General Motors Co
Form 10-Q
July 25, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549-1004
Form 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-34960
GENERAL MOTORS COMPANY
(Exact name of registrant as specified in its charter)

STATE OF DELAWARE	27-0756180
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
300 Renaissance Center, Detroit, Michigan	48265-3000
(Address of principal executive offices)	(Zip Code)

(313) 667-1500
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether 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 þ 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 þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨ Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
As of July 13, 2018 the number of shares outstanding of common stock was 1,410,888,316 shares.

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PART I

Item 1. Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED INCOME STATEMENTS
(In millions, except per share amounts) (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net sales and revenue				
Automotive	$33,275	$33,998	$65,966	$68,517
GM Financial	3,485	2,986	6,893	5,733
Total net sales and revenue (Note 3)	36,760	36,984	72,859	74,250
Costs and expenses				
Automotive and other cost of sales	30,071	29,535	60,255	59,296
GM Financial interest, operating and other expenses	2,996	2,675	6,010	5,241
Automotive and other selling, general and administrative expense	2,216	2,477	4,588	4,833
Total costs and expenses	35,283	34,687	70,853	69,370
Operating income	1,477	2,297	2,006	4,880
Automotive interest expense	159	132	309	279
Interest income and other non-operating income, net	930	272	1,479	754
Equity income (Note 8)	637	530	1,285	1,085
Income before income taxes	2,885	2,967	4,461	6,440
Income tax expense (Note 15)	519	534	985	1,321
Income from continuing operations	2,366	2,433	3,476	5,119
Loss from discontinued operations, net of tax (Note 19)	—	770	70	839
Net income	2,366	1,663	3,406	4,280
Net (income) loss attributable to noncontrolling interests	24	(3)	30	(12)
Net income attributable to stockholders	$2,390	$1,660	$3,436	$4,268
Net income attributable to common stockholders	$2,375	$1,660	$3,407	$4,268
Earnings per share (Note 18)				
Basic earnings per common share – continuing operations	$1.68	$1.62	$2.47	$3.40
Basic loss per common share – discontinued operations	$—	$0.51	$0.05	$0.56
Basic earnings per common share	$1.68	$1.11	$2.42	$2.84
Weighted-average common shares outstanding – basic	1,410	1,497	1,409	1,501
Diluted earnings per common share – continuing operations	$1.66	$1.60	$2.43	$3.35
Diluted loss per common share – discontinued operations	$—	$0.51	$0.05	$0.55
Diluted earnings per common share	$1.66	$1.09	$2.38	$2.80
Weighted-average common shares outstanding – diluted	1,431	1,519	1,430	1,525
Dividends declared per common share	$0.38	$0.38	$0.76	$0.76

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions) (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income	$2,366	$1,663	$3,406	$4,280
Other comprehensive loss, net of tax (Note 17)				
Foreign currency translation adjustments and other	(328)	93	(294)	201
Defined benefit plans	234	(211)	227	(240)
Other comprehensive loss, net of tax	(94)	(118)	(67)	(39)
Comprehensive income	2,272	1,545	3,339	4,241
Comprehensive (income) loss attributable to noncontrolling interests	28	(4)	35	(12)
Comprehensive income attributable to stockholders	$2,300	$1,541	$3,374	$4,229

Reference should be made to the notes to condensed consolidated financial statements.

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GENERAL MOTORS COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts) (Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$15,087	$ 15,512
Marketable securities (Note 4)	6,924	8,313
Accounts and notes receivable, net	9,663	8,164
GM Financial receivables, net (Note 5; Note 9 at VIEs)	22,005	20,521
Inventories (Note 6)	10,833	10,663
Equipment on operating leases, net (Note 7)	690	1,106
Other current assets (Note 4; Note 9 at VIEs)	5,249	4,465
Total current assets	70,451	68,744
Non-current Assets		
GM Financial receivables, net (Note 5; Note 9 at VIEs)	22,996	21,208
Equity in net assets of nonconsolidated affiliates (Note 8)	8,788	9,073
Property, net	38,003	36,253
Goodwill and intangible assets, net	5,720	5,849
Equipment on operating leases, net (Note 7; Note 9 at VIEs)	44,054	42,882
Deferred income taxes	23,285	23,544
Other assets (Note 4; Note 9 at VIEs)	5,344	4,929
Total non-current assets	148,190	143,738
Total Assets	$218,641	$ 212,482
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable (principally trade)	$24,660	$ 23,929
Short-term debt and current portion of long-term debt (Note 10)		
Automotive	2,807	2,515
GM Financial (Note 9 at VIEs)	25,457	24,450
Accrued liabilities	27,368	25,996
Total current liabilities	80,292	76,890
Non-current Liabilities		
Long-term debt (Note 10)		
Automotive	11,012	10,987
GM Financial (Note 9 at VIEs)	58,983	56,267
Postretirement benefits other than pensions (Note 13)	5,853	5,998
Pensions (Note 13)	11,989	13,746
Other liabilities	11,876	12,394
Total non-current liabilities	99,713	99,392
Total Liabilities	180,005	176,282
Commitments and contingencies (Note 14)		
Equity (Note 17)		
Common stock, $0.01 par value	14	14
Additional paid-in capital	25,465	25,371
Retained earnings	18,873	17,627
Accumulated other comprehensive loss	(8,171)	(8,011)

Total stockholders’ equity	36,181	35,001
Noncontrolling interests	2,455	1,199
Total Equity	38,636	36,200
Total Liabilities and Equity	$218,641	$ 212,482

Reference should be made to the notes to condensed consolidated financial statements.

GENERAL MOTORS COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions) (Unaudited)

	Six Months Ended	
	June 30, 2018	June 30, 2017
Cash flows from operating activities		
Income from continuing operations	$3,476	$5,119
Depreciation and impairment of Equipment on operating leases, net	3,723	3,155
Depreciation, amortization and impairment charges on Property, net	2,987	2,782
Foreign currency remeasurement and transaction losses	106	105
Undistributed earnings of nonconsolidated affiliates, net	710	487
Pension contributions and OPEB payments	(932)	(753)
Pension and OPEB income, net	(627)	(405)
Provision for deferred taxes	586	1,303
Change in other operating assets and liabilities	(4,476)	(4,365)
Net cash provided by operating activities – continuing operations	5,553	7,428
Net cash provided by operating activities – discontinued operations	—	131
Net cash provided by operating activities	5,553	7,559
Cash flows from investing activities		
Expenditures for property	(4,351)	(4,186)
Available-for-sale marketable securities, acquisitions	(1,571)	(2,149)
Available-for-sale marketable securities, liquidations	2,886	4,872
Purchases of finance receivables, net	(10,778)	(10,577)
Principal collections and recoveries on finance receivables	7,420	6,003
Purchases of leased vehicles, net	(9,122)	(9,884)
Proceeds from termination of leased vehicles	5,303	2,724
Other investing activities	7	62
Net cash used in investing activities – continuing operations	(10,206)	(13,135)
Net cash provided by (used in) investing activities – discontinued operations (Note 19)	166	(788)
Net cash used in investing activities	(10,040)	(13,923)
Cash flows from financing activities		
Net increase (decrease) in short-term debt	644	(413)
Proceeds from issuance of debt (original maturities greater than three months)	23,157	27,131
Payments on debt (original maturities greater than three months)	(18,840)	(13,331)
Payments to purchase common stock	(100)	(1,496)
Proceeds from issuance of preferred stock (Note 17)	1,261	—
Dividends paid	(1,104)	(1,145)
Other financing activities	(363)	(237)
Net cash provided by financing activities – continuing operations	4,655	10,509
Net cash provided by financing activities – discontinued operations	—	31
Net cash provided by financing activities	4,655	10,540
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(245)	209
Net increase (decrease) in cash, cash equivalents and restricted cash	(77)	4,385
Cash, cash equivalents and restricted cash at beginning of period	17,848	15,160
Cash, cash equivalents and restricted cash at end of period	$17,771	$19,545
Cash, cash equivalents and restricted cash – continuing operations at end of period (Note 4)	$17,771	$18,920

Cash, cash equivalents and restricted cash – discontinued operations at end of period	$—	$625
Significant Non-cash Investing and Financing Activity		
Non-cash property additions – continuing operations	$4,429	$4,086
Non-cash property additions – discontinued operations	$—	$482

Reference should be made to the notes to condensed consolidated financial statements.

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GENERAL MOTORS COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(In millions) (Unaudited)

	Common Stockholders'					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
Balance at January 1, 2017	$15	$26,983	$26,168	$(9,330)	$239	$44,075
Net income	—	—	4,268	—	12	4,280
Other comprehensive loss	—	—	—	(39)	—	(39)
Purchase of common stock	—	(760)	(736)	—	—	(1,496)
Exercise of common stock warrants	—	4	—	—	—	4
Stock based compensation	—	101	(16)	—	—	85
Cash dividends paid on common stock	—	—	(1,137)	—	—	(1,137)
Dividends to noncontrolling interests	—	—	—	—	(8)	(8)
Other	—	—	—	—	(39)	(39)
Balance at June 30, 2017	$15	$26,328	$28,547	$(9,369)	$204	$45,725
Balance at January 1, 2018	$14	$25,371	$17,627	$(8,011)	$1,199	$36,200
Adoption of accounting standards (Note 1)	—	—	(1,046)	(98)	—	(1,144)
Net income	—	—	3,436	—	(30)	3,406
Other comprehensive loss	—	—	—	(62)	(5)	(67)
Issuance of preferred stock (Note 17)	—	—	—	—	1,261	1,261
Purchase of common stock	—	(44)	(56)	—	—	(100)
Exercise of common stock warrants	—	2	—	—	—	2
Cash dividends paid on common stock	—	—	(1,071)	—	—	(1,071)
Dividends to noncontrolling interests	—	—	—	—	(37)	(37)
Other	—	136	(17)	—	67	186
Balance at June 30, 2018	$14	$25,465	$18,873	$(8,171)	$2,455	$38,636

Reference should be made to the notes to condensed consolidated financial statements.

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GENERAL MOTORS COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations and Basis of Presentation
General Motors Company (sometimes referred to in this Quarterly Report on Form 10-Q as we, our, us, ourselves, the Company, General Motors or GM) designs, builds and sells cars, trucks, crossovers and automobile parts worldwide. We also provide automotive financing services through General Motors Financial Company, Inc. (GM Financial). We analyze the results of our continuing operations through the following segments: GM North America (GMNA), GM International (GMI), GM Cruise and GM Financial. GM Cruise is our global segment designed to build, grow and invest in our autonomous vehicles business. As a result of the growing importance of our autonomous vehicle operations, we moved these operations from Corporate to GM Cruise and began presenting GM Cruise as a new reportable segment in the three months ended June 30, 2018. All periods presented have been recast to reflect the segment changes. Nonsegment operations and Maven, our ride- and car-sharing business, are classified as Corporate. Corporate includes certain centrally recorded income and costs such as interest, income taxes, corporate expenditures and certain nonsegment specific revenues and expenses.

On July 31, 2017 we closed the sale of the Opel and Vauxhall businesses and certain other assets in Europe (the Opel/Vauxhall Business) to Peugeot, S.A. (PSA Group). On October 31, 2017 we closed the sale of the European financing subsidiaries and branches (the Fincos, and together with the Opel/Vauxhall Business, the European Business) to Banque PSA Finance S.A. and BNP Paribas Personal Finance S.A. The European Business is presented as discontinued operations in our condensed consolidated financial statements for all periods presented. Unless otherwise indicated, information in this report relates to our continuing operations. Refer to Note 19 for additional information on our discontinued operations.

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. GAAP pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The accompanying condensed consolidated financial statements include all adjustments, which consist of normal recurring adjustments and transactions or events discretely impacting the interim periods, considered necessary by management to fairly state our results of operations, financial position and cash flows. 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. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2017 Form 10-K. Except for per share amounts or as otherwise specified, dollar amounts presented within tables are stated in millions. In the three months ended June 30, 2018 we changed the presentation of our condensed consolidated statements of cash flows to separately classify Depreciation and impairment of Equipment on operating leases, net and Depreciation, amortization and impairment charges on Property, net. We have made corresponding reclassifications to the comparable information for all periods presented.

Principles of Consolidation The Principles of Consolidation supplements information presented in our 2017 Form 10-K for the adoption on January 1, 2018 of Accounting Standards Update (ASU) 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” (ASU 2016-01). We consolidate entities that we control due to ownership of a majority voting interest and we consolidate variable interest entities (VIEs) when we have variable interests and are the primary beneficiary. We continually evaluate our involvement with VIEs to determine when these criteria are met. Our share of earnings or losses of nonconsolidated affiliates is included in our consolidated operating results using the equity method of accounting when we are able to exercise significant influence over the operating and financial decisions of the affiliate. Beginning January 1, 2018 we no longer use the cost method of accounting.

Recently Adopted Accounting Standards

Effective January 1, 2018 we adopted ASU 2014-09, "Revenue from Contracts with Customers" as amended (ASU 2014-09), as incorporated into Accounting Standards Codification (ASC) 606, on a modified retrospective basis by recognizing a cumulative effect adjustment to the opening balance of Retained earnings. Under ASU 2014-09 sales incentives will now be recorded at the time of sale rather than at the later of sale or announcement, thereby resulting in the shifting of incentive amounts to an earlier quarter and fixed fee license arrangements will now be recognized when access to intellectual property is granted instead of over the contract period. We currently expect the retiming of quarterly incentive amounts to offset for the year ending December 31, 2018. Actual incentive spending is dependent upon future market conditions.

Beginning January 1, 2018 certain transfers to daily rental companies are accounted for as sales when ownership of the vehicle is not expected to transfer back to us. Such transactions were previously accounted for as operating leases. Transfers that occurred prior to January 2018 continue to be accounted for as operating leases because at the original time of transfer an expectation existed that ownership of the vehicle would transfer back to us.

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GENERAL MOTORS COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —— (Continued)

The following table summarizes the financial statement line items within our condensed consolidated income statement and balance sheet significantly impacted by ASU 2014-09:

	Three Months Ended June 30, 2018		
	As Reported	Balances without Adoption of ASC 606	Effect of Change
Income Statement			
Automotive net sales and revenue	$33,275	$ 33,443	$ (168)
Automotive and other cost of sales	$30,071	$ 29,760	$ 311
Income before income taxes	$2,885	$ 3,209	$ (324)
Net income attributable to stockholders	$2,390	$ 2,629	$ (239)

	Six Months Ended June 30, 2018		
	As Reported	Balances without Adoption of ASC 606	Effect of Change
Income Statement			
Automotive net sales and revenue	$65,966	$ 65,002	$ 964
Automotive and other cost of sales	$60,255	$ 59,225	$ 1,030
Income before income taxes	$4,461	$ 4,340	$ 121
Net income attributable to stockholders	$3,436	$ 3,331	$ 105

	June 30, 2018		
	As Reported	Balances without Adoption of ASC 606	Effect of Change
Balance Sheet			
Equipment on operating leases, net	$690	$ 1,678	$(988)
Deferred income taxes	$23,285	$ 22,858	$427
Accrued liabilities	$27,368	$ 25,942	$1,426
Other liabilities	$11,876	$ 12,282	$(406)
Retained earnings	$18,873	$ 20,104	$(1,231)

Effective January 1, 2018 we adopted ASU 2016-01, on a modified retrospective basis, with a $182 million cumulative effect adjustment recorded to the opening balance of Retained earnings to adjust an investment previously carried at cost to its fair value. ASU 2016-01 requires equity investments that are not accounted for under the equity method of accounting to be measured at fair value with changes recognized in Net income.

In the three months ended March 31, 2018 we adopted ASU 2017-12, "Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities" (ASU 2017-12), on a modified retrospective basis and adopted ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" (ASU 2018-02), on a modified retrospective basis. ASU 2018-02 provides the option to reclassify stranded tax effects related to the U.S. Tax Cuts and Jobs Act of 2017 (the Tax Act) in accumulated other comprehensive income to retained earnings. The adjustment relates to the change in the U.S. corporate income tax rate. The cumulative effect of the adjustments to the opening balance of Retained earnings for these adopted standards was $108 million.

The following table summarizes the changes to our condensed consolidated balance sheet for the adoption of ASU 2014-09, ASU 2016-01, ASU 2017-12 and ASU 2018-02:

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —— (Continued)

	December 31, 2017	Adjustment due to ASU 2014-09	Adjustment due to ASU 2016-01, ASU 2017-12 and ASU 2018-02	January 1, 2018
Deferred income taxes	$23,544	$444	$(63)	$23,925
Other assets	$4,929	$195	$242	$5,366
GM Financial short-term debt and current portion of long-term debt	$24,450	$—	$(13)	$24,437
Accrued liabilities	$25,996	$2,328	$—	$28,324
Other liabilities	$12,394	$(235)	$—	$12,159
Retained earnings	$17,627	$(1,336)	$290	$16,581
Accumulated other comprehensive loss	$(8,011)	$—	$(98)	$(8,109)

Effective January 1, 2018 we adopted ASU 2016-15, "Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Payments" (ASU 2016-15), which clarified guidance on the classification of certain cash receipts and payments in the statement of cash flows. The adoption of ASU 2016-15 did not have a material impact on our condensed consolidated financial statements and prior periods were not restated.

Effective January 1, 2018 we adopted ASU 2017-07, "Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-07) on a retrospective basis, which requires that the service cost component of net periodic pension and other postretirement benefits (OPEB) (income) expense be presented in the same income statement line item as other employee compensation costs. The remaining components of net periodic pension and OPEB (income) expense are now presented outside operating income. Amounts previously reflected in Operating income were reclassified to Interest income and other non-operating income, net in accordance with the provisions of ASU 2017-07. Refer to Note 13 for amounts that were reclassified.

Note 2. Significant Accounting Policies
The information presented on Revenue Recognition, Equipment on Operating Leases, Marketable Debt Securities, Equity Investments and Derivative Financial Instruments supplements the Significant Accounting Policies information presented in our 2017 Form 10-K for the adoption of our recently adopted accounting standards which became effective January 1, 2018. See our 2017 Form 10-K for a description of our significant accounting policies in effect prior to the adoption of the new accounting standards.

Revenue Recognition We adopted ASU 2014-09, which requires us to recognize revenue when a customer obtains control rather than when we have transferred substantially all risks and rewards of a good or service. We adopted ASU 2014-09 by applying the modified retrospective method to all noncompleted contracts as of the date of adoption. See Note 1 for additional information pertaining to the adoption of ASU 2014-09. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The following accounting policies became effective upon the adoption of ASU 2014-09.

Automotive Automotive net sales and revenue represents the amount of consideration to which we expect to be entitled in exchange for vehicle, parts and accessories and services and other sales. The consideration recognized represents the amount received, typically shortly after the sale to a customer, net of estimated dealer and customer sales incentives we reasonably expect to pay. Significant factors in determining our estimates of incentives include forecasted sales volume, product type, product mix, customer behavior and assumptions concerning market conditions. Historical experience is also considered when establishing our future expectations. Subsequent adjustments to incentive estimates are possible as facts and circumstances change over time. When our customers have a right to return eligible parts and accessories, we consider the returns in our estimation of the transaction price. A portion of the consideration received is deferred for separate performance obligations, such as maintenance and vehicle connectivity, that will be provided to our customers at a future date. Taxes assessed by various government entities, such as sales, use and value-added taxes, collected at the time of the vehicle sale are excluded from Automotive net sales and revenue. Shipping and handling activities that occur after control of the vehicle transfers to the dealer are recognized at the time of sale and presented in Automotive and other cost of sales.

Vehicle, Parts and Accessories For the majority of vehicle and accessories sales our customers obtain control and we recognize revenue when the vehicle transfers to the dealer, which generally occurs when the vehicle is released to the carrier responsible for transporting it to a dealer. Revenue, net of estimated returns, is recognized on the sale of parts upon delivery to the customer.

Certain transfers to daily rental companies are accounted for as sales, with revenue recognized at the time of transfer. Such transactions were previously accounted for as operating leases. At the time of transfer, we defer revenue for remarketing obligations, record a residual value guarantee and reflect a deposit liability for amounts expected to be returned once the remarketing services are complete. Deferred revenue is recognized in earnings upon completion of the remarketing service. Transfers that occurred prior to January 1, 2018 and future transfers containing a substantive purchase obligation continue to be accounted for as operating leases and rental income is recognized over the estimated term of the lease.

Used Vehicles Proceeds from the auction of vehicles returned from daily rental car companies are recognized in Automotive net sales and revenue upon transfer of control of the vehicle to the customer and the related vehicle carrying value is recognized in Automotive and other cost of sales.

Services and Other Services and other revenue primarily consists of revenue from vehicle-related service arrangements and after-sale services such as maintenance, vehicle connectivity and extended service warranties. For those service arrangements that are bundled with a vehicle sale, a portion of the revenue from the sale is allocated to the service component and recognized as deferred revenue within Accrued liabilities or Other liabilities. We recognize revenue for bundled services and services sold separately as services are performed, typically over a period of less than three years.

Automotive Financing - GM Financial Finance charge income earned on receivables is recognized using the effective interest method. Fees and commissions (including incentive payments) received and direct costs of originating loans are deferred and amortized over the term of the related finance receivables using the effective interest method and are removed from the condensed consolidated balance sheets when the related finance receivables are sold, charged off or paid in full. Accrual of finance charge income on retail finance receivables is generally suspended on accounts that are more than 60 days delinquent, accounts in bankruptcy and accounts in repossession. Payments received on nonaccrual loans are first applied to any fees due, then to any interest due and then any remaining amounts are recorded to principal. Interest accrual generally resumes once an account has received payments bringing the delinquency to less than 60 days past due. Accrual of finance charge income on commercial finance receivables is generally suspended on accounts that are more than 90 days delinquent, upon receipt of a bankruptcy notice from a borrower, or where reasonable doubt exists about the full collectability of contractually agreed upon principal and interest. Payments received on nonaccrual loans are first applied to principal. Interest accrual resumes once an account has received payments bringing the account fully current and collection of contractual principal and interest is reasonably assured (including amounts previously charged off).

Income from operating lease assets, which includes lease origination fees, net of lease origination costs and incentives, is recorded as operating lease revenue on a straight-line basis over the term of the lease agreement.

Equipment on Operating Leases Equipment on operating leases, net consists of vehicle leases to retail customers with lease terms of two to five years and vehicle sales to rental car companies that are expected to be repurchased in an average of seven months. We are exposed to changes in the residual values of these assets. The residual values represent estimates of the values of the leased vehicles at the end of the lease contracts and are determined based on forecasted auction proceeds when there is a reliable basis to make such a determination. Realization of the residual values is dependent on the future ability to market the vehicles under prevailing market conditions. The adequacy of the estimate of the residual value is evaluated over the life of the arrangement and adjustments may be made to the extent the expected value of the vehicle changes. Adjustments may be in the form of revisions to the depreciation rate or recognition of an impairment charge. Impairment is determined to exist if an impairment indicator exists and the expected future cash flows, which include estimated residual values, are lower than the carrying amount of the vehicle's asset group. If the carrying amount is considered impaired an impairment charge is recorded for the amount by which the carrying amount exceeds fair value of the vehicle's asset group. Fair value is determined primarily using the anticipated cash flows, including estimated residual values. In our automotive finance operations when a leased vehicle is returned or repossessed the asset is recorded in Other assets at the lower of cost or estimated selling price, less costs to sell. Upon disposition a gain or loss is recorded in GM Financial interest, operating and other expenses for any difference between the net book value of the leased asset and the proceeds from the disposition of the asset.

Marketable Debt Securities We classify marketable debt securities as either available-for-sale or trading. Various factors, including turnover of holdings and investment guidelines, are considered in determining the classification of securities. Available-for-sale debt securities are recorded at fair value with unrealized gains and losses recorded net of related income taxes in Accumulated

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other comprehensive loss until realized. Trading debt securities are recorded at fair value with changes in fair value recorded in Interest income and other non-operating income, net. We determine realized gains and losses for all debt securities using the specific identification method.

We measure the fair value of our marketable debt securities using a market approach where identical or comparable prices are available and an income approach in other cases. If quoted market prices are not available, fair values of securities are determined using prices from a pricing service, pricing models, quoted prices of securities with similar characteristics or discounted cash flow models. These prices represent non-binding quotes. Our pricing service utilizes industry-standard pricing models that consider various inputs. We conduct an annual review of our pricing service and believe the prices received from our pricing service are a reliable representation of exit prices.

An evaluation is made quarterly to determine if unrealized losses related to non-trading investments in debt securities are other-than-temporary. Factors considered include the length of time and extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer and the intent to sell or likelihood to be forced to sell the debt security before any anticipated recovery.

Equity Investments When events and circumstances warrant, equity investments accounted for under the equity method of accounting are evaluated for impairment. An impairment charge is recorded whenever a decline in value of an equity investment below its carrying amount is determined to be other-than-temporary. Impairment charges related to equity method investments are recorded in Equity income. Equity investments that are not accounted for under the equity method of accounting are measured at fair value with changes in fair value recorded in Interest income and other non-operating income, net.

Derivative Financial Instruments The following changes to our accounting policies became effective upon adoption of ASU 2017-12.

Automotive Certain foreign currency and commodity forward contracts have been designated as cash flow hedges. The risk being hedged is the foreign currency and commodity price risk related to forecasted transactions. If the contract has been designated as a cash flow hedge, the change in the fair value of the cash flow hedge is deferred in Accumulated other comprehensive loss and is recognized in Automotive and other cost of sales along with the earnings effect of the hedged item when the hedged item affects earnings.

Automotive Financing - GM Financial Certain interest rate swap and foreign currency swap agreements have been designated as cash flow hedges. The risk being hedged is the foreign currency and interest rate risk related to forecasted transactions. If the contract has been designated as a cash flow hedge, the change in the fair value of the cash flow hedge is deferred in Accumulated other comprehensive loss and is recognized in GM Financial interest, operating and other expenses along with the earnings effect of the hedged item when the hedged item affects earnings. Changes in the fair value of amounts excluded from the assessment of effectiveness are recorded currently in earnings and are presented in the same income statement line as the earnings effect of the hedged item.

Note 3. Revenue

The following table disaggregates our revenue by major source for revenue generating segments:

	Three Months Ended June 30, 2018						
	GMNA	GMI	Corporate	Total Automotive	GM Financial	Eliminations	Total
Vehicle, parts and accessories	$26,874	$4,489	$ 1	$ 31,364	$ —	$ (18)	$31,346
Used vehicles	769	68	—	837	—	(16)	821

Services and other	858	201	49	1,108	—	—	1,108
Automotive net sales and revenue	28,501	4,758	50	33,309	—	(34)	33,275
Leased vehicle income	—	—	—	—	2,497	—	2,497
Finance charge income	—	—	—	—	884	(1)	883
Other income	—	—	—	—	107	(2)	105
GM Financial net sales and revenue	—	—	—	—	3,488	(3)	3,485
Net sales and revenue	$28,501	$4,758	$ 50	$ 33,309	$ 3,488	$ (37)	$36,760

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GENERAL MOTORS COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —— (Continued)

	Six Months Ended June 30, 2018						
	GMNA	GMI	Corporate	Total Automotive	GM Financial	Eliminations	Total
Vehicle, parts and accessories	$52,756	$9,094	$ 10	$ 61,860	$ —	$ (25)	$61,835
Used vehicles	1,924	115	—	2,039	—	(33)	2,006
Services and other	1,639	397	89	2,125	—	—	2,125
Automotive net sales and revenue	56,319	9,606	99	66,024	—	(58)	65,966
Leased vehicle income	—	—	—	—	4,944	—	4,944
Finance charge income	—	—	—	—	1,750	(3)	1,747
Other income	—	—	—	—	205	(3)	202
GM Financial net sales and revenue	—	—	—	—	6,899	(6)	6,893
Net sales and revenue	$56,319	$9,606	$ 99	$ 66,024	$ 6,899	$ (64)	$72,859

Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Adjustments to sales incentives for previously recognized sales decreased revenue by $482 million and $628 million during the three and six months ended June 30, 2018.

Deferred revenue consists primarily of maintenance, extended warranty and other service contracts. We recognized revenue of $402 million and $785 million related to previously deferred revenue during the three and six months ended June 30, 2018. We expect to recognize revenue of $845 million in the six months ending December 31, 2018 and $885 million, $450 million and $569 million in the years ending December 31, 2019, 2020 and thereafter related to deferred revenue as of June 30, 2018.

Note 4. Marketable and Other Securities
The following table summarizes the fair value of cash equivalents and marketable debt and equity securities which approximates cost:

	Fair Value Level	June 30, 2018	December 31, 2017
Cash and cash equivalents			
Cash and time deposits(a)		$7,248	$ 6,962
Available-for-sale debt securities			
U.S. government and agencies	2	1,307	750
Corporate debt	2	1,222	3,032
Sovereign debt	2	637	1,954
Total available-for-sale debt securities – cash equivalents		3,166	5,736
Money market funds	1	4,673	2,814
Total cash and cash equivalents		$15,087	$ 15,512
Marketable debt securities			
U.S. government and agencies	2	$2,028	$ 3,310
Corporate debt	2	3,414	3,665
Mortgage and asset-backed	2	666	635
Sovereign debt	2	816	703
Total available-for-sale debt securities – marketable securities		$6,924	$ 8,313
Restricted cash			
Cash and cash equivalents		$205	$ 219
Money market funds	1	2,479	2,117
Total restricted cash		$2,684	$ 2,336

Available-for-sale debt securities included above with contractual maturities(b)	
Due in one year or less	$4,741
Due between one and five years	4,683
Total available-for-sale debt securities with contractual maturities	$9,424

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(a) Includes $2.0 billion in GM Cruise Cash and cash equivalents and $361 million that is designated exclusively to fund capital expenditures in GM Korea Company (GM Korea). Refer to Note 17 for additional information.
(b) Excludes mortgage and asset-backed securities.

Sales proceeds from investments classified as available-for-sale and sold prior to maturity were $1.0 billion and $750 million in the three months ended June 30, 2018 and 2017 and $2.0 billion and $1.4 billion in the six months ended June 30, 2018 and 2017. Net unrealized gains and losses on available-for-sale debt securities were insignificant in the three and six months ended June 30, 2018 and 2017. Cumulative unrealized gains and losses on available-for-sale debt securities were insignificant at June 30, 2018 and December 31, 2017.

Investments in equity securities where market quotations are not available are accounted for at fair value primarily using Level 3 inputs. We recorded an unrealized gain of $142 million in Interest income and other non-operating income, net in the three and six months ended June 30, 2018 to adjust an investment in an equity security to a fair value of $884 million at June 30, 2018.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheet to the total shown in the condensed consolidated statement of cash flows:

	June 30, 2018
Cash and cash equivalents	$15,087
Restricted cash included in Other current assets	2,153
Restricted cash included in Other assets	531
Total	$17,771

Note 5. GM Financial Receivables and Transactions

	June 30, 2018			December 31, 2017		
	Retail	Commercial	Total	Retail	Commercial	Total
Finance receivables, collectively evaluated for impairment, net of fees	$33,278	$ 10,273	$43,551	$30,486	$ 9,935	$40,421
Finance receivables, individually evaluated for impairment, net of fees	2,277	46	2,323	2,228	22	2,250
GM Financial receivables	35,555	10,319	45,874	32,714	9,957	42,671
Less: allowance for loan losses	(815)	(58)	(873)	(889)	(53)	(942)
GM Financial receivables, net	$34,740	$ 10,261	$45,001	$31,825	$ 9,904	$41,729
Fair value of GM Financial receivables			$44,629			$41,735

We estimate the fair value of retail finance receivables using observable and unobservable Level 3 inputs within a cash flow model. The inputs reflect assumptions regarding expected prepayments, deferrals, delinquencies, recoveries and charge-offs of the loans within the portfolio. The cash flow model produces an estimated amortization schedule of the finance receivables. The projected cash flows are then discounted to derive the fair value of the portfolio. Macroeconomic factors could affect the credit performance of the portfolio and therefore could potentially affect the assumptions used in our cash flow model. A substantial majority of our commercial finance receivables have variable interest rates. The carrying amount, a Level 2 input, is considered to be a reasonable estimate of fair value.

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Allowance for loan losses at beginning of period	$912	$ 867	$942	$ 805
Provision for loan losses	128	158	264	369
Charge-offs	(298)	(273)	(593)	(571)
Recoveries	145	142	268	285
Effect of foreign currency	(14)	(1)	(8)	5
Allowance for loan losses at end of period	$873	$ 893	$873	$ 893

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The allowance for loan losses on retail and commercial finance receivables included a collective allowance of $560 million and $611 million and a specific allowance of $313 million and $331 million at June 30, 2018 and December 31, 2017.

Retail Finance Receivables We use proprietary scoring systems in the underwriting process that measure the credit quality of retail finance receivables using several factors, such as credit bureau information, consumer credit risk scores (e.g. FICO score or its equivalent) and contract characteristics. We also consider other factors such as employment history, financial stability and capacity to pay. Subsequent to origination we review the credit quality of retail finance receivables based on customer payment activity. At June 30, 2018 and December 31, 2017, 29% and 33% of retail finance receivables were from consumers with sub-prime credit scores, which are defined as FICO scores or equivalent scores of less than 620 at the time of loan origination.

An account is considered delinquent if a substantial portion of a scheduled payment has not been received by the date the payment was contractually due. The accrual of finance charge income had been suspended on delinquent retail finance receivables with contractual amounts due of $822 million and $778 million at June 30, 2018 and December 31, 2017. The following table summarizes the contractual amount of delinquent retail finance receivables, which is not significantly different than the recorded investment of the retail finance receivables:

	June 30, 2018			June 30, 2017		
	Amount	Percent of Contractual Amount Due		Amount	Percent of Contractual Amount Due	
31-to-60 days delinquent	$1,178	3.3	%	$1,076	3.4	%
Greater-than-60 days delinquent	462	1.3	%	464	1.5	%
Total finance receivables more than 30 days delinquent	1,640	4.6	%	1,540	4.9	%
In repossession	57	0.2	%	43	0.2	%
Total finance receivables more than 30 days delinquent or in repossession	$1,697	4.8	%	$1,583	5.1	%

Retail finance receivables classified as troubled debt restructurings and individually evaluated for impairment were $2.3 billion and $2.2 billion and the allowance for loan losses included $307 million and $328 million of specific allowances on these receivables at June 30, 2018 and December 31, 2017.

Commercial Finance Receivables Our commercial finance receivables consist of dealer financings, primarily for inventory purchases. A proprietary model is used to assign a risk rating to each dealer. We perform periodic credit reviews of each dealership and adjust the dealership's risk rating, if necessary. Dealers in Group VI are subject to additional restrictions on funding, including suspension of lines of credit and liquidation of assets. The commercial finance receivables on non-accrual status were insignificant at June 30, 2018 and December 31, 2017. The following table summarizes the credit risk profile by dealer risk rating of the commercial finance receivables: