

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. SHARE-BASED COMPENSATION

Under our Long-Term Incentive Plans, we may issue restricted stock units ("RSUs"), restricted stock shares ("RSSs"), and stock options. RSUs and RSSs consist of time-based and performance-based awards. The number of shares that may be granted in any year is limited to 2 % of our issued and outstanding Common Stock as of December 31 of the prior calendar year. The limit may be increased up to 3 % in any year, with a corresponding reduction in shares available for grants in future years. Granted RSUs generally cliff vest or ratably vest over a three-year service period. Performance-based RSUs have two components: one based on internal financial performance metrics and the other based on total shareholder return relative to an industrial and automotive peer group. At the time of vest, RSU awards are net settled (i.e., shares are withheld to cover the employee tax obligation). Stock options ratably vest over a three-year service period and expire ten years from the grant date.

The fair value of both the time-based and the internal performance metrics portion of the performance-based RSUs and RSSs is determined using the closing price of our Common Stock at grant date. For awards that include a market condition, we measure the fair value using a Monte Carlo simulation. The weighted average per unit grant date fair value for the years ended December 31, 2020, 2021, and 2022 was \$ 7.11 , \$ 13.02 , and \$ 15.63 , respectively.

Time-based RSUs generally have a graded vesting feature whereby one-third of each grant vests after the first anniversary of the grant date, one-third after the second anniversary, and one-third after the third anniversary. The graded vesting method recognizes expense over the service period for each separately-vesting tranche, which results in accelerated recognition of expense. The fair value of time-based RSUs, RSSs, and stock options is expensed over the shorter of each separate vesting period, using the graded vesting method, or the time period an employee becomes eligible to retain the award at retirement. The fair value of performance-based RSUs and RSSs is expensed when it is probable and estimable as measured against the performance metrics over the shorter of the performance or required service periods. We measure the fair value of our stock options on the date of grant using either the Black-Scholes option-pricing model (for options without a market condition) or a Monte Carlo simulation (for options with a market condition). We have elected to recognize forfeitures as an adjustment to compensation expense for all RSUs, RSSs, and stock options in the same period as the forfeitures occur. Expense is recorded in *Selling, administrative, and other expenses* .

Restricted Stock Units and Restricted Stock Shares

The fair value of vested RSUs and RSSs as well as the compensation cost for the years ended December 31 were as follows (in millions):

	2020	2021	2022
Fair value of vested shares	\$ 264	\$ 217	\$ 252
Compensation cost (a)	156	229	223

(a) Net of tax benefit of \$ 31 million, \$ 74 million, and \$ 113 million in 2020, 2021, and 2022, respectively.

As of December 31, 2022, there was approximately \$ 265 million in unrecognized compensation cost related to non-vested RSUs. This expense will be recognized over a weighted average period of 1.9 years.

The performance-based RSUs granted in March 2020, 2021, and 2022 include a relative Total Shareholder Return ("TSR") metric. Inputs and assumptions used to calculate the fair value at grant date through a Monte Carlo simulation were as follows:

	2020		2021		2022
Fair value per stock award	\$ 7.21		\$ 13.45		\$ 18.10
Grant date stock price	7.08		11.93		16.85
Assumptions:					
Ford's stock price expected volatility (a)	25.4	%	39.9	%	44.8 %
Expected average volatility of peer companies (a)	26.4		39.6		39.6
Risk-free interest rate	0.68		0.32		1.62

(a) Expected volatility based on three years of daily closing share price changes ending on the grant date.