

WHIRLPOOL CORP /DE/
Form 10-Q
July 21, 2011

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

FORM 10-Q

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

For the quarterly period ended June 30, 2011
OR

☐ 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

(State of Incorporation)

38-1490038

(I.R.S. Employer Identification No.)

2000 North M-63,
Benton Harbor, Michigan

(Address of principal executive offices)

49022-2692

(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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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 July 21, 2011

Common stock, par value \$1 per share

76,398,669

QUARTERLY REPORT ON FORM 10-Q

WHIRLPOOL CORPORATION

Three and Six Months Ended June 30, 2011

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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 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," "predict," "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, sales efforts and legal contingencies. 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) changes in economic conditions which affect demand for our products, including the strength of the building industry and the level of interest rates; (4) litigation and legal compliance risk and costs, especially costs which may be materially different from the amount we expect to incur or have accrued for; (5) the effects and costs of governmental investigations or related actions by third parties; (6) the ability of Whirlpool to achieve its business plans, price increases, productivity improvements, cost control, leveraging of its global operating platform, and acceleration of the rate of innovation; (7) fluctuations in the cost of key materials (including steel, oil, plastic, resins, copper and aluminum) and components and the ability of Whirlpool to offset cost increases; (8) product liability and product recall costs; (9) the ability of Whirlpool to manage foreign currency fluctuations; (10) global, political and/or economic uncertainty and disruptions, especially in Whirlpool's significant geographic regions, including uncertainty and disruptions arising from natural disasters or terrorist attacks; (11) inventory and other asset risk; (12) the ability of suppliers of critical parts, components and manufacturing equipment to deliver sufficient quantities to Whirlpool in a timely and cost-effective manner; (13) health care cost trends, regulatory changes and variations between results and estimates that could increase future funding obligations for pension and post retirement benefit plans; (14) Whirlpool's ability to obtain and protect intellectual property rights; (15) information technology system failures and data security breaches; (16) the impact of labor relations; (17) our ability to attract, develop and retain executives and other qualified employees; and (18) changes in the legal and regulatory environment including environmental and health and safety regulations.

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 Item 1A of this report.

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WHIRLPOOL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

FOR THE PERIOD ENDED JUNE 30

(Millions of dollars, except per share data)

	Three Months Ended		Six Months Ended	
	2011	2010	2011	2010
Net sales	\$4,730	\$4,534	\$9,130	\$8,806
Expenses				
Cost of products sold	4,061	3,773	7,839	7,406
Gross margin	669	761	1,291	1,400
Selling, general and administrative	425	401	805	772
Intangible amortization	7	7	14	14
Restructuring costs	14	22	22	42
Operating profit	223	331	450	572
Other income (expense)				
Interest and sundry income (expense)	(538)	) (69	) (556	) (81
Interest expense	(55)	) (55	) (109	) (113
Earnings (loss) before income taxes and other items	(370)	) 207	(215)	) 378
Income tax benefit	(206)	) (8	) (230)	) (11
Earnings (loss) before equity earnings	(164)	) 215	15	389
Equity in loss of affiliated companies	—	—	(1) —
Net earnings (loss)	(164)	) 215	14	389
Less: Net earnings (loss) available to noncontrolling interests	(3	) 10	6	20
Net earnings (loss) available to Whirlpool	\$(161	) \$205	\$8	\$369
Per share of common stock				
Basic net earnings (loss) available to Whirlpool	\$(2.10	) \$2.69	\$0.10	\$4.87
Diluted net earnings (loss) available to Whirlpool	\$(2.10	) \$2.64	\$0.10	\$4.78
Dividends	\$0.50	\$0.43	\$0.93	\$0.86
Weighted-average shares outstanding (in millions)				
Basic	76.8	76.2	76.7	75.8
Diluted	76.8	77.7	78.1	77.3

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

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

	(Unaudited)	
	June 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and equivalents	\$ 845	\$ 1,368
Accounts receivable, net of allowance of \$72 and \$66, respectively	2,455	2,278
Inventories	3,071	2,792
Deferred income taxes	182	204
Prepaid and other current assets	662	673
Total current assets	7,215	7,315
Property, net of accumulated depreciation of \$6,989 and \$6,660, respectively	3,213	3,134
Goodwill	1,729	1,731
Other intangibles, net of accumulated amortization of \$163 and \$146, respectively	1,780	1,789
Deferred income taxes	1,633	1,305
Other noncurrent assets	344	310
Total assets	\$ 15,914	\$ 15,584
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 3,827	\$ 3,660
Accrued expenses	1,262	671
Accrued advertising and promotions	312	426
Employee compensation	386	467
Notes payable	15	2
Current maturities of long-term debt	363	312
Other current liabilities	704	611
Total current liabilities	6,869	6,149
Noncurrent liabilities		
Long-term debt	2,143	2,195
Pension benefits	1,312	1,519
Postretirement benefits	465	610
Other noncurrent liabilities	626	791
Total noncurrent liabilities	4,546	5,115
Stockholders' equity		
Common stock, \$1 par value, 250 million shares authorized, 106 million shares issued and 76 million shares outstanding	106	106
Additional paid-in capital	2,184	2,156
Retained earnings	4,617	4,680
Accumulated other comprehensive loss	(687)	(893)
Treasury stock, 30 million shares	(1,822)	(1,823)
Total Whirlpool stockholders' equity	4,398	4,226
Noncontrolling interests	101	94
Total stockholders' equity	4,499	4,320
Total liabilities and stockholders' equity	\$ 15,914	\$ 15,584

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

WHIRLPOOL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
SIX MONTHS ENDED JUNE 30
(Millions of dollars)

	2011	2010	
Operating activities			
Net earnings	\$14	\$389	
Adjustments to reconcile net earnings to cash (used in) provided by operating activities:			
Depreciation and amortization	286	273	
Curtailement gain	—	(62))
Settlement of Brazilian collection dispute	444	56	
Changes in assets and liabilities:			
Accounts receivable	(105)	(2))
Inventories	(199)	(577))
Accounts payable	33	331	
Accrued advertising and promotions	(121)	(112))
Product recall	(13)	64	
Taxes deferred and payable, net	(305)	(47))
Accrued pension	(205)	(9))
Employee compensation	(85)	(53))
Other	22	(81))
Cash (used in) provided by operating activities	(234)	170)
Investing activities			
Capital expenditures	(259)	(267))
Proceeds from sale of assets	20	9	
Investment in related businesses	(7)	(18))
Other	(31)	—	
Cash used in investing activities	(277)	(276))
Financing activities			
Proceeds from borrowings of long-term debt	300	—	
Repayments of long-term debt	(306)	(372))
Dividends paid	(71)	(66))
Purchase of noncontrolling interest shares	—	(12))
Common stock issued	14	72	
Net proceeds from short-term borrowings	13	2	
Other	(8)	(4))
Cash used in financing activities	(58)	(380))
Effect of exchange rate changes on cash and equivalents	46	(44))
Decrease in cash and equivalents	(523)	(530))
Cash and equivalents at beginning of period	1,368	1,380	
Cash and equivalents at end of period	\$845	\$850	

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1)BASIS OF PRESENTATION

General Information

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information, 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 the Financial Supplement of our Form 10-K for the year ended December 31, 2010.

We have eliminated all material intercompany transactions in our Consolidated Financial Statements. We do not consolidate the financial statements of any company in which we have an ownership interest of 50% or less unless we control that company. We did not control any company in which we had an ownership interest of 50% or less for any period presented in our Consolidated Financial Statements.

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

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

Issued but Not Yet Effective Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") amended Accounting Standards Codification ("ASC") 220, "Presentation of Comprehensive Income." This amendment will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amended guidance, which must be applied retroactively, is effective for interim and annual periods beginning after December 15, 2011, with earlier adoption permitted. This Accounting Standards Update ("ASU") impacts presentation only, it will have no effect on our financial condition, results of operations or cash flows.

In May 2011, the FASB amended ASC 820, "Fair Value Measurement." This amendment is intended to result in convergence between U.S. GAAP and International Financial Reporting Standards ("IFRS") requirements for measurement of and disclosures about fair value. This guidance clarifies the application of existing fair value measurements and disclosures, and changes certain principles or requirements for fair value measurements and disclosures. The amendment is effective for interim and annual periods beginning after December 15, 2011. The adoption of this amendment will not have a material impact on our consolidated 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 that 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.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are identified in the table below and are as follows:

- (a) Market approach—prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities
- (b) Cost approach—amount that would be required to replace the service capacity of an asset (replacement cost)
- (c) Income approach—techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models)

Assets and liabilities measured at fair value on a recurring basis at June 30, 2011 and December 31, 2010 are as follows:

Millions of dollars	Total		Quoted Prices In Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Valuation Technique
			2011	2010	2011	2010	2011	2010	
Money market funds ⁽¹⁾	\$—	\$414	\$—	\$414	\$—	\$—	\$—	\$—	(a)
Net derivative contracts	80	125	—	—	80	125	—	—	(a)
Available for sale investments	27	25	27	25	—	—	—	—	(a)

(1) Money market funds are primarily comprised of United States government obligations.

Other Fair Value Measurements

The fair value of long-term debt (including current maturities) was \$2,712 million and \$2,716 million at June 30, 2011 and December 31, 2010, respectively, and was estimated using discounted cash flow analysis based on incremental borrowing rates for similar types of borrowing arrangements.

(3) INVENTORIES

Millions of dollars	June 30, 2011	December 31, 2010
Finished products	\$2,599	\$2,314
Raw materials and work in process	631	627
	3,230	2,941
Less excess of FIFO cost over LIFO cost	(159)	(149)
Total inventories	\$3,071	\$2,792

LIFO inventories represented 41% and 43% of total inventories at June 30, 2011 and December 31, 2010.

(4) FINANCING ARRANGEMENTS

On June 7, 2011, we completed a debt offering of \$300 million principal amount of 4.85% notes due June 15, 2021 (the "2021 Notes"). The proceeds from the 2021 Notes were used to repay \$300 million of 6.125% notes that matured on June 15, 2011. The 2021 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 2021 Notes at a purchase price of 101% of the principal amount thereof, plus accrued and unpaid interest. The 2021 Notes are registered under the Securities Act of 1933, as amended, pursuant to our Registration Statement on Form S-3 (File No. 333-157392) filed with the Securities and Exchange Commission on February 19, 2009.

On June 28, 2011, we entered into an Amended and Restated Long-Term Credit Agreement (the "Facility"). The Facility amends, restates, and extends our existing credit facility, scheduled to mature on August 13, 2012. The total commitment increased from \$1.35 billion to \$1.725 billion and the maturity date was extended to June 28, 2016. The Facility includes a letter of credit sublimit of \$200 million. Borrowings under the Facility are available to us and our designated subsidiaries for general corporate purposes, including commercial paper support. Subsidiary borrowings under the Facility, if any, are guaranteed by Whirlpool Corporation. Interest under the Facility accrues at a variable annual rate based on LIBOR plus a margin or the prime rate plus a margin. The margin is dependent on our credit rating at that time. At June 30, 2011, the margin was as follows: (1) 1.625% over LIBOR; (2) 0.625% over the prime rate; and (3) the unused commitment fee was 0.25%. At June 30, 2011 and 2010, we had no borrowings outstanding under the Facility or our previous credit facility and were in compliance with financial covenant requirements.

The Facility requires us to meet certain financial tests. Whirlpool's maximum rolling twelve month Leverage Ratio (defined in the Facility) is limited to 3.25 to 1.0 for each fiscal quarter. The rolling twelve month Interest Coverage Ratio (defined in the Facility) is required to be greater than or equal to 3.0 to 1.0 for each fiscal quarter.

We paid lenders under the Facility an up-front fee of approximately \$5 million, which combined with the unamortized deferred fees from the previous credit facility are being amortized over the remaining term of the Facility.

(5) COMMITMENTS AND CONTINGENCIES

Embraco Antitrust Matters

Government authorities in various jurisdictions are conducting antitrust investigations of the global compressor industry, including our compressor business headquartered in Brazil (“Embraco”). In 2010, Embraco sales represented approximately 8% of our global net sales.

In February 2009, competition authorities in Brazil, the United States and Europe began to seek documents from us in connection with their investigations. A grand jury subpoena from the United States Department of Justice (the “DOJ”) requested documents for the time period from 2003 to 2009. Competition authorities in other jurisdictions have sought similar information.

In September 2009, the Brazilian competition commission (CADE) agreed to terminate the administrative investigation of our compressor business. Under the terms of the settlement agreement, Whirlpool affiliates and certain executives located in Brazil acknowledged a violation of Brazilian antitrust law in the Brazilian compressor market by some Embraco employees. The settlement agreement provides for the affiliates to make contributions totaling 100 million Brazilian reais to a Brazilian government fund. The contributions translated to approximately \$56 million, all of which was recorded within interest and sundry income (expense) in 2009. The payments are to be made in twelve semiannual installments of approximately \$5 million through 2015. As of June 30, 2011 approximately \$15 million has been paid.

In September 2010, the DOJ and Embraco entered into a plea agreement related to the DOJ’s investigation which was approved by the United States District Court for the Eastern District of Michigan in December 2010. Under the plea agreement, the DOJ recognized Embraco’s substantial assistance in the investigation and agreed not to bring further charges against Embraco or any related entities for any conspiracy involving compressor pricing during the investigation period. Pursuant to the plea agreement, Embraco (1) acknowledged that it violated United States antitrust law with respect to the sale of certain compressors from October 2004 through December 2007 and (2) agreed to pay a fine totaling \$91.8 million to the United States government. The full amount of the fine was recorded within interest and sundry income (expense) in the third quarter of 2010. Embraco made the first payment of \$16.8 million in January 2011. The five remaining annual payments of \$15.0 million plus interest will be made during each fourth quarter through 2015.

Since the government investigations became public in February 2009, we have been named as a defendant in related antitrust lawsuits in various jurisdictions seeking damages in connection with the pricing of compressors from 1996 to 2009. Several other compressor manufacturers who are the subject of the government investigations have also been named as defendants in the litigation. United States federal lawsuits instituted on behalf of purported purchasers and containing class action allegations have been combined in one proceeding in the United States District Court for the Eastern District of Michigan. We continue to cooperate with ongoing government investigations in other jurisdictions, to defend the related antitrust lawsuits and to take other actions to minimize our potential exposure.

The final outcome and impact of these matters, and 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. We have now accrued for a loss with respect to the investigation by the European Commission and certain other matters because, based on recent developments, a minimum loss amount can now be reasonably estimated. As of June 30, 2011, we have incurred, in the aggregate, charges of approximately \$306 million due to the Embraco antitrust matters, including defense costs and other expenses. These charges have been recorded within interest and sundry income (expense) when incurred. At June 30, 2011, \$209 million remains accrued. 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.

Brazilian Collection Dispute

We reached an agreement on June 22, 2011 to settle all claims arising from our long-standing dispute in Brazil with Banco Safra S.A. Such settlement was subsequently approved by a Brazilian court on July 8, 2011. Pursuant to the settlement, our subsidiary agreed to pay Banco Safra S.A. 959 million Brazilian reais (equivalent to approximately \$614 million as of June 30, 2011, which includes approximately \$11 million of foreign currency translation), in two installments, the first of 469 million reais (equivalent to approximately \$300 million as of June 30, 2011) was made on July 14, 2011, and the second of 490 million reais (equivalent to approximately \$314 million as of June 30, 2011) is planned for the first quarter of 2012. The settlement amount is within the range between the previously disclosed accrual and the previously disclosed potential maximum exposure, and is being funded from available cash. We recorded an additional charge of approximately \$439 million within interest and sundry income (expense) in the second quarter of 2011. The aggregate after tax earnings impact of the settlement is approximately \$290 million, which was recognized in the June 2011 quarter.

Operating Tax Matter

The Brazilian Constitution provides a general basis for recognizing tax credits on the purchase of raw materials used in production ("IPI tax credit"). Certain raw materials that are exempt or have a zero tax basis in the production process qualify for these IPI tax credits. Based on legal precedent, in 2003 and 2004, we recognized tax credits in an aggregate amount of \$26 million adjusted for currency. The Brazilian tax authority subsequently challenged the recording of IPI tax credits. No credits were recognized in 2005 through 2009. In 2009, we entered into an agreement under a special Brazilian government program providing for extended payment terms and reductions in penalties and interest to encourage taxpayers to resolve disputed IPI tax credit amounts. Charges recorded related to this program for the year ended December 31, 2009 include \$27 million in tax that was recorded in cost of products sold, \$16 million in interest expense and \$4 million in penalties recorded in interest and sundry income (expense) in our Consolidated Statements of Income. During the December 2009 quarter, based on newly issued regulations, we settled with the Brazilian tax authority to resolve these and other disputed tax amounts. As a result of this settlement agreement, we recorded an increase in value added taxes owed of approximately \$4 million in cost of goods sold, a reduction in interest expense totaling \$18 million related to interest abatement, a reduction in interest and sundry income (expense) of \$4 million related to penalty abatement and related income tax expense of \$5 million under this special program. The settlement is in the process of being ratified by the Brazilian tax authority.

Other Litigation

We are currently defending a number of class action suits in federal and state courts related to the manufacturing and sale of our products and alleging claims which include breach of warranty, fraud, violation of state consumer protection acts and negligence. We dispute the merits of these suits. We intend to vigorously defend these actions. We are also involved in various other legal actions arising in the normal course of business. Management, after taking into consideration legal counsel's evaluation of such actions and the class action suits discussed in the previous paragraph, is of the opinion that the outcome of these matters will not have a material adverse effect, if any, on our Consolidated Financial Statements.

Product Warranty and Recall Reserves

Product warranty reserves are generally established in the same period that revenue from the sale of the related products is recognized. The amounts of those reserves are based on established terms and our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date.

Product warranty and recall reserves are included in other current liabilities and other noncurrent liabilities. The following table summarizes the changes in product warranty and recall reserves for the periods presented:

	Product Warranty		Product Recall		Total	
Millions of dollars	2011	2010	2011	2010	2011	2010
Balance at January 1	\$202	\$187	\$15	\$2	\$217	\$189
Issuances/accruals during the period	172	168	—	78	172	246
Settlements made during the period	(181)	(168)	(5)	(14)	(186)	(182)
Other changes	3	—	(9)	—	(6)	—
Balance at June 30	\$196	\$187	\$1	\$66	\$197	\$253
Current portion	\$153	\$151	\$1	\$66	\$154	\$217
Non-current portion	43	36	—	—	43	36
Total	\$196	\$187	\$1	\$66	\$197	\$253

During the March 2010 quarter we accrued \$75 million related to a recall of 1.8 million dishwashers sold in the United States and Canada between 2006 and 2010. The recall is due to an electrical failure in the dishwasher's heating element. During 2011, we revised the total cost of this recall from \$75 million to \$66 million, as a result of lower than expected costs. These amounts were recorded in cost of products sold. Our actual costs related to this recall will depend on several factors, including the number of consumers who respond to the recall, the costs of repair and administration and whether costs will be recovered from the supplier.

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 June 30, 2011 and December 31, 2010, the guaranteed amounts totaled \$344 million and \$386 million, respectively. Our only recourse with respect to these arrangements would be legal or administrative collection efforts directed against the customer.

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 \$1.1 billion at June 30, 2011 and \$1.2 billion at December 31, 2010. Our total outstanding bank indebtedness under guarantees totaled \$15 million at June 30, 2011 and \$2 million at December 31, 2010.

On May 16, 2008, we guaranteed a \$50 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 fair value of the guarantee is 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.

(6) 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. For a derivative instrument designated as a fair value hedge, the gain or loss on the derivative is recognized in earnings in the period of change in fair value together with the offsetting gain or loss on the hedged item. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of Other Comprehensive Income ("OCI") and is subsequently recognized in earnings when the hedged exposure affects earnings. 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. 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 earnings 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 forward 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 June 30, 2011 and December 31, 2010 there were no outstanding swap agreements.

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The following table summarizes our outstanding derivative contracts and their effects on our Consolidated Balance Sheets at June 30, 2011 and December 31, 2010:

Millions of dollars	Notional Amount		Fair Value of		Hedge Liabilities		Type of Hedge (1)	Maximum Term (Months)	
			Hedge Assets						
	2011	2010	2011	2010	2011	2010		2011	2010
Derivatives accounted for as hedges									
Foreign exchange forwards/options	\$1,132	\$909	\$17	\$13	\$36	\$31	(CF/FV)	21	15
Commodity swaps/options	375	539	76	129	3	2	(CF/FV)	18	24
Total derivatives accounted for as hedges									