other	\$ 1.3	\$ 4.0
Contribution costs (a)		
Commodity costs (incl. hedging)	0.4	—
Material costs excluding commodity costs	(0.2	) (0.4
Warranty/Freight	0.3	0.4
Other costs (a)		
Structural costs	(0.6	) (1.1
Other	—	(0.2
Special items	—	—
Total	\$ 1.2	\$ 2.7

Our key cost change elements are measured primarily at present-year exchange; in addition, costs that vary directly (a) with volume, such as material, freight and warranty costs, are measured at present-year volume and mix. Excludes special items.

Results by Automotive Segment. Details by segment of Income/(Loss) before income taxes are shown below for the third quarter of 2012.

Third quarter 2012 total Automotive pre-tax profit was more than explained by Ford North America results. Ford South America and Ford Asia Pacific Africa were also profitable, while Ford Europe incurred a loss. The loss in Other Automotive mainly reflects net interest expense.

We expect full-year 2012 net interest expense to be about \$500 million, consistent with the low end of our prior guidance.

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

Ford North America Segment. The charts below detail key metrics, and the change in pre-tax results for the third quarter of 2012 compared with the third quarter of 2011 by causal factor.

As shown above, all four key metrics increased for the third quarter and first nine months of 2012 compared with a year ago. The increase in pre-tax profit for third quarter 2012 compared with a year ago was more than explained by favorable volume and mix, higher net pricing, and lower contribution cost (mainly reflecting favorable commodity hedging effect); higher structural costs and unfavorable exchange were partial offsets.

The increase in pre-tax profit for the third quarter of 2012 compared with the second quarter of 2012 (shown in the memo above) reflected higher net pricing and lower contribution cost, offset partially by lower volume.

Our total U.S. market share in the third quarter (shown in the memo above) was down 1.5 percentage points from the same period a year ago. The decrease primarily reflected the impact of discontinued products such as Ranger and Crown Victoria, as well as adverse industry segmentation changes for the full-size pickup segment; F-Series share of the full-size pickup segment was higher compared with last year.

Our full-year 2012 outlook for Ford North America is unchanged. We expect significantly higher full-year pre-tax profit and operating margin compared with 2011, as consumers continue to respond to our strong product line-up while we maintain our competitive cost structure as we grow our business.

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

Ford South America Segment. The charts below detail key metrics and the change in pre-tax results for the third quarter of 2012 compared with the third quarter of 2011 by causal factor.

As shown above, all four key metrics declined for the third quarter and first nine months of 2012 compared with a year ago. The decrease in wholesales was due in part to the launch ramp-up of new products, and production reductions in Venezuela related to currency restrictions, while unfavorable exchange contributed to the decline in revenue. The decrease in pre-tax profit for the third quarter of 2012 compared with a year ago primarily reflected unfavorable exchange (mainly a weaker Brazilian real), unfavorable volume and mix, and higher costs. Although net pricing was higher in the third quarter of 2012 than a year ago, it was constrained compared with prior years by a more intense competitive environment.

As shown in the memo above, third quarter 2012 pre-tax profit was about unchanged compared with second quarter 2012.

We continue to expect Ford South America to be profitable for full-year 2012, but at a substantially lower level than 2011.

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

Ford Europe Segment. The charts below detail key metrics and the change in pre-tax results for the third quarter of 2012 compared with the third quarter of 2011 by causal factor.

As shown above, all four key metrics declined for the third quarter and first nine months of 2012 compared with a year ago. The decline in wholesales and revenue primarily reflected lower industry sales and market share, along with corresponding dealer stock adjustments. Revenue also was negatively affected by unfavorable exchange.

The decline in third quarter 2012 pre-tax results compared with a year ago was more than explained by lower volume, including the impact of lower industry, lower share, and unfavorable dealer stock changes; lower costs and favorable exchange were partial offsets.

The decline in pre-tax profits for the third quarter of 2012 compared with the second quarter of 2012 (shown in the memo above) was more than explained by lower volume.

As a result of the deteriorating environment in Europe, as well as elements of our transformation plan for Ford Europe, we now expect our full-year 2012 loss for Ford Europe to exceed \$1.5 billion. This includes more than \$400 million related to dealer stock reductions, and about \$100 million of accelerated depreciation associated with planned manufacturing footprint actions. Compared with prior guidance, the higher loss is explained primarily by the strategic dealer stock reduction actions being taken in the fourth quarter. See "Outlook" below for additional discussion.

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

Ford Asia Pacific Africa Segment. The charts below detail key metrics and the change in pre-tax results for the third quarter of 2012 compared with the third quarter of 2011 by causal factor.

As shown above, all four key metrics improved for the third quarter of 2012 compared with a year ago. For the first nine months of 2012 (as shown in the memo), pre-tax earnings declined compared with a year ago, while wholesales and revenue were higher than a year ago.

The improvement in third quarter 2012 pre-tax results compared with a year ago primarily reflected favorable volume and mix, higher net pricing, and favorable exchange, offset partially by higher costs associated with new products and investments to support higher volumes and future growth.

As shown in the memo above, the improvement in pre-tax results for the third quarter of 2012 compared with the second quarter of 2012 primarily reflected favorable market factors.

For full-year 2012, we expect Ford Asia Pacific Africa's results to be a loss roughly in line with 2011.

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

FINANCIAL SERVICES SECTOR

As shown in the total Company discussion above, we present our Financial Services sector results in two segments, Ford Credit and Other Financial Services. Ford Credit, in turn, has two segments, North America and International.

Ford Credit. The chart below details the decrease in pre-tax operating profit by causal factor:

The decline in pre-tax profits is more than explained by fewer lease terminations, which resulted in fewer vehicles sold at a gain, lower financing margin as higher-yielding assets originated in prior years run off, and the non-recurrence of credit loss reserve reductions.

Ford Credit now expects full-year 2012 pre-tax profits of about \$1.6 billion and to pay distributions for the full year of about \$600 million. Ford Credit will continue to assess future distributions based on available liquidity and managed leverage objectives. Ford Credit projects managed receivables to be in the range of \$85 billion to \$90 billion at year-end 2012.



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

Ford Credit's receivables, including finance receivables and operating leases at September 30, 2012 and December 31, 2011 are shown in the table below (in billions). Receivables at September 30, 2012 increased from year-end 2011, primarily due to higher net investment in operating leases in North America.

	September 30, 2012	December 31, 2011
Receivables		
Finance receivables – North America Segment		
Consumer		
Retail installment and direct financing leases	\$39.3	\$38.4
Non-Consumer		
Wholesale	15.6	15.5
Dealer loan and other	2.2	2.1
Total North America Segment – finance receivables (a)	57.1	56.0
Finance receivables – International Segment		
Consumer		
Retail installment and direct financing leases	8.9	9.1
Non-Consumer		
Wholesale	7.0	8.5
Dealer loan and other	0.4	0.4
Total International Segment – finance receivables (a)	16.3	18.0
Unearned interest supplements	(1.5	) (1.6
Allowance for credit losses	(0.4	) (0.5
Finance receivables, net	71.5	71.9
Net investment in operating leases (a)	14.0	11.1
Total receivables (b)	\$85.5	\$83.0
Memo:		
Total managed receivables (c)	\$87.0	\$84.6

At September 30, 2012 and December 31, 2011, includes consumer receivables before allowance for credit losses of \$29.6 billion and \$36 billion, respectively, and non-consumer receivables before allowance for credit losses of \$18.5 billion and \$19.8 billion, respectively, that have been sold for legal purposes in securitization transactions but continue to be reported in our consolidated financial statements. In addition, at September 30, 2012 and December 31, 2011, includes net investment in operating leases before allowance for credit losses of \$5.1 billion and (a) \$6.4 billion, respectively, that have been included in securitization transactions but continue to be reported in our financial statements. The receivables are available only for payment of the debt and other obligations issued or arising in the securitization transactions; they are not available to pay Ford Credit's other obligations or the claims of its other creditors. Ford Credit holds the right to receive the excess cash flows not needed to pay the debt and other obligations issued or arising in each of these securitization transactions.

(b) Includes allowance for credit losses of \$416 million and \$534 million at September 30, 2012 and December 31, 2011, respectively.

(c) Excludes unearned interest supplements related to finance receivables.

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

Credit Losses. The charts below detail quarterly trends of charge-offs (credit losses, net of recoveries), loss-to-receivables ratios (charge-offs on an annualized basis divided by the average amount of receivables outstanding for the period, excluding the reserves and unearned interest supplements related to finance receivables), credit loss reserve, and Ford Credit's credit loss reserve as a percentage of end-of-period ("EOP") receivables:

Ford Credit's third quarter 2012 credit losses continued at or near historically low levels.

Year-over-year charge-offs were down \$10 million, reflecting lower repossessions in the United States. Quarter-over-quarter charge-offs were up \$18 million, reflecting lower recoveries and higher repossessions and severities, consistent with historical seasonality. Although credit loss performance (i.e., LTRs) continued to be in line with historical lows, Ford Credit started to see a reduction in its year-over-year improvements.

The credit loss reserve was \$416 million, down \$182 million from a year ago, reflecting lower repossessions, and up \$10 million from the second quarter of 2012, primarily reflecting growth of the portfolio.

In purchasing retail finance and lease contracts, Ford Credit uses a proprietary scoring system that classifies contracts using several factors, such as credit bureau information, credit bureau scores (e.g., FICO score), customer characteristics, and contract characteristics. In addition to Ford Credit's proprietary scoring system, it considers other factors, such as employment history, financial stability, and capacity to pay. At September 30, 2012 and December 31, 2011, Ford Credit classified between 5% - 6% of the outstanding U.S. retail finance and lease contracts in its portfolio as high risk at contract inception.

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

**Residual Risk.** Ford Credit is exposed to residual risk on operating leases and similar balloon payment products where the customer may return the financed vehicle to Ford Credit. Residual risk is the possibility that the amount Ford Credit obtains from returned vehicles will be less than its estimate of the expected residual value for the vehicle. Ford Credit estimates the expected residual value by evaluating recent auction values, return volumes for its leased vehicles, industry-wide used vehicle prices, marketing incentive plans, and vehicle quality data.

The following chart shows return volumes and auction values at constant third quarter 2012 vehicle mix for vehicles returned in the respective periods. Ford Credit's U.S. Ford and Lincoln operating lease portfolio accounted for about 90% of its total investment in operating leases at September 30, 2012.

Lease return volumes in the third quarter of 2012 were 2,000 units lower than the same period a year ago, primarily reflecting lower lease placements in 2009. The third quarter 2012 lease return rate was 61%, up 13 percentage points compared with the same period last year, reflecting a higher mix of 24-month contracts, which typically have higher return rates than longer term contracts.

In the third quarter of 2012, Ford Credit's auction values for 36-month vehicles were comparable with the same period a year ago and with the second quarter of 2012. Ford Credit's 24-month auction values declined \$125 per unit from second quarter 2012.

Ford Credit's worldwide net investment in operating leases was \$14 billion at the end of the third quarter of 2012, up from \$11.1 billion at year-end 2011.

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

## LIQUIDITY AND CAPITAL RESOURCES

## Automotive Sector

Our Automotive liquidity strategy includes ensuring that we have sufficient liquidity available with a high degree of certainty throughout the business cycle by generating cash from operations and maintaining access to other sources of funding. For a discussion of risks to our liquidity, see "Item 1A. Risk Factors" in our 2011 Form 10-K Report, as well as Note 20 of the Notes to the Financial Statements regarding commitments and contingencies that could impact our liquidity.

Gross Cash. Automotive gross cash includes cash and cash equivalents and marketable securities, net of any securities-in-transit. Gross cash is detailed below as of the dates shown (in billions):

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Cash and cash equivalents	\$6.2	\$7.2	\$7.3	\$7.9	\$8.1
Marketable securities	17.9	16.6	15.8	15.0	12.7
Total cash, marketable securities and loaned securities	24.1	23.8	23.1	22.9	20.8
Securities-in-transit (a)	—	(0.1	) (0.1	) —	—
Gross cash	\$24.1	\$23.7	\$23.0	\$22.9	\$20.8

(a) The purchase or sale of marketable securities for which the cash settlement was not made by period-end and for which there was a payable or receivable recorded on the balance sheet at period-end.

Our cash, cash equivalents, and marketable securities are held primarily in highly liquid investments, which provide for anticipated and unanticipated cash needs. Our cash, cash equivalents, and marketable securities primarily include U.S. Department of Treasury obligations, federal agency securities, bank time deposits with investment-grade institutions, corporate investment-grade securities, commercial paper rated A-1/P-1 or higher, and debt obligations of a select group of non-U.S. governments, non-U.S. governmental agencies, and supranational institutions. The average maturity of these investments ranges from 90 days to up to one year, and is adjusted based on market conditions and liquidity needs. We monitor our cash levels and average maturity on a daily basis. Within our Automotive gross cash portfolio, we currently do not hold investments in government obligations of Greece, Ireland, Italy, Portugal, or Spain, nor did we hold any at September 30, 2012.

In managing our business, we classify changes in Automotive gross cash into operating-related and other items (which includes the impact of certain special items, contributions to funded pension plans, certain tax-related transactions, acquisitions and divestitures, capital transactions with the Financial Services sector, dividends paid to shareholders, and other -- primarily financing-related). Our key liquidity metrics are operating-related cash flow (which best represents the ability of our Automotive operations to generate cash), Automotive gross cash, and Automotive liquidity. Automotive gross cash and liquidity as of the dates shown were as follows (in billions):

	September 30, 2012	December 31, 2011
Gross cash	\$24.1	\$22.9
Available credit lines		
Secured credit facility, unutilized portion	9.5	8.8
Local lines available to foreign affiliates, unutilized portion	0.8	0.7
Automotive liquidity	\$34.4	\$32.4

We believe the cash flow analysis reflected in the table below is useful to investors because it includes in operating-related cash flow elements that we consider to be related to our Automotive operating activities (e.g., capital spending) and excludes cash flow elements that we do not consider to be related to the ability of our operations to generate cash. This differs from a GAAP cash flow statement and differs from Net cash provided by/(used in) operating activities, the most directly comparable GAAP financial measure.

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

Changes in Automotive gross cash are summarized below (in billions):

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Gross cash at end of period	\$24.1	\$20.8	\$24.1	\$20.8
Gross cash at beginning of period	23.7	22.0	22.9	20.5
Total change in gross cash	\$0.4	\$(1.2)	) \$1.2	\$0.3
Automotive income/(loss) before income taxes (excluding special items)	\$1.8	\$1.3	\$5.0	\$5.7
Capital expenditures	(1.3)	) (1.1)	) (3.6)	) (3.1)
Depreciation and special tools amortization	0.8	0.8	2.6	2.6
Changes in working capital (a)	(0.4)	) (0.8)	) (1.1)	) 0.7
Other/Timing differences (b)	(0.2)	) 0.2	(0.5)	) (1.0)
Total operating-related cash flows	0.7	0.4	2.4	4.9
Cash impact of personnel-reduction programs accrual	—	(0.1)	) (0.3)	) (0.2)
Net receipts from Financial Services sector (c)	0.3	0.6	0.7	2.9
Other (d)	0.3	(0.7)	) 0.7	(0.2)
Cash flow before other actions	1.3	0.2	3.5	7.4
Net proceeds from/(Payments on) Automotive sector debt	—	(1.2)	) 0.9	(6.3)
Contributions to funded pension plans	(0.6)	) (0.2)	) (2.5)	) (1.0)
Dividends/Other	(0.3)	) —	(0.7)	) 0.2
Total change in gross cash	\$0.4	\$(1.2)	) \$1.2	\$0.3

(a) Working capital comprised of changes in receivables, inventory and trade payables.

(b) Primarily expense and payment timing differences for items such as pension and OPEB, compensation, marketing, and warranty, as well as additional factors, such as the impact of tax payments.

(c) Primarily distributions and tax payments received from Ford Credit.

(d) Third quarter 2012 includes cash and marketable securities resulting from the consolidation of AAI.

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

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

Shown below is a reconciliation between financial statement Net cash provided by/(used in) operating activities and operating-related cash flows (calculated as shown in the table above), as of the dates shown (in billions):

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Net cash provided by/(used in) by operating activities	\$1.4	\$1.1	\$4.1	\$6.8
Items included in operating-related cash flows				
Capital expenditures	(1.3	) (1.1	) (3.6	) (3.1
Proceeds from the exercise of stock options	—	—	—	0.1
Net cash flows from non-designated derivatives	(0.3	) —	(0.6	) 0.1
Items not included in operating-related cash flows				
Cash impact of Job Security Benefits and personnel-reduction actions	—	0.1	0.3	0.2
Contributions to funded pension plans	0.6	0.2	2.5	1.0
Tax refunds, tax payments, and tax receipts from affiliates	—	—	(0.1	) (0.4
Settlement of outstanding obligation with affiliates	—	—	(0.3	) —
Other	0.3	0.1	0.1	0.2
Operating-related cash flows	\$0.7	\$0.4	\$2.4	\$4.9

Credit Agreement. Lenders have commitments under our Credit Agreement totaling \$9,255 million in a revolving facility that will mature on November 30, 2015, and commitments totaling an additional \$307 million in a revolving facility that will mature on November 30, 2013. Our Credit Agreement is free of material adverse change clauses, restrictive financial covenants (for example, debt-to-equity limitations and minimum net worth requirements) and credit rating triggers that could limit our ability to obtain funding. On May 22, 2012, the collateral securing our Credit Agreement was automatically released upon our unsecured, long-term debt being upgraded to investment grade by Fitch and Moody's.

At September 30, 2012, the utilized portion of the revolving credit facilities was \$94 million, representing amounts utilized as letters of credit. Less than 1% of the commitments in the revolving credit facilities are from financial institutions that are based in Greece, Ireland, Italy, Portugal, and Spain.

U.S. Department of Energy ("DOE") Advanced Technology Vehicle Manufacturer ("ATVM") Incentive Program. In August of 2012, we drew \$137 million (representing the remaining available funds) and began repayment in September with an installment of \$148 million under the Loan Arrangement and Reimbursement Agreement with the DOE under the ATVM Incentive Program. As a result, at September 30, 2012, an aggregate of \$5.8 billion was outstanding. The proceeds of the loan have been used to finance certain costs for fuel efficient, advanced technology vehicles. The principal amount of the ATVM loan bears interest at a blended rate based on the U.S. Treasury yield curve at the time of each draw and is repayable in equal quarterly installments, which began in September 2012 and will end in June 2022.

Export-Import Bank of the United States ("Ex-Im") and Private Export Funding Corporation ("PEFCO") Secured Revolving Loan. At September 30, 2012, this working capital facility, which supports vehicle exports from the United States, was fully drawn at \$300 million. The facility will renew annually until June 15, 2015, provided that no payment or bankruptcy default exists and Ex-Im continues to have a perfected security interest in the collateral, which consists of vehicles in transit in the United States to be exported to Canada, Mexico, and other select markets.

Other Automotive Credit Facilities. At September 30, 2012, we had \$903 million of local credit facilities available to non-U.S. Automotive affiliates, of which \$111 million had been utilized. Of the \$903 million of committed credit facilities, \$50 million expires in 2012, \$294 million expires in 2013, \$197 million expires in 2014, \$321 million expires in 2015, and \$41 million thereafter.





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

Net Cash. Our Automotive sector net cash calculation as of the dates shown was as follows (in billions):

	September 30, 2012	December 31, 2011
Gross cash	\$24.1	\$22.9
Less:		
Long-term debt	12.9	12.1
Debt payable within one year	1.3	1.0
Total debt	14.2	13.1
Net cash	\$9.9	\$9.8

Total debt at September 30, 2012 increased by about \$1.1 billion from December 31, 2011, primarily reflecting the additional drawdowns of low-cost loans for advanced technology vehicle development and our renminbi-denominated debt issuance in Hong Kong.

Liquidity Sufficiency. One of the four key priorities of our One Ford plan is to finance our plan and strengthen our balance sheet, while at the same time having resources available to grow our business. The actions described above are consistent with this priority. Based on our planning assumptions, we believe that we have sufficient liquidity and capital resources to continue to invest in new products that customers want and value, transform and grow our business, pay our debts and obligations as and when they come due, pay a sustainable dividend, and provide a cushion within an uncertain global economic environment. We will continue to look for opportunities to strengthen our balance sheet, primarily by working to ensure our underlying business generates positive Automotive operating-related cash flow, even as we continue to invest in the growth of our business.

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

## Financial Services Sector

## Ford Credit

**Funding Overview.** Ford Credit's funding strategy remains focused on diversification and it plans to continue accessing a variety of markets, channels, and investors. Ford Credit's liquidity remains strong, and it maintains cash balances and committed capacity that meet its business and funding requirements over an economic cycle.

Ford Credit ended the quarter with \$20.8 billion of liquidity and \$32.4 billion of committed capacity, compared with \$17.1 billion of liquidity and \$32.6 billion of committed capacity at December 31, 2011. It renewed about \$2 billion of committed capacity in the third quarter.

At the end of the third quarter of 2012, Ford Credit's managed receivables were \$87 billion. Ford Credit ended the quarter with about \$11 billion in cash, and securitized funding was 47% of managed receivables.

Ford Credit is projecting year-end 2012 managed receivables in the range of \$85 billion to \$90 billion, and securitized funding is expected to represent about 48% of total managed receivables, compared with 55% at year-end 2011. It is Ford Credit's expectation that securitized funding as a percentage of managed receivables will continue to decline going forward.

**Public Term Funding Plan.** The following table illustrates Ford Credit's planned issuances for full-year 2012, and its public term funding issuances through November 1, 2012, as well as its funding issuances for full-year 2011 and 2010 (in billions):

	Term Funding Plan 2012			
	Full-Year Forecast	Through November 1	Full-Year 2011	Full-Year 2010
Unsecured	\$ 9-10	\$9	\$8	\$6
Securitized (a)	12-14	12	11	11
Total	\$ 21-24	\$21	\$19	\$17

(a) Includes Rule 144A offerings.

Ford Credit is largely complete with its 2012 public term funding plan. Through November 1, 2012, Ford Credit completed \$21 billion of funding in the public markets, including about \$9 billion of unsecured issuance, of which about \$600 million was issued under the Ford Credit U.S. Retail Notes program, and \$12 billion of securitized.

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

Liquidity. The following table illustrates Ford Credit's liquidity programs and utilization (in billions):

	September 30, 2012	December 31, 2011
Liquidity Sources (a)		
Cash (b)	\$ 10.7	\$ 12.1
Unsecured credit facilities	0.7	0.7
FCAR bank lines	6.5	7.9
Conduit / Bank Asset-Backed Securitizations ("ABS")	25.2	24.0
Total liquidity sources	\$43.1	\$44.7
Utilization of Liquidity		
Securitization cash (c)	\$(2.9)	\$(3.7)
Unsecured credit facilities	—	(0.2)
FCAR bank lines	(5.8)	(6.8)
Conduit / Bank ABS	(9.2)	(14.5)
Total utilization of liquidity	(17.9)	(25.2)
Gross liquidity	25.2	19.5
Capacity in excess of eligible receivables	(4.4)	(2.4)
Liquidity available for use	\$20.8	\$17.1

FCAR and conduits subject to availability of sufficient assets and ability to obtain derivatives to manage interest (a) rate risk; FCAR commercial paper must be supported by bank lines equal to at least 100% of the principal amount; conduits include committed securitization programs.

(b) Cash, cash equivalents, and marketable securities (excludes marketable securities related to insurance activities).

(c) Securitization cash is to be used only to support on-balance sheet securitization transactions.

At September 30, 2012, Ford Credit had \$43.1 billion of committed capacity and cash diversified across a variety of markets and platforms. The utilization of its liquidity totaled \$17.9 billion at the end of the third quarter, compared to \$25.2 billion at year-end 2011. The reduction of \$7.3 billion from year end primarily reflects lower usage of its private conduits.

Ford Credit ended the third quarter of 2012 with gross liquidity of \$25.2 billion. Capacity in excess of eligible receivables increased to \$4.4 billion, providing a funding source for future originations and flexibility to transfer capacity among markets and asset classes where most needed. Liquidity available for use was \$20.8 billion at the end of the third quarter of 2012, compared with \$17.1 billion at year-end 2011.

Cash, Cash Equivalents, and Marketable Securities. At September 30, 2012, Ford Credit's cash, cash equivalents, and marketable securities (excluding marketable securities related to insurance activities) totaled \$10.7 billion, compared with \$12.1 billion at year-end 2011. In the normal course of its funding activities, Ford Credit may generate more proceeds than are required for its immediate funding needs. These excess amounts are maintained primarily as highly liquid investments, which provide liquidity for its short-term funding needs and give it flexibility in the use of its other funding programs. Ford Credit's cash, cash equivalents, and marketable securities are held primarily in highly liquid investments, which provide for anticipated and unanticipated cash needs. Ford Credit's cash, cash equivalents, and marketable securities (excluding marketable securities related to insurance activities) primarily include U.S. Department of Treasury obligations, federal agency securities, bank time deposits with investment-grade institutions and non-U.S. central banks, corporate investment-grade securities, commercial paper rated A-1/P-1 or higher, debt obligations of a select group of non-U.S. governments, non-U.S. government agencies, supranational institutions and money market funds that carry the highest possible ratings. Ford Credit currently does not hold cash, cash

equivalents, or marketable securities consisting of investments in government obligations of Greece, Ireland, Italy, Portugal, or Spain, nor did it hold any at September 30, 2012. The average maturity of these investments ranges from 90 days to up to one year, and is adjusted based on market conditions and liquidity needs. Ford Credit monitors its cash levels and average maturity on a daily basis. Cash, cash equivalents, and marketable securities include amounts to be used only to support Ford Credit's securitization transactions of \$2.9 billion and \$3.7 billion at September 30, 2012 and December 31, 2011, respectively.

Ford Credit's substantial liquidity and cash balance have provided the opportunity to selectively call and repurchase its outstanding unsecured and asset-backed debt. Ford Credit called an aggregate principal amount of \$267 million of debt in the third quarter of 2012, and repurchased and called \$482 million of debt in the first nine months of 2012.

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

**Committed Liquidity Programs.** Ford Credit and its subsidiaries, including Ford Credit Europe ("FCE"), have entered into agreements with a number of bank-sponsored asset-backed commercial paper conduits ("conduits") and other financial institutions. Such counterparties are contractually committed, at Ford Credit's option, to purchase from it eligible retail or wholesale assets or to purchase or make advances under asset-backed securities backed by retail, lease, or wholesale assets for proceeds of up to \$25.2 billion (\$13.1 billion of retail, \$7.9 billion of wholesale, and \$4.2 billion of lease assets) at September 30, 2012, of which about \$6 billion are commitments to FCE. These committed liquidity programs have varying maturity dates, with \$22.7 billion (of which \$4.8 billion relates to FCE commitments), having maturities within the next twelve months and the remaining balance having maturities between October 2013 and August 2014. Ford Credit plans to achieve committed capacity renewals to protect its global funding needs, optimize capacity utilization and maintain sufficient liquidity.

Ford Credit's ability to obtain funding under these programs is subject to having a sufficient amount of assets eligible for these programs as well as its ability to obtain interest rate hedging arrangements for certain securitization transactions. Ford Credit's capacity in excess of eligible receivables protects it against the risk of lower than planned renewal rates, and also provides a committed funding source for future originations and flexibility to transfer capacity among different asset classes and markets. At September 30, 2012, \$9.2 billion of these commitments were in use. These programs are free of material adverse change clauses, restrictive financial covenants (for example, debt-to-equity limitations and minimum net worth requirements), and, generally, credit rating triggers that could limit its ability to obtain funding. However, the unused portion of these commitments may be terminated if the performance of the underlying assets deteriorates beyond specified levels. Based on Ford Credit's experience and knowledge as servicer of the related assets, it does not expect any of these programs to be terminated due to such events.

**Credit Facilities.** At September 30, 2012, Ford Credit and its majority-owned subsidiaries had \$744 million of contractually-committed unsecured credit facilities with financial institutions, including FCE's £440 million (equivalent to \$713 million at September 30, 2012) credit facility (the "FCE Credit Agreement") that matures in 2014, all of which is available for use. The FCE Credit Agreement contains certain covenants, including an obligation for FCE to maintain its ratio of regulatory capital to risk weighted assets at no less than the applicable regulatory minimum, and for the support agreement between FCE and Ford Credit to remain in full force and effect (and enforced by FCE to ensure that its net worth is maintained at no less than \$500 million). In addition to customary payment, representation, bankruptcy, and judgment defaults, the FCE Credit Agreement contains cross-payment and cross-acceleration defaults with respect to other debt. At September 30, 2012, FCE had £55 million (equivalent to about \$89 million) of commitments from financial institutions in Italy and Spain. There were no commitments from financial institutions in Greece, Ireland, or Portugal.

In addition, at September 30, 2012, Ford Credit had about \$6.5 billion of contractually-committed liquidity facilities provided by banks to support its FCAR program, of which \$154 million expires in 2012, \$3.3 billion expires in 2013, and \$3.1 billion expires in 2014. Utilization of these facilities is subject to conditions specific to the FCAR program and Ford Credit having a sufficient amount of eligible retail assets for securitization. The FCAR program must be supported by liquidity facilities equal to at least 100% of its outstanding balance. At September 30, 2012, \$6.5 billion of FCAR's bank liquidity facilities were available to support FCAR's asset-backed commercial paper, subordinated debt, or FCAR's purchase of its asset-backed securities. At September 30, 2012, the outstanding commercial paper balance for the FCAR program was \$5.8 billion.

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

Leverage. Ford Credit uses leverage, or the debt-to-equity ratio, to make various business decisions, including evaluating and establishing pricing for retail, wholesale, and lease financing, and assessing its capital structure. Ford Credit refers to its shareholder's interest as equity.

The following table shows the calculation of Ford Credit's financial statement leverage (in billions, except for ratios):

	September 30, 2012	December 31, 2011
Total debt	\$84.7	\$84.7
Equity	9.4	8.9
Financial statement leverage (to 1)	9.0	9.5

The following table shows the calculation of Ford Credit's managed leverage (in billions, except for ratios):

	September 30, 2012	December 31, 2011
Total debt	\$84.7	\$84.7
Adjustments for cash, cash equivalents, and marketable securities (a)	(10.7 )	(12.1 )
Adjustments for derivative accounting (b)	(0.9 )	(0.7 )
Total adjusted debt	\$73.1	\$71.9
Equity	\$9.4	\$8.9
Adjustments for derivative accounting (b)	(0.3 )	(0.2 )
Total adjusted equity	\$9.1	\$8.7
Managed leverage (to 1) (c)	8.0	8.3

(a) Excludes marketable securities related to insurance activities.

(b) Primarily related to market valuation adjustments to derivatives due to movements in interest rates. Adjustments to debt are related to designated fair value hedges and adjustments to equity are related to retained earnings.

(c) Equals total adjusted debt over total adjusted equity.

Ford Credit plans its managed leverage by considering prevailing market conditions and the risk characteristics of its business. At September 30, 2012, Ford Credit's managed leverage was 8 to 1 compared with 8.3 to 1 at December 31, 2011, significantly below the threshold of 11.5 to 1 set forth in the Amended and Restated Support Agreement with us. Ford Credit projects managed leverage to continue in the range of 8 - 9 to 1, which is consistent with its goal of maintaining a strong investment grade balance sheet. Through September 30, 2012, Ford Credit paid \$600 million in distributions to its parent.

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

Total Company

Equity/(Deficit). At September 30, 2012, Total equity/(deficit) attributable to Ford Motor Company was \$18.8 billion, an increase of \$3.8 billion compared with December 31, 2011. The increase reflects favorable changes in Retained earnings, primarily related to first nine months 2012 net income attributable to Ford Motor Company of \$4.1 billion and favorable changes in Accumulated other comprehensive income/(loss) of \$193 million, offset partially by cash dividends declared of \$382 million and treasury stock purchases of \$92 million.

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

- DBRS Limited ("DBRS");
- Fitch, Inc. ("Fitch");
- Moody's Investors Service, Inc. ("Moody's"); and
- Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P").

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

The following ratings actions have been taken by these NRSROs since the filing of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012:

- On August 10, 2012, S&P revised its outlook on Ford and Ford Credit to positive from stable.
- On September 14, 2012, DBRS upgraded Ford's long-term senior unsecured debt to BBB (low) from BB. DBRS also upgraded Ford Credit's long-term senior unsecured rating to BBB (low) from BB (high). The outlook is stable.

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

	NRSRO RATINGS					
	Ford			Ford Credit		
Issuer	Default/	Long-Term	Outlook /	Long-Term	Short-Term	Outlook /
Corporate/	Issuer Rating	Senior	Trend	Senior	Unsecured	Trend
		Unsecured		Unsecured		
DBRS	BBB (low)	BBB (low)	Stable	BBB (low)	R-3	Stable
Fitch	BBB-	BBB-	Stable	BBB-	F3	Stable
Moody's	N/A	Baa3	Stable	Baa3	P-3	Stable
S&P	BB+	BB+	Positive	BB+ *	NR	Positive

\* S&P assigns FCE a long-term senior unsecured rating of BBB-, maintaining a one notch differential versus Ford Credit.

OUTLOOK

Our One Ford plan -- to aggressively restructure to operate profitably at current demand and changing model mix, accelerate development of new products customers want and value, finance our plan and improve our balance sheet, and work together effectively as one team leveraging our global assets -- continues to be the guiding strategy for our business.

Our projected vehicle production is as follows (in thousands):

	Fourth Quarter 2012 (a) Planned Vehicle Unit Production	Over/(Under) Fourth Quarter 2011
Ford North America	725	50
Ford South America	120	20
Ford Europe	340	(62
Ford Asia Pacific Africa	295	104
Total	1,480	112

(a) Includes production of Ford and JMC brand vehicles to be sold by our unconsolidated affiliates.



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

The year-over-year increase in fourth quarter planned production reflects higher volumes in all regions except Europe. Lower production at Ford Europe reflects lower industry volume, as well as our strategic initiative to reduce dealer inventories. Our planned fourth quarter 2012 production is more than 100,000 units higher than third quarter production, reflecting seasonal operating patterns, as well as added capacity in North America and Asia Pacific Africa. Planned production is consistent with our disciplined strategy to match production to consumer demand.

We now expect 2012 global economic growth to be in a range of 2% to 2.5%. Global industry sales are projected at around 80 million units, an increase of nearly 5% compared with 2011. Economic growth in the United States is expected to be in the range of 2%, with industry sales supported by replacement demand given the older age of vehicles on the road. In South America, Brazil's easing fiscal and monetary policies, such as sales tax reductions and policy interest rate cuts to historic lows, are setting the stage for renewed economic growth. In Europe, we expect severe conditions to continue, especially in countries undergoing fiscal austerity programs. Recent policy moves in the region are positive steps, but not yet enough to resolve the crisis and fully restore business and consumer confidence. In Asia Pacific Africa, China and India have experienced slowing economic growth, which has prompted some policy easing, including interest rate cuts, liquidity injections, and increased government spending. More policy actions are necessary to stabilize economic growth and facilitate recoveries in these countries. Overall, despite these challenges, we expect global economic growth to continue in 2012.

Within the current economic environment, our planning assumptions and key metrics for 2012 include the following:

	2012 Memo: First Nine Months	Full-Year Plan	Full-Year Outlook
<b>Industry Volume (million units) (a)</b>			
–United States	14.6	13.5 – 14.5	About 14.7
–Europe (b)	14.1	14.0 – 15.0	About 14.0
<b>Operational Metrics</b>			
Compared with prior full year:			
–U.S. Market Share	15.2%	About Equal (compared with 16.5%)	Lower
–Europe Market Share (b)	8.0%	About Equal (compared with 8.3%)	Lower
–Quality	Mixed	Improve	Mixed
<b>Financial Metrics</b>			
Compared with prior full year:			
–Automotive Pre-Tax Operating Profit (c)	\$5.0 Billion	Higher (compared with \$6.3 Billion)	About Equal / Lower
–Ford Credit Pre-Tax Operating Profit	\$1.3 Billion	Lower (compared with \$2.4 Billion)	On Track
–Total Company Pre-Tax Operating Profit (c)	\$6.3 Billion	About Equal (compared with \$8.8 Billion)	Lower
–Automotive Structural Cost Increase (d)	\$1.1 Billion	Less than \$2 Billion	On Track
–Automotive Operating Margin (c)	5.9%	Improve (compared with 5.4%)	About Equal / Lower
<b>Absolute amount:</b>			
–Capital Spending	\$3.6 Billion	\$5.5 Billion – \$6 Billion	About \$5 Billion

(a) Includes medium and heavy trucks; seasonally-adjusted annual rate.

- (b) For the 19 markets we track.
- (c) Excludes special items; Automotive operating margin equal to Automotive pre-tax results excluding Other Automotive divided by Automotive revenue.
- (d) Structural cost changes are measured primarily at present-year exchange, and exclude special items and discontinued operations.

Our projection of industry sales volume for the markets we track in Europe is unchanged, while we now project U.S. industry sales volume to be about 14.7 million units. We expect U.S. and Europe full-year market share to be lower compared with 2011, and quality is mixed. We continue to expect Automotive pre-tax profit and operating margin to be about equal to or lower than 2011. This includes our continued expectation of an increase in Automotive structural costs of less than \$2 billion.

As we look at the regions, our outlook for Ford North America remains unchanged. We expect significantly higher full-year pre-tax profit and operating margin for 2012 compared with 2011, as consumers continue to respond to our strong product line-up, and we remain committed to maintaining our competitive cost structure as we grow our business.

Although we continue to expect Ford South America to be profitable for full-year 2012, we expect the level to be substantially lower than 2011. This reflects increased competitive pressures, weakening currencies, and changes in

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

government policies affecting areas such as trade and access to foreign currency. We are continuing to work on actions to strengthen our competitiveness in this changing environment, looking at all areas of the business to improve our operating results. These actions include fully leveraging our One Ford plan, including the introduction of an all-new lineup of global products over the next two years, starting with the launch of the Ranger, EcoSport, and Fusion.

As we have indicated, we view the challenges the automotive industry faces in Europe as more structural than cyclical in nature; industry sales volume for the 19 markets we track in Europe has dropped 20% in the past five years, with only modest industry improvement expected by mid-decade. Against this backdrop, we recently announced our accelerated transformation plan for Ford Europe, which targets all areas of the business to return to profitability by mid-decade -- including new products and technologies, strengthened brand image, and improved cost efficiencies.

Our plan includes an aggressive new product rollout for the region, with 15 global vehicles launched within five years, along with a broad array of smart technologies. We are introducing new initiatives to continue strengthening the Ford brand in the region, including strategic reduction of dealer inventories. Finally, we plan to close three facilities and relocate production for a more efficient manufacturing footprint. We plan to close our vehicle assembly plant and our tooling and stamping operations in the United Kingdom during 2013, and, subject to an information and consultation process with employee representatives, we intend to close our vehicle assembly plant in Belgium in late 2014. Once completed, our actions would reduce Ford Europe's installed assembly capacity (excluding Russia) by 18% or 355,000 units, affect 13% of Ford Europe's workforce, and result in annual gross cost savings of about \$450 million - \$500 million.

As a result of the deteriorating economic environment in Europe, as well as elements of our transformation plan, we expect our full-year 2012 pre-tax loss for Ford Europe to exceed \$1.5 billion. This forecast includes more than \$400 million for dealer inventory reductions, and about \$100 million of accelerated depreciation associated with our planned manufacturing footprint actions. Compared with 2011, our projected full-year 2012 results reflect lower industry volume and market share, the effect of strategic dealer inventory reductions, higher incentives net of pricing, higher pension expense and restructuring-related costs, and lower parts and services sales.

Looking ahead, we expect full-year 2013 pre-tax results for Ford Europe to be similar to 2012, although the causal factors are somewhat different. As previously disclosed, we expect to incur increased restructuring-related costs in 2013 compared with 2012 -- mainly accelerated depreciation, higher pension expense due to lower discount rates, and investments for growth and to implement the changes in our manufacturing footprint. We also expect favorable market factors in 2013 compared with 2012, primarily the non-repeat in 2013 of this year's dealer inventory reduction actions.

Under our transformation plan, we project Ford Europe will return to profitability by mid-decade, driven by higher industry volume, higher market share from our product and brand initiatives, growth in emerging markets, richer mix, improved contribution margin, and our more efficient manufacturing footprint. A partial offset will be higher structural costs as we reconfigure and grow our business in Europe. As we proceed with our restructuring, most financial effects will flow through our operating results. Employee separation costs, however, will be reflected as a special item. Longer-term, we are targeting Ford Europe to achieve an operating margin in the range of 6% to 8%.

For Ford Asia Pacific Africa, we expect full-year 2012 pre-tax results to be a loss roughly in line with 2011, reflecting costs associated with our continued investment for future growth that precede the benefit of increasing production capacity and new products across the region.

We expect full-year 2012 pre-tax profits of about \$1.6 billion at Ford Credit, with distributions for the full year of about \$600 million. Ford Credit will continue to assess future distributions based on available liquidity and managed

leverage objectives, and continues to anticipate managed receivables in the range of \$85 billion to \$90 billion at year-end 2012.

Overall, we continue to expect total Company pre-tax profit to be strong, but lower than 2011, with positive Automotive operating-related cash flow including capital spending in line with our existing guidance. We have delivered strong profits in the first nine months of 2012, driven by outstanding results at Ford North America and solid performance by Ford Credit. We have announced significant actions to transform our European business, projecting that Ford Europe will return to profitability by mid-decade. We see the results of our One Ford plan taking hold in Asia Pacific Africa, with market share increasing as investments in new facilities and products gain traction. We also are executing our One Ford plan in South America, expanding our product portfolio with new global products while looking at all areas of our business to improve operating results. We have made substantial progress in recent years by executing the fundamentals of our One Ford plan, and we continue to work toward our mid-decade outlook.

Looking ahead, our One Ford plan will continue to guide us as we work to sustain our strong North America operation, grow our important Ford Credit business, and decisively address the diverse challenges and opportunities worldwide.

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

Risk Factors

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

- Decline in industry sales volume, particularly in the United States or Europe, due to financial crisis, recession, geopolitical events, or other factors;
- Decline in market share or failure to achieve growth;
- Lower-than-anticipated market acceptance of new or existing products;
- Market shift away from sales of larger, more profitable vehicles beyond our current planning assumption, particularly in the United States;
- An increase in fuel prices, continued volatility of fuel prices, or reduced availability of fuel;
- Continued or increased price competition resulting from industry excess capacity, currency fluctuations, or other factors;
- Fluctuations in foreign currency exchange rates, commodity prices, and interest rates;
  - Adverse effects on our operations resulting from economic, geopolitical, or other events;
- Economic distress of suppliers that may require us to provide substantial financial support or take other measures to ensure supplies of components or materials and could increase our costs, affect our liquidity, or cause production constraints or disruptions;
- Work stoppages at Ford or supplier facilities or other limitations on production (whether as a result of labor disputes, natural or man-made disasters, tight credit markets or other financial distress, information technology issues, production constraints or difficulties, or other factors);
- Single-source supply of components or materials;
  - Labor or other constraints on our ability to maintain competitive cost structure;
- Substantial pension and postretirement health care and life insurance liabilities impairing our liquidity or financial condition;
- Worse-than-assumed economic and demographic experience for our postretirement benefit plans (e.g., discount rates or investment returns);
- Restriction on use of tax attributes from tax law "ownership change;"
- The discovery of defects in vehicles resulting in delays in new model launches, recall campaigns, reputational damage, or increased warranty costs;
- Increased safety, emissions, fuel economy, or other regulations resulting in higher costs, cash expenditures, and/or sales restrictions;
- Unusual or significant litigation, governmental investigations or adverse publicity arising out of alleged defects in our products, perceived environmental impacts, or otherwise;
- A change in our requirements where we have long-term supply arrangements committing us to purchase minimum or fixed quantities of certain parts, or to pay a minimum amount to the seller ("take-or-pay" contracts);
- Adverse effects on our results from a decrease in or cessation or clawback of government incentives related to investments;
- Inherent limitations of internal controls impacting financial statements and safeguarding of assets;
- Cybersecurity risks to operational systems, security systems, or infrastructure owned by us or a third-party vendor, or at a supplier facility;
- Failure of financial institutions to fulfill commitments under committed credit facilities;
- Inability of Ford Credit to access debt, securitization, or derivative markets around the world at competitive rates or in sufficient amounts, due to credit rating downgrades, market volatility, market disruption, regulatory requirements, or

other factors;

• Higher-than-expected credit losses, lower-than-anticipated residual values or higher-than-expected return volumes for leased vehicles;

• Increased competition from banks or other financial institutions seeking to increase their share of financing Ford vehicles; and

• New or increased credit, consumer, or data protection or other regulations resulting in higher costs and/or additional financing restrictions.

We cannot be certain that any expectation, forecast, or assumption made in preparing forward-looking statements will prove accurate, or that any projection will be realized. It is to be expected that there may be differences between projected and actual results. Our forward-looking statements speak only as of the date of their initial issuance, and we do not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. For additional discussion of these risks, see "Item 1A. Risk Factors" in our 2011 Form 10-K Report.

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

ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

For information on accounting standards issued but not yet adopted, see Note 2 of the Notes to the Financial Statements.

OTHER FINANCIAL INFORMATION

The interim financial information included in this Quarterly Report on Form 10-Q for the periods ended September 30, 2012 and 2011 has not been audited by PricewaterhouseCoopers LLP ("PricewaterhouseCoopers"). In reviewing such information, PricewaterhouseCoopers has applied limited procedures in accordance with professional standards for reviews of interim financial information. Readers should restrict reliance on PricewaterhouseCoopers' reports on such information accordingly. PricewaterhouseCoopers is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for its reports on interim financial information, because such reports do not constitute "reports" or "parts" of registration statements prepared or certified by PricewaterhouseCoopers within the meaning of Sections 7 and 11 of the Securities Act of 1933.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

Automotive Sector

**Foreign Currency Risk.** The net fair value of foreign exchange forward contracts (including adjustments for credit risk) as of September 30, 2012 was a liability of \$452 million, compared with a liability of \$236 million as of December 31, 2011. The potential decrease in fair value from a 10% adverse change in the underlying exchange rates, in U.S. dollar terms, would be \$1.6 billion at September 30, 2012, compared with \$1.7 billion at December 31, 2011.

**Commodity Price Risk.** The net fair value of commodity forward and option contracts (including adjustments for credit risk) as of September 30, 2012 was a liability of \$137 million, compared with a liability of \$370 million as of December 31, 2011. The potential decrease in fair value from a 10% decrease in the underlying commodity prices, in U.S. dollar terms, would be \$136 million at September 30, 2012, compared with a decrease of \$203 million at December 31, 2011.

Financial Services Sector

**Interest Rate Risk.** To provide a quantitative measure of the sensitivity of Ford Credit's pre-tax cash flow to changes in interest rates, Ford Credit uses interest rate scenarios that assume a hypothetical, instantaneous increase or decrease of one percentage point in all interest rates across all maturities (a "parallel shift"), as well as a base case that assumes that all interest rates remain constant at existing levels. These interest rate scenarios are purely hypothetical and do not represent Ford Credit's view of future interest rate movements. The differences in pre-tax cash flow between these scenarios and the base case over a twelve-month period represent an estimate of the sensitivity of Ford Credit's pre-tax cash flow. Under this model, Ford Credit estimates that at September 30, 2012, all else constant, such an increase in interest rates would increase its pre-tax cash flow by \$81 million over the next twelve months, compared with an increase of \$60 million at December 31, 2011. The sensitivity analysis presented above assumes a one-percentage point interest rate change to the yield curve that is both instantaneous and parallel. In reality, interest rate changes are rarely instantaneous or parallel and rates could move more or less than the one percentage point assumed in Ford Credit's analysis. As a result, the actual impact to pre-tax cash flow could be higher or lower than the results detailed above.

ITEM 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. Alan Mulally, our Chief Executive Officer ("CEO"), and Bob Shanks, our Chief Financial Officer ("CFO"), have performed an evaluation of the Company's disclosure controls and procedures, as that term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of September 30, 2012, and each has concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by SEC rules and forms, and that such information is accumulated and communicated to the CEO and CFO to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting. Pursuant to an agreement with Mazda, beginning September 1, 2012 we took full management control of AAI, which operates the Flat Rock Assembly Plant, and we began to account for AAI as a consolidated entity for financial reporting; AAI previously was an unconsolidated affiliate accounted for using the equity investment method. Going forward, we will fully integrate the plant into our systems and processes.



## PART II. OTHER INFORMATION

## ITEM 1. Legal Proceedings.

No material updates to report.

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

As previously reported, we commenced a modest anti-dilutive share repurchase program during the first quarter of 2012, which authorizes repurchase of our Common Stock in an amount up to an estimated \$150 million to offset the dilutive effect of share-based compensation. During the third quarter, we repurchased shares of Ford Common Stock as follows:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly- Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (b)
July 1, 2012 through July 31, 2012	33,070	\$9.12	—	\$91 million
August 1, 2012 through August 31, 2012	1,895,308	9.31	1,840,000	\$74 million
September 1, 2012 through September 30, 2012	1,425,000	10.27	1,425,000	\$59 million
Total/Average	3,353,378	\$9.72	3,265,000	

The difference between the total number of shares purchased and the number of shares purchased as part of the (a) publicly-announced plan reflects shares that were acquired from our employees or directors related to certain exercises of stock options in accordance with our various compensation plans.

(b) The remaining number of shares to be repurchased in the fourth quarter of 2012 will not exceed approximately 3.2 million.

## ITEM 6. Exhibits.

Please see exhibit index below.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, Ford has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

FORD MOTOR COMPANY

By:                    /s/ Stuart Rowley  
                          Stuart Rowley, Vice President and Controller  
                          (chief accounting officer)

Date:                 November 2, 2012

## EXHIBIT INDEX

Designation	Description	Method of Filing
Exhibit 12	Calculation of Ratio of Earnings to Combined Fixed Charges.	Filed with this Report.
Exhibit 15	Letter from PricewaterhouseCoopers LLP dated November 2, 2012 relating to financial information.	Filed with this Report.
Exhibit 31.1	Rule 15d-14(a) Certification of CEO.	Filed with this Report.
Exhibit 31.2	Rule 15d-14(a) Certification of CFO.	Filed with this Report.
Exhibit 32.1	Section 1350 Certification of CEO.	Furnished with this Report.
Exhibit 32.2	Section 1350 Certification of CFO.	Furnished with this Report.
Exhibit 101.INS	XBRL Instance Document.	**
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document.	**
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	**
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	**
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	**
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	**

\* Management contract or compensatory plan or arrangement.

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