WHIRLPOOL CORP /DE/
Form 10-Q
October 28, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-3932

WHIRLPOOL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	38-1490038
(State of Incorporation)	(I.R.S. Employer Identification No.)
2000 North M-63, Benton Harbor, Michigan	49022-2692
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code (269) 923-5000

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 x No o

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 x No o

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

Class of common stock	Shares outstanding at October 24, 2014
Common stock, par value $1 per share	77,871,003

QUARTERLY REPORT ON FORM 10-Q
WHIRLPOOL CORPORATION
Three and Nine Months Ended September 30, 2014
INDEX OF INFORMATION INCLUDED IN REPORT

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. Certain statements contained in this quarterly report, including those within the forward-looking perspective section within the Management's Discussion and Analysis, and other written and oral statements made from time to time by us or on our behalf do not relate strictly to historical or current facts and may contain forward-looking statements that reflect our current views with respect to future events and financial performance. As such, they are considered “forward-looking statements” which provide current expectations or forecasts of future events. Such statements can be identified by the use of terminology such as “may,” “could,” “will,” “should,” “possible,” “plan,” “prec “forecast,” “potential,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “believe,” “may impact,” “on track,” and similar expressions. Our forward-looking statements generally relate to our growth strategies, financial results, product development, and sales efforts. These forward-looking statements should be considered with the understanding that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by inaccurate assumptions. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially.

This document contains forward-looking statements about Whirlpool Corporation and its consolidated subsidiaries (“Whirlpool”) that speak only as of this date. Whirlpool disclaims any obligation to update these statements. Forward-looking statements in this document may include, but are not limited to, statements regarding expected earnings per share, cash flow, productivity and material and oil-related prices. Many risks, contingencies and uncertainties could cause actual results to differ materially from Whirlpool's forward-looking statements. Among these factors are: (1) intense competition in the home appliance industry reflecting the impact of both new and established global competitors, including Asian and European manufacturers; (2) Whirlpool's ability to continue its relationship with significant trade customers and the ability of these trade customers to maintain or increase market share; (3) acquisition and investment-related risk, including risks associated with our acquisitions of Hefei Sanyo and Indesit; (4) changes in economic conditions which affect demand for our products, including the strength of the building industry and the level of interest rates; (5) product liability and product recall costs; (6) inventory and other asset risk; (7) risks related to our international operations, including changes in foreign regulations, regulatory compliance and disruptions arising from natural disasters or terrorist attacks; (8) the uncertain global economy; (9) the ability of Whirlpool to achieve its business plans, productivity improvements, cost control, price increases, leveraging of its global operating platform, and acceleration of the rate of innovation; (10) Whirlpool's ability to maintain its reputation and brand image; (11) fluctuations in the cost of key materials (including steel, plastic, resins, copper and aluminum) and components and the ability of Whirlpool to offset cost increases; (12) litigation, tax, and legal compliance risk and costs, especially costs which may be materially different from the amount we expect to incur or have accrued for; (13) the effects and costs of governmental investigations or related actions by third parties; (14) Whirlpool's ability to obtain and protect intellectual property rights; (15) the ability of suppliers of critical parts, components and manufacturing equipment to deliver sufficient quantities to Whirlpool in a timely and cost-effective manner; (16) health care cost trends, regulatory changes and variations between results and estimates that could increase future funding obligations for pension and postretirement benefit plans; (17) information technology system failures and data security breaches; (18) the impact of labor relations; (19) our ability to attract, develop and retain executives and other qualified employees; (20) changes in the legal and regulatory environment including environmental and health and safety regulations; and (21) the ability of Whirlpool to manage foreign currency fluctuations.

We undertake no obligation to update any forward-looking statement, and investors are advised to review disclosures in our filings with the Securities and Exchange Commission. It is not possible to foresee or identify all factors that could cause actual results to differ from expected or historic results. Therefore, investors should not consider the foregoing factors to be an exhaustive statement of all risks, uncertainties, or factors that could potentially cause actual results to differ from forward-looking statements. Additional information concerning these and other factors can be found in “Risk Factors” in Part II, Item 1A of this report.

Unless otherwise indicated, the terms “Whirlpool,” "the Company," “we,” “us,” and “our” refer to Whirlpool Corporation and its consolidated subsidiaries.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
WHIRLPOOL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE PERIODS ENDED SEPTEMBER 30
(Millions of dollars, except per share data)

	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Net sales	$4,824	$4,683	$13,869	$13,679
Expenses				
Cost of products sold	3,997	3,837	11,500	11,290
Gross margin	827	846	2,369	2,389
Selling, general and administrative	448	460	1,344	1,334
Intangible amortization	6	5	17	19
Restructuring costs	38	68	101	141
Operating profit	335	313	907	895
Other income (expense)				
Interest and sundry income (expense)	(39)	(16)	(78)	(73)
Interest expense	(35)	(43)	(119)	(133)
Earnings before income taxes	261	254	710	689
Income tax expense	26	55	126	27
Net earnings	235	199	584	662
Less: Net earnings available to noncontrolling interests	5	3	15	16
Net earnings available to Whirlpool	$230	$196	569	646
Per share of common stock				
Basic net earnings available to Whirlpool	$2.92	$2.46	$7.26	$8.11
Diluted net earnings available to Whirlpool	$2.88	$2.42	$7.16	$7.97
Dividends declared	$0.75	$0.625	$2.125	$1.75
Weighted-average shares outstanding (in millions)				
Basic	78.4	79.7	78.3	79.6
Diluted	79.6	81.0	79.4	81.0
Comprehensive income	$39	$271	$429	$612

The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.

WHIRLPOOL CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(Millions of dollars, except share data)

	(Unaudited) September 30, 2014	December 31, 2013
Assets		
Current assets		
Cash and equivalents	$ 987	$ 1,380
Accounts receivable, net of allowance of $82 and $73, respectively	2,213	2,005
Inventories	2,720	2,408
Deferred income taxes	314	549
Prepaid and other current assets	725	680
Total current assets	6,959	7,022
Property, net of accumulated depreciation of $6,162 and $6,278, respectively	2,986	3,041
Goodwill	1,721	1,724
Other intangibles, net of accumulated amortization of $252 and $237, respectively	1,682	1,702
Deferred income taxes	1,758	1,764
Other noncurrent assets	602	291
Total assets	$ 15,708	$ 15,544
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 3,789	$ 3,865
Accrued expenses	618	710
Accrued advertising and promotions	409	441
Employee compensation	366	456
Notes payable	486	10
Current maturities of long-term debt	213	607
Other current liabilities	521	705
Total current liabilities	6,402	6,794
Noncurrent liabilities		
Long-term debt	2,450	1,846
Pension benefits	760	930
Postretirement benefits	458	458
Other noncurrent liabilities	327	482
Total noncurrent liabilities	3,995	3,716
Stockholders' equity		
Common stock, $1 par value, 250 million shares authorized, 110 million and 109 million shares issued, and 78 million and 77 million shares outstanding, respectively	110	109
Additional paid-in capital	2,502	2,453
Retained earnings	6,186	5,784
Accumulated other comprehensive loss	(1,451)	(1,298)
Treasury stock, 32 million shares	(2,149)	(2,124)
Total Whirlpool stockholders' equity	5,198	4,924
Noncontrolling interests	113	110
Total stockholders' equity	5,311	5,034
Total liabilities and stockholders' equity	$ 15,708	$ 15,544

The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.

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WHIRLPOOL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE PERIODS ENDED SEPTEMBER 30
(Millions of dollars)

	Nine Months Ended	
	2014	2013
Operating activities		
Net earnings	$584	$662
Adjustments to reconcile net earnings to cash provided by (used in) operating activities:		
Depreciation and amortization	397	397
Changes in assets and liabilities:		
Accounts receivable	(302)	(268)
Inventories	(399)	(335)
Accounts payable	44	160
Accrued advertising and promotions	(18)	(1)
Accrued expenses and current liabilities	(161)	9
Taxes deferred and payable, net	40	(101)
Accrued pension and postretirement benefits	(165)	(147)
Employee compensation	(55)	(73)
Other	(93)	(61)
Cash provided by (used in) operating activities	(128)	242
Investing activities		
Capital expenditures	(422)	(317)
Proceeds from sale of assets	18	3
Investment in related businesses	(16)	—
Deposit related to acquisition of Hefei Rongshida Sanyo Electric Co., Ltd.	(250)	—
Purchase of interest in Indesit Company S.p.A.	(75)	—
Other	(3)	(39)
Cash used in investing activities	(748)	(353)
Financing activities		
Proceeds from borrowings of long-term debt	818	499
Repayments of long-term debt	(606)	(507)
Dividends paid	(165)	(139)
Net proceeds from (repayments of) short-term borrowings	476	(3)
Common stock issued	31	80
Purchase of treasury stock	(25)	(140)
Purchase of noncontrolling interest shares	(5)	—
Other	(13)	(9)
Cash provided by (used in) financing activities	511	(219)
Effect of exchange rate changes on cash and equivalents	(28)	(12)
Decrease in cash and equivalents	(393)	(342)
Cash and equivalents at beginning of period	1,380	1,168
Cash and equivalents at end of period	$987	$826

The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(1) BASIS OF PRESENTATION

General Information

The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information or footnotes required by GAAP for complete financial statements. As a result, this Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying Notes in our Form 10-K for the year ended December 31, 2013.

Management believes that the accompanying Consolidated Condensed Financial Statements reflect all adjustments, including normal recurring items, considered necessary for a fair presentation of the interim periods.

We have eliminated all material intercompany transactions in our Consolidated Condensed Financial Statements. We do not consolidate the financial statements of any company in which we have an ownership interest of 50% or less unless that company is deemed to be a variable interest entity in which we are considered to have a controlling financial interest. We did not control any company in which we had an ownership interest of 50% or less for any period presented in our Consolidated Condensed Financial Statements.

Certain prior year amounts in the Consolidated Condensed Financial Statements have been reclassified to conform with current year presentation.

New Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." This new guidance is effective prospectively for annual reporting periods beginning on or after December 15, 2013 and interim periods therein. ASU 2013-11 provides guidance on the presentation of unrecognized tax benefits, reflecting the manner in which an entity would settle, at the reporting date, any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. We adopted the provisions of this amendment during 2014, which resulted in a reclassification between other non-current liabilities and non-current deferred income tax assets of approximately $53 million. The adoption did not change existing recognition and measurement requirements in our Consolidated Condensed Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This pronouncement is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and is to be applied using one of two retrospective application methods, with early application not permitted. We have not yet determined the potential effects on the Consolidated Condensed Financial Statements, if any.

All other issued but not yet effective accounting pronouncements are not expected to have a material impact on our Consolidated Condensed Financial Statements.

(2) FAIR VALUE MEASUREMENTS

Fair value is measured based on an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions market participants would use in pricing an asset or liability. Assets and liabilities measured at fair value are based on a market valuation approach using prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. As a basis for considering such assumptions, a three-tiered fair value hierarchy is established, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets that are observable, either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions. We had no Level 3 assets or liabilities at September 30, 2014 and December 31, 2013.

Assets and liabilities measured at fair value on a recurring basis at September 30, 2014 and December 31, 2013 are in the following table:

			Fair Value					
	Total Cost Basis		Level 1		Level 2		Total	
Millions of dollars	2014	2013	2014	2013	2014	2013	2014	2013
Money market funds [1]	$12	$465	$12	$465	$—	$—	$12	$465
Net derivative contracts	—	—	—	—	16	(25)	16	(25)
Available for sale investments	92	8	103	18	—	—	103	18

[1] Money market funds are comprised primarily of government obligations and other first tier obligations.

In March 2014, we sold approximately 7.4 million shares held in Alno AG, a long-standing European customer, for approximately $5 million. This transaction resulted in the conversion of our investment from the equity method of accounting to an available for sale investment due to our less than 20% overall investment in Alno AG.

In July 2014, Whirlpool acquired approximately 4.4% of Indesit Company S.p.A.'s ("Indesit") issued share capital and 4.9% of Indesit's outstanding voting stock for an aggregate purchase price of approximately $75 million. The shares are accounted for as an available for sale investment due to our less than 20% overall investment in Indesit as of September 30, 2014. Additional information about the transaction can be found in Note 13 of the Notes to the Consolidated Condensed Financial Statements.

Other Fair Value Measurements

The fair value of long-term debt (including current maturities) was $2.7 billion and $2.6 billion at September 30, 2014 and December 31, 2013, respectively, and was estimated using discounted cash flow analyses based on incremental borrowing rates for similar types of borrowing arrangements (Level 2 input).

(3) INVENTORIES

The following table summarizes our inventory for the periods presented:

Millions of dollars	September 30, 2014	December 31, 2013
Finished products	$2,206	$1,950
Raw materials and work in process	672	622
	2,878	2,572
Less: excess of FIFO cost over LIFO cost	(158)	(164)
Total inventories	$2,720	$2,408

LIFO inventories represented 41% and 39% of total inventories at September 30, 2014 and December 31, 2013, respectively.

(4) PROPERTY

The following table summarizes our property, plant and equipment as of September 30, 2014 and December 31, 2013:

Millions of dollars	September 30, 2014	December 31, 2013
Land	$73	$76
Buildings	1,282	1,303
Machinery and equipment	7,793	7,940
Accumulated depreciation	(6,162)	(6,278)
Property, plant and equipment, net	$2,986	$3,041

During the nine months ended September 30, 2014, we disposed of $304 million of fully depreciated buildings, machinery and equipment no longer in use.

(5) FINANCING ARRANGEMENTS

Debt

On August 15, 2014, $100 million of 6.45% notes matured and were repaid. On May 1, 2014, $500 million of 8.60% notes matured and were repaid. On February 25, 2014, we completed a debt offering of $250 million principal amount of 1.35% notes due in 2017, $250 million principal amount of 2.40% notes due in 2019, and $300 million principal amount of 4.00% notes due in 2024 (collectively, the "Notes"). The Notes contain covenants that limit our ability to incur certain liens or enter into certain sale and lease-back transactions. In addition, if we experience a specific kind of change of control, we are required to make an offer to purchase all of the Notes at a purchase price of 101% of the principal amount thereof, plus accrued and unpaid interest. The Notes are registered under the Securities Act of 1933, as amended, pursuant to our Registration Statement on Form S-3 (File No. 333-181339) filed with the Securities and Exchange Commission (the “Commission”) on May 11, 2012.

On September 26, 2014, we entered into a Second Amended and Restated Long-Term Credit Agreement (the “Long-Term Facility”). The Long-Term Facility amends, restates and extends the borrowers’ prior five-year credit facility, which was scheduled to mature on June 28, 2016. The Long-Term Facility increases the existing $1.725 billion facility to an aggregate amount of $2.0 billion, with an option to increase the total amount to up to $2.5 billion by exercise of an accordion feature. The Long-Term Facility has a maturity date of September 26, 2019. The Long-Term Facility includes a letter of credit sublimit of $200 million. The Long-Term Facility decreases the interest and fee rates payable with respect to the Long-Term Facility based on our debt rating as follows: (1) the spread over LIBOR is 1.250%; (2) the spread over prime is 0.250%; and (3) the unused commitment fee is 0.15%, as of the effective date of the Long-Term Facility. We had no borrowings outstanding under the Long-Term Facility at September 30, 2014 or the prior Long-Term Facility at December 31, 2013, respectively.

On September 26, 2014, we entered into a Short-Term Credit Agreement (the “364-Day Facility” and together with the Long-Term Facility, the “Facilities”). The 364-Day Facility is a revolving credit facility in an aggregate amount of $1.0 billion. The 364-Day Facility has a maturity date of September 25, 2015. The interest and fee rates payable with respect to the 364-Day Facility based on our debt rating are as follows: (1) the spread over LIBOR is 1.250%; (2) the spread over prime is 0.250%; and (3) the unused commitment fee is 0.125%, as of the effective date of the 364-Day Facility. We had no borrowings outstanding under the 364-Day Facility at September 30, 2014.

The Facilities contain customary covenants and warranties including, among other things, a rolling twelve month maximum leverage ratio limited to 3.25 to 1.0 for each fiscal quarter and a rolling twelve month interest coverage ratio required to be greater than or equal to 3.0 to 1.0 for each fiscal quarter. In addition, the covenants limit our ability to (or to permit any subsidiaries to), subject to various exceptions and limitations: (i) merge with other companies; (ii) create liens on our property; (iii) incur debt or off-balance sheet obligations at the subsidiary level; (iv) enter into transactions with affiliates, except on an arms-length basis; (v) enter into agreements restricting the payment of subsidiary dividends or restricting the making of loans or repayment of debt by subsidiaries; and (vi) enter into agreements restricting the creation of liens on our assets. We were in compliance with financial covenant requirements at September 30, 2014 and December 31, 2013.

We have paid lenders under the Facilities an up-front fee of approximately $2.7 million.

Notes Payable

Notes payable, which consist of short-term borrowings payable to banks or commercial paper, are generally used to fund working capital requirements. The fair value of our notes payable approximates the carrying amount due to the short maturity of these obligations. We had $460 million of commercial paper and $26 million of short-term borrowings to banks outstanding at September 30, 2014. We had $10 million of short-term borrowings to banks and no commercial paper borrowings outstanding at December 31, 2013.

(6) COMMITMENTS AND CONTINGENCIES

Embraco Antitrust Matters

Beginning in February 2009, our compressor business headquartered in Brazil ("Embraco") was notified of investigations of the global compressor industry by government authorities in various jurisdictions. In 2013, Embraco sales represented approximately 8% of our global net sales.

Government authorities in Brazil, Europe, the United States, and other jurisdictions have entered into agreements with Embraco and concluded their investigations of the Company. In connection with these agreements, Embraco has acknowledged violations of antitrust law with respect to the sale of compressors at various times from 2004 through 2007 and agreed to pay fines or settlement payments.

Since the government investigations commenced in February 2009, Embraco, and other compressor manufacturers, have been named as defendants in related antitrust lawsuits in various jurisdictions seeking damages in connection with the pricing of compressors during certain periods beginning in 1996 or later. We have resolved certain claims and certain claims remain pending. Additional lawsuits could be filed.

On June 16, 2014, Embraco's previously-disclosed settlement agreement with plaintiffs representing a settlement class of U.S. direct purchasers received final court approval. The combination of this settlement and other resolutions resolves all pending U.S. claims.

In connection with the defense and resolution of the Embraco antitrust matters, we have incurred cumulative charges of approximately $417 million since 2009, including fines, defense costs, and other expenses. These charges have been recorded within interest and sundry income (expense). At September 30, 2014, $46 million remains accrued, with installment payments of $41 million, plus interest, remaining to be made to government authorities at various times through 2015.

We continue to defend these actions and take other steps to minimize our potential exposure. The final outcome and impact of these matters, and any related claims and investigations that may be brought in the future are subject to many variables, and cannot be predicted. We establish accruals only for those matters where we determine that a loss is probable and the amount of loss can be reasonably estimated. While it is currently not possible to reasonably estimate the aggregate amount of costs which we may incur in connection with these matters, such costs could have a material adverse effect on our financial position, liquidity, or results of operations.

BEFIEX Credits

In previous years, our Brazilian operations earned tax credits under the Brazilian government’s export incentive program (BEFIEX). These credits reduced Brazilian federal excise taxes on domestic sales, resulting in an increase in the operations’ recorded net sales, as the credits are monetized. We monetized $14 million of BEFIEX credits during the nine months ended September 30, 2014, compared to $69 million for the same period in 2013. We began recognizing BEFIEX credits in accordance with prior favorable court decisions allowing for the credits to be recognized. We recognized export credits as they were monetized.

In December 2013, the Brazilian government reinstituted the monetary adjustment index applicable to BEFIEX credits that existed prior to July 2009, when the Brazilian government required companies to apply a different monetary adjustment index to BEFIEX credits. It is unknown whether Brazilian courts will require that use of the reinstituted index be given retroactive effect for the July 2009 to December 2013 period, the effect of which would be to increase the amount of BEFIEX credits we would be entitled to recognize.

Our Brazilian operations have received governmental assessments related to claims for income and social contribution taxes associated with BEFIEX credits monetized from 2000 through 2002 and 2007 through 2011. We do not believe BEFIEX export credits are subject to income or social contribution taxes. We are disputing these tax matters in various courts and intend to vigorously defend our positions. We have not provided for income or social contribution taxes on these export credits, and based on the opinions of tax and legal advisors, we have not accrued any amount related to these assessments as of September 30, 2014. The total amount of outstanding tax assessments received for income and social contribution taxes relating to the BEFIEX credits, including interest and penalties, is approximately 1.3 billion Brazilian reais (approximately $520 million as of September 30, 2014).

Litigation is inherently unpredictable and the conclusion of these matters may take many years to ultimately resolve, during which time the amounts related to these assessments will continue to be increased by monetary adjustments at the Selic rate, which is the benchmark rate set by the Brazilian Central Bank. Accordingly, it is possible that an unfavorable outcome in these proceedings could have a material adverse effect on our financial position, liquidity, or results of operations in any particular reporting period.

Brazil Tax Matters

Relying on existing Brazilian legal precedent, in 2003 and 2004, we recognized tax credits in an aggregate amount of $26 million, adjusted for currency, on the purchase of raw materials used in production (“IPI tax credits”). The Brazilian tax authority subsequently challenged the recording of IPI tax credits. No credits have been recognized since 2004. In 2009, we entered into a Brazilian government program which provided extended payment terms and reduced penalties and interest to encourage tax payers to resolve this and certain other disputed tax credit amounts. As permitted by the program, we elected to settle certain debts through the use of other existing tax credits and recorded charges of approximately $34 million in 2009 associated with these matters. In July 2012, the Brazilian revenue authority notified us that a portion of our proposed settlement was rejected and we received tax assessments of 204 million Brazilian reais (approximately $83 million as of September 30, 2014), reflecting the original assessment, plus interest and penalties. We are disputing these assessments and we intend to vigorously defend our position. Based on the opinion of our tax and legal advisors, we have not recorded an additional reserve related to these matters.

In 2001, Brazil adopted a law making the profits of controlled foreign corporations of Brazilian entities subject to income and social contribution tax regardless of whether the profits were repatriated ("CFC Tax"). Our Brazilian subsidiary, along with other corporations, challenged tax assessments on foreign profits on constitutionality and other grounds. In April 2013, the Brazilian Supreme Court ruled in our case, finding that the law is constitutional, but remanding the case to a lower court for consideration of other arguments raised in our appeal, including the existence of tax treaties with jurisdictions in which controlled foreign corporations are domiciled. As of September 30, 2014, our potential exposure for income and social contribution taxes relating to profits of controlled foreign corporations, including interest and penalties and net of expected foreign tax credits, is approximately 111 million Brazilian reais (approximately $45 million as of September 30, 2014). We believe these assessments are without merit and we intend to continue to vigorously dispute them. Based on the opinion of our tax and legal advisors, we have not accrued any amount related to these assessments as of September 30, 2014.

In December 2013, we entered into a Brazilian government program to settle long standing disputes. Participation in the program removed uncertainty related to 16 assessments that were previously under dispute and significantly reduces potential penalties and interest associated with these matters. Our participation will result in total payments including principal, interest, and penalties of 123 million Brazilian reais (approximately $50 million as of September 30, 2014), to be paid in 30 monthly installments, which began in December 2013.

In addition to the IPI tax credit and CFC Tax matters noted above, we are currently disputing other assessments issued by the Brazilian tax authorities related to non-income and income tax matters, including BEFIEX credits, which are at various stages of review in numerous administrative and judicial proceedings. In accordance with our accounting policies, we routinely assess these matters and, when necessary, record our best estimate of a loss. We believe these tax assessments are without merit and are vigorously defending our positions; however, each of these matters may take several years to resolve and the outcome of litigation is inherently unpredictable.

Other Litigation

We are currently defending against numerous lawsuits pending in federal and state courts in the United States relating to certain of our front load washing machines. Some of these lawsuits have been certified for treatment as class actions. The complaints in these lawsuits generally allege violations of state consumer fraud acts, unjust enrichment, and breach of warranty. The complaints generally seek unspecified compensatory, consequential and punitive damages. We believe these suits are without merit and are vigorously defending them. Given the preliminary stage of many of these proceedings, the Company cannot reasonably estimate a possible range of loss, if any, at this time. The resolution of one or more of these matters could have a material adverse effect on our Consolidated Condensed Financial Statements.

In addition, we are currently defending a number of other lawsuits in federal and state courts in the United States related to the manufacturing and sale of our products which include class action allegations. These lawsuits allege claims which include breach of contract, breach of warranty, product defect, fraud, violation of federal and state consumer protection acts and negligence. We do not have insurance coverage for class action lawsuits. We are also involved in various other legal actions arising in the normal course of business, for which insurance coverage may or may not be available depending on the nature of the action. We dispute the merits of these suits and actions, and intend to vigorously defend them. Management believes, based upon its current knowledge, after taking into consideration legal counsel's evaluation of such suits and actions, and after taking into account current litigation accruals, that the outcome of these matters currently pending against Whirlpool should not have a material adverse effect, if any, on our Consolidated Condensed Financial Statements.

Other Matters

In 2013, the French Competition Authority (the "Authority") commenced an investigation of appliance manufacturers and retailers in France. In May 2014, the Authority extended the scope of its investigation to include the Company's French subsidiary. It is currently not possible to assess the impact, if any, this matter may have on our Consolidated Condensed Financial Statements.

Product Warranty Reserves

Product warranty reserves are included in other current and other noncurrent liabilities in our Consolidated Condensed Balance Sheets. The following table summarizes the changes in total product warranty reserves for the periods presented:

Millions of dollars	2014	2013
Balance at January 1	$191	$187
Issuances/accruals during the period	194	204
Settlements made during the period	(206)	(199)
Balance at September 30	$179	$192
Current portion	$141	$147
Non-current portion	38	45
Total	$179	$192

We regularly engage in investigations of potential quality and safety issues as part of our ongoing effort to deliver quality products to customers. We are currently investigating a limited number of potential quality and safety issues. As necessary, we undertake to effect repair or replacement of appliances in the event that an investigation leads to the conclusion that such action is warranted.

Guarantees

We have guarantee arrangements in a Brazilian subsidiary. As a standard business practice in Brazil, the subsidiary guarantees customer lines of credit at commercial banks to support purchases following its normal credit policies. If a customer were to default on its line of credit with the bank, our subsidiary would be required to satisfy the obligation with the bank and the receivable would revert back to the subsidiary. At September 30, 2014 and December 31, 2013, the guaranteed amounts totaled $436 million and $485 million, respectively. Our subsidiary insures against credit risk for these guarantees, under normal operating conditions, through policies purchased from high-quality underwriters.

We provide guarantees of indebtedness and lines of credit for various consolidated subsidiaries. The maximum amount of credit facilities available under these lines for consolidated subsidiaries totaled $1.5 billion and $1.3 billion at September 30, 2014 and December 31, 2013, respectively. Our total outstanding bank indebtedness under guarantees at September 30, 2014 and December 31, 2013 was nominal.

We have guaranteed a $45 million five year revolving credit facility between certain financial institutions and a not-for-profit entity in connection with a community and economic development project ("Harbor Shores"). The credit facility, which originated in 2008, was amended in 2014 by Harbor Shores and reduced to $45 million, was refinanced in December 2012 and we renewed our guarantee through 2017. The fair value of the guarantee was nominal. The purpose of Harbor Shores is to stimulate employment and growth in the areas of Benton Harbor and St. Joseph, Michigan. In the event of default, we must satisfy the guarantee of the credit facility up to the amount borrowed at the date of default.

(7) HEDGES AND DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are accounted for at fair value based on market rates. Derivatives where we elect hedge accounting are designated as either cash flow or fair value hedges. Derivatives that are not accounted for based on hedge accounting are marked to market through earnings. The accounting for changes in the fair value of a derivative depends on the intended use and designation of the derivative instrument. Hedging ineffectiveness and a net earnings impact occur when the change in the fair value of the hedge does not offset the change in the fair value of the hedged item. The ineffective portion of the gain or loss is recognized in earnings.

Using derivative instruments means assuming counterparty credit risk. Counterparty credit risk relates to the loss we could incur if a counterparty were to default on a derivative contract. We generally deal with investment grade counterparties and monitor the overall credit risk and exposure to individual counterparties. We do not anticipate nonperformance by any counterparties. The amount of counterparty credit exposure is limited to the unrealized gains, if any, on such derivative contracts. We do not require nor do we post collateral or security on such contracts.

Hedging Strategy

In the normal course of business, we manage risks relating to our ongoing business operations including those arising from changes in foreign exchange rates, interest rates, and commodity prices. Fluctuations in these rates and prices can affect our operating results and financial condition. We use a variety of strategies, including the use of derivative instruments, to manage these risks. We do not enter into derivative financial instruments for trading or speculative purposes.

Foreign Currency Exchange Rate Risk

We incur expenses associated with the procurement and production of products in a limited number of countries, while we sell in the local currencies of a large number of countries. Our primary foreign currency exchange exposures result from cross-currency sales of products. As a result, we enter into foreign exchange contracts to hedge certain firm commitments and forecasted transactions to acquire products and services that are denominated in foreign currencies.

We enter into certain undesignated non-functional currency asset and liability hedges that relate primarily to short-term payables, receivables, inventory, and intercompany loans. These forecasted cross-currency cash flows relate primarily to foreign currency denominated expenditures and intercompany financing agreements, royalty agreements, and dividends. When we hedge a foreign currency denominated payable or receivable with a derivative, the effect of changes in the foreign exchange rates are reflected currently in interest and sundry income (expense) for both the payable/receivable and the derivative. Therefore, as a result of the economic hedge, we do not elect hedge accounting.

Commodity Price Risk

We enter into swap and option contracts on various commodities to manage the price risk associated with forecasted purchases of materials used in our manufacturing process. The objective of these hedges is to reduce the variability of cash flows associated with the forecasted purchase of commodities.

Interest Rate Risk

We may enter into interest rate swap agreements to manage interest rate risk exposure. Our interest rate swap agreements, if any, effectively modify our exposure to interest rate risk, primarily through converting certain of our floating rate debt to a fixed rate basis, and certain fixed rate debt to a floating rate basis. These agreements involve either the receipt or payment of floating rate amounts in exchange for fixed rate interest payments or receipts, respectively, over the life of the agreements without an exchange of the underlying principal amounts. We also may utilize a cross-currency interest rate swap agreement to manage our exposure relating to certain intercompany debt denominated in one foreign currency that will be repaid in another foreign currency. At September 30, 2014 and December 31, 2013, there were no outstanding interest rate derivatives.

The following table summarizes our outstanding derivative contracts and their effects on our Consolidated Condensed Balance Sheets at September 30, 2014 and December 31, 2013:

Millions of dollars	Notional Amount		Fair Value of Hedge Assets		Fair Value of Hedge Liabilities		Type of Hedge(1)	Maximum Term (Months)	
	2014	2013	2014	2013	2014	2013		2014	2013
Derivatives accounted for as hedges									
Foreign exchange forwards/options	$722	$744	$18	$16	$2	$10	(CF/FV)	15	14
Commodity swaps/options	370	363	10	8	10	13	(CF)	39	36
Total derivatives accounted for as hedges			$28	$24	$12	$23			
Derivatives not accounted for as hedges									
Foreign exchange forwards/options	$1,296	$1,274	$13	$6	$13	$32	N/A	8	12
Commodity swaps/options	5	1	—	—	—	—	N/A	6	4
Total derivatives not accounted for as hedges:			13	6	13	32			
Total derivatives			$41	$30	$25	$55			

Current	$39	$28	$23	$54
Noncurrent	2	2	2	1
Total derivatives	$41	$30	$25	$55

(1) Derivatives accounted for as hedges are either considered cash flow (CF) or fair value (FV) hedges.

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The following tables summarize the effects of derivative instruments on our Consolidated Condensed Statements of Comprehensive Income for the three and nine months ended as follows:

Cash Flow Hedges - Millions of dollars	Three Months Ended September 30, Gain (Loss) Recognized in OCI (Effective Portion)		Gain (Loss) Reclassified from OCI into Earnings (Effective Portion) (1)		
	2014	2013	2014	2013	
Foreign exchange	$23	$(8)	$4	$4	(a)
Commodity	(8)	17	—	(6)	(a)
	$15	$9	$4	$(2)	

Derivatives not Accounted for as Hedges - Millions of dollars	Three Months Ended September 30, Gain (Loss) Recognized on Derivatives not Accounted for as Hedges (2)	
	2014	2013
Foreign exchange	$(33)	$3

Cash Flow Hedges - Millions of dollars	Nine Months Ended September 30, Gain (Loss) Recognized in OCI (Effective Portion)		Gain (Loss) Reclassified from OCI into Earnings (Effective Portion) (1)		
	2014	2013	2014	2013	
Foreign exchange	$27	$12	$13	$5	(a)
Commodity	(2)	(31)	(8)	(14)	(a)
Interest rate derivatives	—	—	(1)	(1)	(b)
	$25	$(19)	$4	$(10)	

Derivatives not Accounted for as Hedges - Millions of dollars	Nine Months Ended September 30, Gain (Loss) Recognized on Derivatives not Accounted for as Hedges (2)	
	2014	2013
Foreign exchange	$2	$(29)

(1) Gains and losses reclassified from accumulated OCI and recognized in income are recorded in (a) cost of products sold or (b) interest expense.

(2) Mark to market gains and losses recognized in income are recorded in interest and sundry income (expense).

For cash flow hedges, the amount of ineffectiveness recognized in interest and sundry income (expense) was nominal for the periods ended September 30, 2014 and 2013. For fair value hedges, the amount of gain or loss and offsetting gain or loss on the hedged item that were recognized in interest and sundry income (expense) was nominal for the periods ended September 30, 2014 and 2013. The net amount of unrealized gain or loss on derivative instruments included in accumulated OCI related to contracts maturing and expected to be realized in the next twelve months was nominal at September 30, 2014.

(8) STOCKHOLDERS' EQUITY

Other Comprehensive Income (Loss)

The following table summarizes our other comprehensive income (loss) and related tax effects for the periods presented:

	Three Months Ended September 30,					
	2014			2013		
Millions of dollars	Pre-tax	Tax Effect	Net	Pre-tax	Tax Effect	Net
Currency translation adjustments						