WHIRLPOOL CORP /DE/
Form 10-Q
April 25, 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 March 31, 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 April 18, 2014
Common stock, par value $1 per share	77,741,708

QUARTERLY REPORT ON FORM 10-Q
WHIRLPOOL CORPORATION
Three Months Ended March 31, 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; (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 SEC. 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.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
WHIRLPOOL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE PERIODS ENDED MARCH 31
(Millions of dollars, except per share data)

	Three Months Ended	
	2014	2013
Net sales	$4,363	$4,248
Expenses		
Cost of products sold	3,608	3,522
Gross margin	755	726
Selling, general and administrative	439	421
Intangible amortization	6	9
Restructuring costs	29	42
Operating profit	281	254
Other income (expense)		
Interest and sundry income (expense)	(23)	(18)
Interest expense	(44)	(46)
Earnings before income taxes	214	190
Income tax expense (benefit)	50	(67)
Net earnings	164	257
Less: Net earnings available to noncontrolling interests	4	5
Net earnings available to Whirlpool	$160	$252
Per share of common stock		
Basic net earnings available to Whirlpool	$2.06	$3.18
Diluted net earnings available to Whirlpool	$2.02	$3.12
Dividends declared	$0.625	$0.50
Weighted-average shares outstanding (in millions)		
Basic	78.1	79.3
Diluted	79.4	80.7
Comprehensive income		
Comprehensive income	$206	$226

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) March 31, 2014	December 31, 2013
Assets		
Current assets		
Cash and equivalents	$1,672	$ 1,380
Accounts receivable, net of allowance of $75 and $73, respectively	2,080	2,005
Inventories	2,666	2,408
Deferred income taxes	421	549
Prepaid and other current assets	744	680
Total current assets	7,583	7,022
Property, net of accumulated depreciation of $6,369 and $6,278, respectively	3,054	3,041
Goodwill	1,722	1,724
Other intangibles, net of accumulated amortization of $243 and $237, respectively	1,697	1,702
Deferred income taxes	1,689	1,764
Other noncurrent assets	295	291
Total assets	$16,040	$ 15,544
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$3,721	$ 3,865
Accrued expenses	753	710
Accrued advertising and promotions	287	441
Employee compensation	487	456
Notes payable	2	10
Current maturities of long-term debt	610	607
Other current liabilities	594	705
Total current liabilities	6,454	6,794
Noncurrent liabilities		
Long-term debt	2,662	1,846
Pension benefits	905	930
Postretirement benefits	453	458
Other noncurrent liabilities	353	482
Total noncurrent liabilities	4,373	3,716
Stockholders' equity		
Common stock, $1 par value, 250 million shares authorized, 109 million shares issued, and 77 million shares outstanding	109	109
Additional paid-in capital	2,474	2,453
Retained earnings	5,896	5,784
Accumulated other comprehensive loss	(1,256)	(1,298)
Treasury stock, 32 million shares	(2,124)	(2,124)
Total Whirlpool stockholders' equity	5,099	4,924
Noncontrolling interests	114	110
Total stockholders' equity	5,213	5,034
Total liabilities and stockholders' equity	$16,040	$ 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 MARCH 31
(Millions of dollars)

	Three Months Ended	
	2014	2013
Operating activities		
Net earnings	$164	$257
Adjustments to reconcile net earnings to cash provided by (used in) operating activities:		
Depreciation and amortization	127	129
Changes in assets and liabilities:		
Accounts receivable	(78)	(58)
Inventories	(243)	(223)
Accounts payable	(172)	(141)
Accrued advertising and promotions	(152)	(105)
Taxes deferred and payable, net	20	(92)
Accrued pension and postretirement benefits	(31)	(45)
Employee compensation	38	29
Other	(12)	(56)
Cash used in operating activities	(339)	(305)
Investing activities		
Capital expenditures	(123)	(74)
Proceeds from sale of assets	6	3
Investment in business	(21)	(2)
Other	—	(24)
Cash used in investing activities	(138)	(97)
Financing activities		
Proceeds from borrowings of long-term debt	817	499
Repayments of long-term debt	(2)	(503)
Dividends paid	(48)	(39)
Net repayments of short-term borrowings	(8)	(3)
Common stock issued	11	37
Other	—	(5)
Cash provided by (used in) financing activities	770	(14)
Effect of exchange rate changes on cash and equivalents	(1)	(2)
Increase (decrease) in cash and equivalents	292	(418)
Cash and equivalents at beginning of period	1,380	1,168
Cash and equivalents at end of period	$1,672	$750

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") 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.

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. 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 March 31, 2014 and December 31, 2013.

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.

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

	Total Cost Basis		Fair Value Level 1		Level 2		Total	
Millions of dollars	2014	2013	2014	2013	2014	2013	2014	2013
Money market funds [1]	$736	$465	$736	$465	$—	$—	$736	$465
Net derivative contracts	—	—	—	—	6	(25)	6	(25)
Available for sale investments	21	8	43	18	—	—	43	18

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

In March 2014, Whirlpool 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.

Other Fair Value Measurements

The fair value of long-term debt (including current maturities) was $3.4 billion and $2.6 billion at March 31, 2014 and December 31, 2013, respectively, and was estimated using discounted cash flow analysis 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	March 31, 2014	December 31, 2013
Finished products	$2,195	$1,950
Raw materials and work in process	631	622
	2,826	2,572
Less: excess of FIFO cost over LIFO cost	(160)	(164)
Total inventories	$2,666	$2,408

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

(4) FINANCING ARRANGEMENTS

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 the Company’s Registration Statement on Form S-3 (File No. 333-181339) filed with the Securities and Exchange Commission (the “Commission”) on May 11, 2012.

(5) 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.

In February 2013, Embraco entered into a settlement agreement with plaintiffs representing a proposed settlement class of U.S. “direct purchasers” of compressors which provides for, among other things, the payment by Embraco of up to $30 million (subject to reduction for "opt-outs") in exchange for a release by all settlement class members. The settlement agreement, which was preliminarily approved by the court on January 9, 2014 and remains subject to final court approval, does not cover any claims by direct purchasers which opted out of the proposed settlement class, or claims by "indirect purchasers".

In connection with the defense and resolution of the Embraco antitrust matters, we have incurred cumulative charges of approximately $411 million since 2009, including fines, defense costs and other expenses. These charges have been recorded within interest and sundry income (expense). At March 31, 2014, $99 million remains accrued, with installment payments of $47 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 three months ended March 31, 2014, compared to $16 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 recognize export credits as they are 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 March 31, 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 $553 million as of March 31, 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 199 million Brazilian reais (approximately $88 million as of March 31, 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 March 31, 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 109 million Brazilian reais (approximately $48 million as of March 31, 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 March 31, 2014.

In Decemb