

WHIRLPOOL CORP /DE/  
Form 10-Q  
October 27, 2010

**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 September 30, 2010**

**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)

Edgar Filing: WHIRLPOOL CORP /DE/ - Form 10-Q

**Delaware**  
(State or other jurisdiction of incorporation of organization)

**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 the filing requirements for at least 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 12b-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**  
Common stock, par value \$1 per share

**Shares outstanding at October 22, 2010**  
76,019,555

QUARTERLY REPORT ON FORM 10-Q

WHIRLPOOL CORPORATION

Three and Nine Months Ended September 30, 2010

INDEX OF INFORMATION INCLUDED IN REPORT

|   | <b>Page</b> |
|---|-------------|
| <b><u>PART I - FINANCIAL INFORMATION</u></b>  |             |
| Item 1. <u>Financial Statements</u>   |             |
| <u>Consolidated Condensed Statements of Income</u>  | 3           |
| <u>Consolidated Condensed Balance Sheets</u>  | 4           |
| <u>Consolidated Condensed Statements of Cash Flows</u>  | 5           |
| <u>Notes to the Consolidated Condensed Financial Statements</u>   | 6           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>      | 18          |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                 | 24          |
| Item 4. <u>Controls and Procedures</u>  | 24          |
| <b><u>PART II - OTHER INFORMATION</u></b>   |             |
| Item 1. <u>Legal Proceedings</u>  | 25          |
| Item 1A. <u>Risk Factors</u>  | 25          |
| Item 2. <u>Unregistered Sale of Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u> | 25          |
| Item 3. <u>Defaults Upon Senior Securities</u>  | 25          |
| Item 4. <u>(Removed and Reserved)</u>   | 25          |
| Item 5. <u>Other Information</u>  | 25          |
| Item 6. <u>Exhibits</u>   | 25          |
| <u>Signatures</u>   | 26          |

## 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 the annual report, including those within the forward-looking perspective section within this 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 anticipate, believe, estimate, expect, intend, may, could, possible, plan, project, similar words or 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) changes in economic conditions which affect demand for our products, including the strength of the building industry and the level of interest rates; (2) the effects of the global economic crisis on our customers, suppliers and the availability of credit; (3) Whirlpool's ability to continue its relationship with significant trade customers and the ability of these trade customers to maintain or increase market share; (4) intense competition in the home appliance industry reflecting the impact of both new and established global competitors, including Asian and European manufacturers; (5) the ability of Whirlpool to manage foreign currency fluctuations; (6) product liability and product recall costs; (7) litigation and legal compliance risk; (8) the ability of Whirlpool to achieve its business plans, productivity improvements, cost control, leveraging of its global operating platform, and acceleration of the rate of innovation; (9) inventory and other asset risk; (10) 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; (11) the ability of suppliers of critical parts, components and manufacturing equipment to deliver sufficient quantities to Whirlpool in a timely and cost-effective manner; (12) health care cost trends, regulatory changes and variations between results and estimates that could increase future funding obligations for pension and postretirement benefit plans; (13) Whirlpool's ability to obtain and protect intellectual property rights; (14) information technology system failures and data security breaches; (15) 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; (16) the effects of governmental investigations or related actions by third parties; (17) the impact of labor relations; (18) our ability to attract, develop and retain executives and other qualified employees; (19) 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 Part II 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 CONDENSED STATEMENTS OF INCOME (UNAUDITED)****FOR THE PERIOD ENDED SEPTEMBER 30**

(Millions of dollars, except per share data)

|   | <b>Three Months Ended</b> |              | <b>Nine Months Ended</b> |               |
|---|---------------------------|--------------|--------------------------|---------------|
|   | <b>2010</b>               | <b>2009</b>  | <b>2010</b>              | <b>2009</b>   |
| <b>Net sales</b>  | \$ 4,519                  | \$ 4,497     | \$ 13,325                | \$ 12,235     |
| <b>Expenses</b>   |                           |              |                          |               |
| Cost of products sold   | 3,871                     | 3,877        | 11,277                   | 10,537        |
| Selling, general and administrative                             | 391                       | 400          | 1,163                    | 1,117         |
| Intangible amortization   | 7                         | 7            | 21                       | 21            |
| Restructuring costs   | 16                        | 24           | 58                       | 71            |
| <b>Operating profit</b>   | <b>234</b>                | <b>189</b>   | <b>806</b>               | <b>489</b>    |
| <b>Other income (expense)</b>                                   |                           |              |                          |               |
| Interest and sundry income (expense)                            | (104)                     | (51)         | (185)                    | (110)         |
| Interest expense  | (54)                      | (58)         | (167)                    | (178)         |
| <b>Earnings before income taxes and other items</b>             | <b>76</b>                 | <b>80</b>    | <b>454</b>               | <b>201</b>    |
| Income tax benefit  | (7)                       | (13)         | (18)                     | (51)          |
| <b>Net earnings</b>   | <b>83</b>                 | <b>93</b>    | <b>472</b>               | <b>252</b>    |
| Less: Net earnings available to noncontrolling interests        | (4)                       | (6)          | (24)                     | (19)          |
| <b>Net earnings available to Whirlpool common stockholders</b>  | <b>\$ 79</b>              | <b>\$ 87</b> | <b>\$ 448</b>            | <b>\$ 233</b> |
| <b>Per share of common stock</b>                                |                           |              |                          |               |
| Basic net earnings available to Whirlpool common stockholders   | \$ 1.04                   | \$ 1.17      | \$ 5.90                  | \$ 3.13       |
| Diluted net earnings available to Whirlpool common stockholders | \$ 1.02                   | \$ 1.15      | \$ 5.79                  | \$ 3.10       |
| Dividends   | \$ 0.43                   | \$ 0.43      | \$ 1.29                  | \$ 1.29       |
| <b>Weighted-average shares outstanding (in millions)</b>        |                           |              |                          |               |
| Basic   | 76.5                      | 74.7         | 76.1                     | 74.4          |
| Diluted   | 77.7                      | 75.7         | 77.4                     | 75.2          |

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)<br>September 30,<br>2010 | December 31,<br>2009 |
|---|--------------------------------------|----------------------|
| <b>Assets</b>   |                                      |                      |
| Current assets  |                                      |                      |
| Cash and equivalents  | \$ 901                               | \$ 1,380             |
| Accounts receivable, net of allowance for uncollectible accounts of \$64 and \$76 at September 30, 2010 and December 31, 2009, respectively | 2,552                                | 2,500                |
| Inventories   | 3,084                                | 2,197                |
| Deferred income taxes   | 224                                  | 295                  |
| Other current assets  | 697                                  | 653                  |
| Total current assets  | 7,458                                | 7,025                |
| Other assets  |                                      |                      |
| Goodwill  | 1,730                                | 1,729                |
| Other intangibles, net of accumulated amortization of \$153 and \$132 at September 30, 2010 and December 31, 2009, respectively             | 1,803                                | 1,796                |
| Other assets  | 1,531                                | 1,427                |
| Total other assets  | 5,064                                | 4,952                |
| Property, plant and equipment   |                                      |                      |
| Land  | 75                                   | 77                   |
| Buildings   | 1,218                                | 1,207                |
| Machinery and equipment   | 8,393                                | 8,193                |
| Accumulated depreciation  | (6,609)                              | (6,360)              |
| Total property, plant and equipment, net  | 3,077                                | 3,117                |
| Total assets  | \$ 15,599                            | \$ 15,094            |
| <b>Liabilities and stockholders equity</b>  |                                      |                      |
| Current liabilities   |                                      |                      |
| Accounts payable  | \$ 3,700                             | \$ 3,308             |
| Accrued expenses  | 719                                  | 632                  |
| Accrued advertising and promotions  | 399                                  | 475                  |
| Employee compensation   | 487                                  | 501                  |
| Notes payable   | 14                                   | 23                   |
| Current maturities of long-term debt  | 311                                  | 378                  |
| Other current liabilities   | 691                                  | 624                  |
| Total current liabilities   | 6,321                                | 5,941                |
| Noncurrent liabilities  |                                      |                      |
| Long-term debt  | 2,197                                | 2,502                |
| Pension benefits  | 1,513                                | 1,557                |
| Postretirement benefits   | 695                                  | 693                  |

Edgar Filing: WHIRLPOOL CORP /DE/ - Form 10-Q

|   |           |           |
|---|-----------|-----------|
| Other liabilities   | 744       | 641       |
| Total noncurrent liabilities  | 5,149     | 5,393     |
| Commitments and contingencies (see Note 5)  |           |           |
| Stockholders' equity  |           |           |
| Common stock, \$1 par value, 250 million shares authorized, 106 million and 105 million shares issued at September 30, 2010 and December 31, 2009, respectively, 76 million and 75 million shares outstanding at September 30, 2010 and December 31, 2009, respectively | 106       | 105       |
| Additional paid-in capital  | 2,147     | 2,067     |
| Retained earnings   | 4,542     | 4,193     |
| Accumulated other comprehensive loss  | (944)     | (868)     |
| Treasury stock, 30 million shares at September 30, 2010 and December 31, 2009   | (1,823)   | (1,833)   |
| Total Whirlpool stockholders' equity  | 4,028     | 3,664     |
| Noncontrolling interests  | 101       | 96        |
| Total stockholders' equity  | 4,129     | 3,760     |
| Total liabilities and stockholders' equity  | \$ 15,599 | \$ 15,094 |

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

**WHIRLPOOL CORPORATION**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**NINE MONTHS ENDED SEPTEMBER 30**

(Millions of dollars)

|   | 2010   | 2009   |
|---|--------|--------|
| <b>Operating activities</b>   |        |        |
| Net earnings  | \$ 472 | \$ 252 |
| Adjustments to reconcile net earnings to cash provided by operating activities: |        |        |
| Depreciation and amortization   | 414    | 388    |
| Curtailement gain   | (62)   | (92)   |
| Decrease in LIFO inventory reserve  | (5)    | (23)   |
| Loss (gain) on disposition of assets  | 2      | (10)   |
| Changes in assets and liabilities:  |        |        |
| Accounts receivable   | (76)   | (524)  |
| Inventories   | (878)  | 332    |
| Accounts payable  | 386    | 94     |
| Restructuring charges, net of cash paid   | (26)   | (40)   |
| Taxes deferred and payable, net   | 19     | (92)   |
| Accrued pension   | (24)   | (16)   |
| Employee compensation   | 7      | 165    |
| Other   | 148    | 218    |
| Cash provided by operating activities   | 377    | 652    |
| <b>Investing activities</b>   |        |        |
| Capital expenditures  | (387)  | (348)  |
| Acquisition of brand  | (27)   |        |
| Investment in related businesses  | (18)   | (15)   |
| Proceeds from sale of assets  | 9      | 69     |
| Cash used in investing activities   | (423)  | (294)  |
| <b>Financing activities</b>   |        |        |
| Repayments of long-term debt  | (373)  | (206)  |
| Common stock issued   | 72     |        |
| Dividends paid  | (99)   | (96)   |
| Purchase of noncontrolling interest shares                                      | (12)   |        |
| Net repayments of short-term borrowings   | (7)    | (340)  |
| Proceeds from borrowings of long-term debt                                      |        | 863    |
| Other   | (12)   | (37)   |
| Cash (used in) provided by financing activities                                 | (431)  | 184    |
| Effect of exchange rate changes on cash and equivalents                         | (2)    | 37     |
| (Decrease) increase in cash and equivalents                                     | (479)  | 579    |
| Cash and equivalents at beginning of period                                     | 1,380  | 146    |



Edgar Filing: WHIRLPOOL CORP /DE/ - Form 10-Q

Cash and equivalents at end of period

\$ 901    \$ 725

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, 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, 2009.

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 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 Condensed Financial Statements.

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.

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

**New Accounting Standards**

In January 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements are presented separately. This standard is effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of revised Level 3 disclosure requirements which are effective for interim and annual reporting periods beginning after December 15, 2010. Comparative disclosures are not required in the year of adoption. We adopted the provisions of the standard on January 1, 2010, which did not have a material impact on our financial statements.

In June 2009, the FASB issued Accounting Standards Codification ( ASC ) 810, Consolidation , regarding the consolidation of variable interest entities (formerly SFAS No. 167, Amendments to FASB Interpretation No. 46(R) ). ASC 810 is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities and by requiring additional disclosures about a company s involvement in variable interest entities. This standard is effective for interim and annual periods beginning after November 15, 2009. We adopted the provisions of the standard on January 1, 2010, which did not have a material impact on our financial statements.

In June 2009, the FASB issued ASC 860, Transfers and Servicing (formerly SFAS No. 166, Accounting for Transfers of Financial Assets ). ASC 860 requires more information about transfers of financial assets and where companies have continuing exposure to the risk related to transferred financial assets. It eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosure. This standard is effective for interim and annual periods beginning after November 15, 2009. We adopted the provisions of the standard on January 1, 2010, which did not have a material impact on our financial statements.

**(2) GOODWILL**

The following table summarizes the carrying amount of goodwill:

| Reporting unit - Millions of dollars | September 30,<br>2010 | December 31,<br>2009 |
|--------------------------------------|-----------------------|----------------------|
|--------------------------------------|-----------------------|----------------------|

Edgar Filing: WHIRLPOOL CORP /DE/ - Form 10-Q

|               |    |       |    |       |
|---------------|----|-------|----|-------|
| North America | \$ | 1,726 | \$ | 1,724 |
| Embraco       |    | 4     |    | 5     |
| Total         | \$ | 1,730 | \$ | 1,729 |

**(3) 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-tier 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 are as follows:

| Millions of dollars               | Total  | Quoted Prices In<br>Active Markets for |   |   | Valuation<br>Technique |
|-----------------------------------|--------|--|---|---|------------------------|
|                                   |        | Identical<br>Assets<br>(Level 1)       | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) |                        |
| <b>September 30, 2010</b>         |        |  |   |   |                        |
| Money market funds <sup>(1)</sup> | \$ 124 | \$ 124                                 | \$  | \$  | (a)                    |
| Net derivative contracts          | 100    |  | 100   |   | (a)                    |
| Available for sale investments    | 30     | 30                                     |   |   | (a)                    |
| <b>December 31, 2009</b>          |        |  |   |   |                        |
| Money market funds <sup>(1)</sup> | \$ 355 | \$ 355                                 | \$  | \$  | (a)                    |
| Net derivative contracts          | 97     |  | 97  |   | (a)                    |
| Available for sale investments    | 25     | 25                                     |   |   | (a)                    |

<sup>(1)</sup> Money market funds are primarily comprised of U.S. government obligations.

**Other Fair Value Measurements**

The fair value of long-term debt (including current maturities) was \$2,755 million and \$3,060 million as of September 30, 2010 and December 31, 2009, respectively, and was estimated using discounted cash flow analysis based on incremental borrowing rates for similar types of borrowing arrangements.

**(4) INVENTORIES**

| Millions of dollars | September 30,<br>2010 | December 31,<br>2009 |
|---------------------|-----------------------|----------------------|
|---------------------|-----------------------|----------------------|

Edgar Filing: WHIRLPOOL CORP /DE/ - Form 10-Q

|   |    |       |    |       |
|---|----|-------|----|-------|
| Finished products                       | \$ | 2,641 | \$ | 1,853 |
| Raw materials and work in process       |    | 583   |    | 489   |
|   |    | 3,224 |    | 2,342 |
| Less excess of FIFO cost over LIFO cost |    | (140) |    | (145) |
| Total inventories                       | \$ | 3,084 | \$ | 2,197 |

The increase in inventories, compared to December 31, 2009, is driven primarily by increased production levels, including the building of transition inventory and lower than expected demand.

## (5) COMMITMENTS AND CONTINGENCIES

### Legal Contingencies

Government authorities in various jurisdictions are conducting antitrust investigations of the global compressor industry, including our compressor business headquartered in Brazil ( Embraco ). In 2009, Embraco sales represented approximately 7% 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 as other expense in 2009.

In September 2010, the DOJ and Embraco entered into a plea agreement related to the investigation. The plea agreement remains subject to the approval of the United States District Court for the Eastern District of Michigan, which is expected to consider the matter during the fourth quarter of 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 U.S. 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. Assuming the court approves the plea agreement, Embraco will pay the fine in six annual installments, with the first payment expected to be made in the first quarter of 2011. The full amount of the fine was recorded within interest and sundry income (expense) in the third quarter of 2010.

In October 2010, the Director of Public Prosecutions of Canada (the DPP ) and Embraco entered into a plea agreement, which has been submitted for court approval, related to the investigation. Pursuant to the plea agreement, Embraco (1) acknowledged that it violated Canadian antitrust law with respect to the sale of certain compressors in Canada during 2005 and (2) agreed to pay a fine totaling approximately \$1.5 million to the Canadian government. Under the plea agreement, DPP agreed not to bring further charges against Embraco or any related entities for any conspiracy involving pricing of the relevant products during the investigation period. The full amount of the fine was recorded within interest and sundry income (expense) in the third quarter of 2010.

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 with certainty. An accrual has been established only where we have determined that a loss is probable and the amount of loss can be reasonably estimated. As of September 30, 2010, we have accrued, in the aggregate, charges of approximately \$202 million related to these matters. 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.

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. The settlement is in the process of being ratified by the Brazilian tax authority.

Edgar Filing: WHIRLPOOL CORP /DE/ - Form 10-Q

In 1989, a Brazilian affiliate (now a subsidiary) brought an action against a financial institution in Brazil seeking a Declaration of Non-Enforceability of Obligations relating to loan documentation entered into without authority by a senior officer of the affiliate.

In September 2000, an adverse decision in the declaratory action became final. In 2001, the financial institution began a collection action and we responded with a counterclaim. The lower court dismissed the counterclaim in 2002 and the Superior Court confirmed the lower court decision in December 2005. The Superior Court dismissed our counterclaim in 2007. In late 2008, the lower court issued a decision in the collection action in favor of the financial institution in the amount of 283 million Brazilian reais (approximately \$167 million), plus judicial adjustments, which could be significant. We have appealed this decision. Based on our outside counsel's assessment of the case, we increased the amount previously accrued for our estimated exposure for this litigation by 95 million reais (approximately \$53 million) in the June 2010 quarter. However, the amount of the final award, if any, may be materially different than the amount we have accrued.

We are currently defending a number of class action suits in federal and state courts alleging breach of warranty, fraud and violation of state consumer protection acts. There are no allegations of any personal injury or property damage. However, unspecified compensatory damages are being sought. We believe these suits are without merit. We intend to vigorously defend these actions.

We are 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, is of the opinion that the outcome of these matters will not have a material adverse effect, if any, on our Consolidated Condensed 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.

The following table represents a reconciliation of the changes in product warranty and recall reserves for the periods presented:

| Millions of dollars                  | Product Warranty |               | Product Recall |             | Total         |               |
|--------------------------------------|------------------|---------------|----------------|-------------|---------------|---------------|
|                                      | 2010             | 2009          | 2010           | 2009        | 2010          | 2009          |
| Balance at January 1                 | \$ 187           | \$ 176        | \$ 2           | \$ 39       | \$ 189        | \$ 215        |
| Issuances/accruals during the period | 253              | 264           | 78             | 26          | 331           | 290           |
| Settlements made during the period   | (250)            | (268)         | (49)           | (60)        | (299)         | (328)         |
| Other changes                        | 10               | 2             |                |             | 10            | 2             |
| <b>Balance at September 30</b>       | <b>\$ 200</b>    | <b>\$ 174</b> | <b>\$ 31</b>   | <b>\$ 5</b> | <b>\$ 231</b> | <b>\$ 179</b> |
| Current portion                      | \$ 161           | \$ 149        | \$ 31          | \$ 5        | \$ 192        | \$ 154        |
| Non-current portion                  | 39               | 25            |                |             | 39            | 25            |
| <b>Total</b>                         | <b>\$ 200</b>    | <b>\$ 174</b> | <b>\$ 31</b>   | <b>\$ 5</b> | <b>\$ 231</b> | <b>\$ 179</b> |

Product warranty and recall reserves are included within other current liabilities and other liabilities in our Consolidated Condensed Balance Sheet at September 30, 2010.

On June 3, 2010, we announced, in a joint press release with the United States Consumer Product Safety Commission, a voluntary 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. As a result, we have accrued \$75 million as the estimated cost of this recall, all of which was recorded as a charge to cost of products sold during the March 2010 quarter. Our actual costs related to this action 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. As of September 30, 2010, there was \$31 million remaining in this accrual.

On March 10, 2009, we announced, in a joint press release issued with the United States Consumer Product Safety Commission, a voluntary recall of 1.8 million refrigerators sold in the United States and Canada between 2001 and 2004. The recall is due to a defect in an electrical relay component purchased from a supplier. In 2009, we increased the estimate of the affected population by 0.8 million due to a determination that the defective part which caused the product recall also resulted in similar failures in another type of refrigerator. There have been no other significant changes in assumptions other than increasing the affected population. As a result, we have accrued \$70 million, in the aggregate, as



## Edgar Filing: WHIRLPOOL CORP /DE/ - Form 10-Q

the estimated cost of this recall all of which was classified in cost of products sold. There were no remaining amounts in this accrual as of September 30, 2010. Our actual costs related to this action 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 September 30, 2010 and December 31, 2009, the guaranteed amounts totaled \$314 million and \$309 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 \$1.3 billion and \$1.4 billion at September 30, 2010 and December 31, 2009, respectively. Our total outstanding bank indebtedness under guarantees totaled \$14 million and \$18 million at September 30, 2010 and December 31, 2009, respectively.

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 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 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, thus reducing the impact of interest rate changes on future interest expense. 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.

The following table summarizes our outstanding derivative contracts and their effects on our Consolidated Condensed Balance Sheet at September 30, 2010 and December 31, 2009:

| Millions of dollars                                  | Notional Amount |          | Fair Value of <sup>(1)</sup> |        |                   |       | Type of              |               | Maximum |  |
|--|-----------------|----------|------------------------------|--------|-------------------|-------|----------------------|---------------|---------|--|
|  |                 |          | Hedge Assets                 |        | Hedge Liabilities |       | Hedge <sup>(2)</sup> | Term (Months) |         |  |
|  |                 |          | 2010                         | 2009   | 2010              | 2009  |                      | 2010          | 2009    |  |
| <b>Derivatives accounted for as hedges</b>           |                 |          |                              |        |                   |       |                      |               |         |  |
| Foreign exchange forwards/options                    | \$ 915          | \$ 1,090 | \$ 20                        | \$ 40  | \$ 29             | \$ 54 | (CF)/(FV)            | 15            | 15      |  |
| Commodity swaps/options                              | 563             | 486      | 98                           | 109    | 2                 | 2     | (CF)/(FV)            | 27            | 29      |  |
| <b>Total derivatives accounted for as hedges</b>     |                 |          | \$ 118                       | \$ 149 | \$ 31             | \$ 56 |                      |               |         |  |
| <b>Derivatives not accounted for as hedges</b>       |                 |          |                              |        |                   |       |                      |               |         |  |
| Foreign exchange forwards/options                    | \$ 1,320        | \$ 801   | \$ 19                        | \$ 6   | \$ 11             | \$ 4  |                      | 9             | 5       |  |
| Commodity swaps/options                              | 13              | 24       | 7                            | 4      | 2                 | 2     |                      | 15            | 24      |  |
| <b>Total derivatives not accounted for as hedges</b> |                 |          | 26                           | 10     | 13                | 6     |                      |               |         |  |
| <b>Total derivatives</b>                             |                 |          | \$ 144                       | \$ 159 | \$ 44             | \$ 62 |                      |               |         |  |

(1) Periodic adjustments from fair valuing hedge assets and liabilities are recorded in other current assets and other assets or other current liabilities and other liabilities.

As of September 30, 2010, hedge assets of \$114 million and \$30 million were recorded in other current assets and other assets, respectively, and hedge liabilities of \$42 million and \$2 million were recorded in other current liabilities and other liabilities, respectively.

As of December 31, 2009, hedge assets of \$119 million and \$40 million were recorded in other current assets and other assets, respectively, and hedge liabilities of \$61 million and \$1 million were recorded in other current liabilities and other liabilities, respectively.

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

The effects of derivative instruments on our Consolidated Condensed Statements of Income for the three months ended September 30, 2010 and 2009 are as follows:

| Cash Flow Hedges - Millions of dollars | Gain (Loss)<br>Recognized in OCI<br>(Effective<br>Portion) |       | Gain (Loss)<br>Reclassified from<br>Accumulated OCI<br>into Income<br>(Effective Portion) <sup>(1)</sup> |         | (a)(b) | Gain (Loss)<br>Recognized in Income<br>(Ineffective Portion) <sup>(2)</sup> |        |
|--|--|-------|--|---------|--------|---|--------|
|  | 2010   | 2009  | 2010   | 2009    |        | 2010  | 2009   |
|  | Foreign exchange forwards/options                          | \$ 1  | \$ (4)   | \$ (8)  |        | \$ (13)   | (a)(b) |
| Commodity swaps/options                | 92   | 34    | 14   | (13)    | (b)    |   |        |
|  | \$ 93  | \$ 30 | \$ 6   | \$ (26) |        | \$  | \$ 1   |

- (1) Gains and losses reclassified from accumulated OCI and recognized in income are recorded in (a) interest and sundry income (expense) or (b) cost of products sold.  
(2) Gains and losses recognized in income related to the ineffective portion of hedges are recorded in interest and sundry income (expense).

| Fair Value Hedges - Millions of dollars | Gain (Loss) Recognized<br>on Derivative <sup>(3)</sup> |      | Gain (Loss) Recognized<br>on Related<br>Hedged Items <sup>(3)</sup> |        | Hedged Item  |
|---|--|------|---|--------|--|
|   | 2010   | 2009 | 2010  | 2009   |  |
| Foreign exchange forwards/options       | \$ (2)   | \$ 1 | \$ 2  | \$ (1) | Non-functional<br>currency assets<br>and liabilities |

- (3) Gains and losses recognized in income are recorded in interest and sundry income (expense).

| Derivatives not Accounted for as Hedges - Millions of dollars | Gain (Loss)<br>Recognized on<br>Derivatives not Accounted<br>for as Hedges <sup>(4)</sup> |       |
|---|---|-------|
|   | 2010  | 2009  |
| Foreign exchange forwards/options                             | \$ 45   | \$ 43 |

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

The effects of derivative instruments on our Consolidated Condensed Statements of Income for the nine months ended September 30, 2010 and 2009 are as follows:

| Cash Flow Hedges - Millions of dollars | Gain (Loss)<br>Recognized in OCI<br>(Effective Portion) |         | Gain (Loss)<br>Reclassified from<br>Accumulated OCI<br>into Income<br>(Effective Portion) <sup>(1)</sup> |          |        | Gain (Loss)<br>Recognized in Income<br>(Ineffective Portion) <sup>(2)</sup> |      |
|--|---|---------|--|----------|--------|---|------|
|  | 2010  | 2009    | 2010   | 2009     |        | 2010  | 2009 |
| Foreign exchange forwards/options      | \$ (20)   | \$ (20) | \$ (24)  | \$ (10)  | (a)(b) | \$ 2  | \$ 1 |
| Commodity swaps/options                | 44  | 112     | 48   | (101)    | (b)    | 2   | 2    |
| Interest rate swaps                    |   | 1       |  | 1        | (c)    |   |      |
|  | \$ 24   | \$ 93   | \$ 24  | \$ (110) |        | \$ 4  | \$ 3 |

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

(2) Gains and losses recognized in income related to the ineffective portion of hedges are recorded in interest and sundry income (expense).

| Fair Value Hedges - Millions of dollars | Gain (Loss) Recognized<br>on Derivative <sup>(3)</sup> |        | Gain (Loss) Recognized<br>on Related Hedged<br>Items <sup>(3)</sup> |      | Hedged Item  |
|---|--|--------|---|------|--|
|   | 2010   | 2009   | 2010  | 2009 |  |
| Foreign exchange forwards/options       | \$ (9)   | \$ (5) | \$ 9  | \$ 5 | Non-functional<br>currency assets<br>and liabilities |

(3) Gains and losses recognized in income are recorded in interest and sundry income (expense).

| Derivatives not Accounted for as Hedges - Millions of dollars | Gain (Loss)<br>Recognized on<br>Derivatives not<br>Accounted for as<br>Hedges <sup>(4)</sup> |       |
|---|--|-------|
|   | 2010   | 2009  |
| Foreign exchange forwards/options                             | \$ 40  | \$ 60 |
| Commodity swaps   | 1  | (6)   |
|   | \$ 41  | \$ 54 |

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

The net amount of unrealized gain or loss on derivative instruments included in accumulated OCI related to contracts maturing, and expected to be realized during the next twelve months is a gain of \$64 million at September 30, 2010.

**(7) STOCKHOLDERS EQUITY****Comprehensive Income and Stockholders Equity**

Comprehensive income primarily includes (1) our reported net earnings, (2) foreign currency translation, (3) changes in the effective portion of our open derivative contracts designated as cash flow hedges, (4) changes in our unrecognized pension and other postretirement benefits and (5) changes in fair value of our available for sale securities.

The following table summarizes our comprehensive income for the periods presented:

| Millions of dollars  | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |        |
|--|-------------------------------------|--------|------------------------------------|--------|
|  | 2010                                | 2009   | 2010                               | 2009   |
| Net earnings as reported   | \$ 83                               | \$ 93  | \$ 472                             | \$ 252 |
| Currency translation adjustments net                             | 227                                 | 160    | (2)                                | 321    |
| Cash flow hedges net   | 60                                  | 36     | (4)                                | 138    |
| Pension and other postretirement benefits plans net              | (1)                                 | (41)   | (63)                               | (29)   |
| Available for sale securities                                    | (2)                                 | 1      | (6)                                |        |
| Comprehensive income   | 367                                 | 249    | 397                                | 682    |
| Less: Comprehensive income available to noncontrolling interests | 8                                   | 12     | 25                                 | 35     |
| Comprehensive income available to Whirlpool common stockholders  | \$ 359                              | \$ 237 | \$ 372                             | \$ 647 |

The following table summarizes the changes in stockholders equity:

| Millions of dollars                            | Total    | Whirlpool<br>Common<br>Stockholders | Noncontrolling<br>Interests |
|--|----------|-------------------------------------|-----------------------------|
| <b>Stockholders equity, December 31, 2009</b>  | \$ 3,760 | \$ 3,664                            | \$ 96                       |
| Net earnings                                   | 472      | 448                                 | 24                          |
| Other comprehensive income (loss)              | (75)     | (76)                                | 1                           |
| Comprehensive income (loss)                    | 397      | 372                                 | 25                          |
| Purchase of noncontrolling interest            | (8)      |                                     | (8)                         |
| Issuance of treasury stock                     | 10       | 10                                  |                             |
| Common stock                                   | 1        | 1                                   |                             |
| Additional paid-in capital                     | 80       | 80                                  |                             |
| Dividends declared on common stock             | (111)    | (99)                                | (12)                        |
| <b>Stockholders equity, September 30, 2010</b> | \$ 4,129 | \$ 4,028                            | \$ 101                      |

**Noncontrolling Interests**

During the December 2009 quarter, our Latin America region entered into a definitive agreement to purchase 1.8% of the outstanding noncontrolling interest in Brasmotor S.A. for \$12 million. This transaction closed on January 15, 2010 and raised our ownership interest in Brasmotor S.A. to 95.6%.

**Net Earnings per Share**

Edgar Filing: WHIRLPOOL CORP /DE/ - Form 10-Q

Basic and diluted net earnings per share were calculated as follows:

| Millions of dollars and shares   | Three months ended    |                       | Nine months ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2010 | September 30,<br>2009 | September 30,<br>2010 | September 30,<br>2009 |
| Numerator for basic and diluted earnings per share net earnings available to Whirlpool common stockholders | \$ 79                 | \$ 87                 | \$ 448                | \$ 233                |
| Denominator for basic earnings per share weighted-average shares   | 76.5                  | 74.7                  | 76.1                  | 74.4                  |
| Effect of dilutive securities stock-based compensation   | 1.2                   | 1.0                   | 1.3                   | 0.8                   |
| Denominator for diluted earnings per share adjusted weighted-average shares                                | 77.7                  | 75.7                  | 77.4                  | 75.2                  |



Diluted net earnings per share of common stock include the dilutive effect of stock options. For the three and nine months ended September 30, 2010, approximately 1,797,475 and 1,791,739 stock options, respectively, were excluded from the calculation of diluted earnings per share because their exercise prices rendered them anti-dilutive. For the three and nine months ended September 30, 2009, approximately 3,128,800 and 3,852,870 stock options, respectively, were excluded from the calculation of diluted earnings per share because their exercise prices rendered them anti-dilutive.

## (8) RESTRUCTURING CHARGES

Under our ongoing global operating platform initiatives, we implemented certain restructuring initiatives to strengthen our leadership position in the global appliance industry. We plan to continue a comprehensive worldwide effort to optimize our regional manufacturing facilities, supply base, product platforms and technology resources to support our global brands and customers. We incurred total restructuring charges of \$16 million and \$24 million during the three months ended September 30, 2010 and 2009, respectively, and \$58 million and \$71 million during the nine months ended September 30, 2010 and 2009, respectively. These charges are included in restructuring costs in our Consolidated Condensed Statements of Income and primarily consist of charges to shift refrigeration and laundry capacity within North America and dishwasher capacity within Europe and reorganize the salaried and hourly workforces throughout Europe. Significant restructuring initiatives are discussed below.

On October 27, 2008, management committed to a workforce reduction plan whereby we will reduce our employee base by approximately 5,000 employees and contractors worldwide from the fourth quarter of 2008 through the end of 2010. We expect to incur approximately \$97 million in employee termination costs, \$14 million in asset impairment costs and \$3 million in other associated costs for a total of \$114 million that will be incurred as a result of this workforce reduction. We incurred \$6 million and \$23 million of charges associated with this workforce reduction during the nine months ended September 30, 2010 and 2009, respectively. As of September 30, 2010, approximately \$6 million of these workforce reduction costs remain, all of which will result in future cash expenditures within our Europe region. We expect to incur these costs during the December 2010 quarter. For additional information about restructuring charges by operating segment, see Note 11 to the Consolidated Condensed Financial Statements.

On August 28, 2009, we announced changes to our North America manufacturing operations which resulted in the closure of our manufacturing facility in Evansville, Indiana in June 2010. We eliminated approximately 1,100 full-time positions as a result of the closure. We estimate that we will incur approximately \$64 million in total costs in connection with the exit of this facility comprised of \$19 million in employee termination costs, \$13 million in equipment relocation costs, \$12 million in asset impairment costs, and \$20 million in other associated costs. We incurred \$10 million and \$32 million associated with this closure during the three and nine months ended September 30, 2010, respectively. During the three and nine months ended September 30, 2009, we incurred \$9 million associated with this closure. We expect to recognize approximately \$5 million of these costs during the remainder of 2010 and \$7 million of these costs in 2011 and estimate that approximately \$43 million of the estimated \$64 million in total cost will result in cash expenditures. As of September 30, 2010, approximately \$12 million of these closure costs remain, all of which will result in future cash expenditures.

A summary of the changes to our restructuring liability balance for the nine months ended September 30, 2010 is as follows:

| Millions of dollars     | January 1,<br>Balance | Charge to<br>Earnings | Cash<br>Paid   | Non-Cash       | Revision of<br>Estimate | Translation   | September 30,<br>Balance |
|-------------------------|-----------------------|-----------------------|----------------|----------------|-------------------------|---------------|--------------------------|
| Termination costs       | \$ 68                 | \$ 33                 | \$ (61)        | \$             | \$                      | \$ (3)        | \$ 37                    |
| Non-employee exit costs | 15                    | 25                    | (12)           | (11)           |                         |               | 17                       |
| <b>Total</b>            | <b>\$ 83</b>          | <b>\$ 58</b>          | <b>\$ (73)</b> | <b>\$ (11)</b> | <b>\$</b>               | <b>\$ (3)</b> | <b>\$ 54</b>             |

## (9) INCOME TAXES

The effective income tax rate for the three and nine months ended September 30, 2010 was a benefit of 9.6% and 4.0%, respectively, compared to a benefit of 15.6% and 25.2% in the same periods in 2009, respectively. For the three months ended September 30, 2010, changes in the effective tax rate compared to the same period in 2009 include unfavorable impacts related to the non-deductibility of the settlement with the U.S. Department of Justice and audit settlements, partially offset by an increase in tax credits. For the nine months ended September 30, 2010, the change in the effective tax rate compared to the same period in 2009 is primarily due to higher earnings and related tax expense. Over the next twelve months it is reasonably possible that we will settle unrecognized tax benefits totaling approximately \$55 million associated with certain tax examinations and other events.

Edgar Filing: WHIRLPOOL CORP /DE/ - Form 10-Q

At the end of each interim period, we make our best estimate of the effective tax rate expected to be applicable for the full fiscal year and the impact of discrete items, if any, and adjust the quarterly rate as necessary.

**(10) PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS**

The components of net periodic pension cost and the cost of other postretirement benefits for the three and nine months ended September 30, 2010 and 2009 are as follows:

| Millions of dollars                         | Three months ended September 30, |         |                          |        |                               |        |
|---|----------------------------------|---------|--------------------------|--------|-------------------------------|--------|
|   | U.S. Pension Benefits            |         | Foreign Pension Benefits |        | Other Postretirement Benefits |        |
|   | 2010                             | 2009    | 2010                     | 2009   | 2010                          | 2009   |
| Service cost                                | \$ 0.6                           | \$ 2.8  | \$ 1.5                   | \$ 1.6 | \$ 1.9                        | \$ 2.7 |
| Interest cost                               | 49.9                             | 51.5    | 4.7                      | 5.1    | 8.8                           | 11.8   |
| Expected return on plan assets              | (47.4)                           | (49.1)  | (2.4)                    | (2.5)  |                               |        |
| Amortization of prior service cost (credit) | (0.6)                            |         | 0.2                      | 0.1    | (7.8)                         | (8.2)  |
| Amortization of net loss                    | 7.5                              | 9.4     | 0.6                      | 1.0    | 0.6                           | 0.1    |
| Amortization of transition obligation       |                                  |         | (0.1)                    |        | 0.1                           |        |
| Settlement and curtailment loss (gain)      |                                  | 7.4     | 1.3                      | (0.8)  |                               | (1.3)  |
| Net periodic cost                           | \$ 10.0                          | \$ 22.0 | \$ 5.8                   | \$ 4.5 | \$ 3.6                        | \$ 5.1 |

| Millions of dollars                         | Nine months ended September 30, |         |                          |         |                               |           |
|---|---------------------------------|---------|--------------------------|---------|-------------------------------|-----------|
|   | U.S. Pension Benefits           |         | Foreign Pension Benefits |         | Other Postretirement Benefits |           |
|   | 2010                            | 2009    | 2010                     | 2009    | 2010                          | 2009      |
| Service cost                                | \$ 2.0                          | \$ 8.4  | \$ 4.6                   | \$ 4.5  | \$ 7.4                        | \$ 8.7    |
| Interest cost                               | 149.7                           | 154.7   | 14.3                     | 14.6    | 29.1                          | 37.0      |
| Expected return on plan assets              | (142.0)                         | (147.4) | (7.2)                    | (7.2)   |                               |           |
| Amortization of prior service cost (credit) | (2.0)                           | (0.1)   | 0.4                      | 0.4     | (25.1)                        | (23.8)    |
| Amortization of net loss                    | 22.3                            | 25.8    | 1.7                      | 2.8     | 0.6                           | 0.1       |
| Amortization of transition obligation       |                                 |         | (0.2)                    | (0.1)   | 0.1                           | 0.1       |
| Settlement and curtailment loss (gain)      |                                 | 10.9    | 2.1                      | (2.5)   | (62.0)                        | (94.8)    |
| Net periodic cost                           | \$ 30.0                         | \$ 52.3 | \$ 15.7                  | \$ 12.5 | \$ (49.9)                     | \$ (72.7) |

On August 28, 2009, we announced the closure of our manufacturing facility in Evansville, Indiana, which triggered a curtailment gain in our United States retiree healthcare plan to be recognized as the employees terminate. During the March and June 2010 quarters, we recognized curtailment gains of \$29 million and \$33 million, respectively. The announcement also triggered a curtailment loss within our pension plan for Evansville hourly employees. During the September 2009 quarter, we recognized a curtailment loss of \$6.6 million. The curtailment gains and loss were recognized in our Consolidated Condensed Statement of Income as a component of cost of products sold with an offset in our Consolidated Condensed Balance Sheet to other comprehensive income, net of tax.

On February 9, 2009, we announced the suspension of the annual credit to retiree health savings accounts RHTSA for the majority of active participants. The result of the indefinite suspension was a one-time curtailment gain of \$89 million included in net periodic cost with an offset to other comprehensive income, net of tax. During the March 2009 quarter, we recorded \$80 million of this gain in our Consolidated Condensed Statement of Income as a component of cost of products sold and \$9 million was recorded as a component of selling, general and administrative expenses. Additionally, during the March 2009 quarter, we modified benefits for certain employees which resulted in a reduction in the postretirement benefit obligation of \$44 million with an offset to other comprehensive income, net of tax.

**(11) OPERATING SEGMENT INFORMATION**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker, or decision making group, in deciding how to allocate resources to an individual segment and in assessing performance.

We identify such segments based upon geographical regions of operations because each operating segment manufactures home appliances and related components, but serves strategically different markets. The chief operating decision maker evaluates performance based upon each

## Edgar Filing: WHIRLPOOL CORP /DE/ - Form 10-Q

segment's operating income, which is defined as income before interest and sundry income (expense), interest expense, income taxes, noncontrolling interests and restructuring costs. Total assets by segment are those assets directly associated with the respective operating activities. The Other/Eliminations column primarily includes corporate expenses, assets and

eliminations, as well as all restructuring expenses. Intersegment sales are eliminated within each region except compressor sales out of Latin America, which are included in Other/Eliminations.

As described above, our chief operating decision maker reviews each operating segment's performance based upon operating income which excludes restructuring expenses. These restructuring expenses are included in operating profit on a consolidated basis and included in the Other/Eliminations column in the tables below.

| Three Months Ended September 30 - Millions of dollars | OPERATING SEGMENTS |          |               |        |                     | Total Whirlpool |
|---|--------------------|----------|---------------|--------|---------------------|-----------------|
|   | North America      | Europe   | Latin America | Asia   | Other/ Eliminations |                 |
| <b>Net sales</b>                                      |                    |          |               |        |                     |                 |
| 2010  | \$ 2,429           | \$ 827   | \$ 1,122      | \$ 195 | \$ (54)             | \$ 4,519        |
| 2009  | 2,494              | 899      | 992           | 162    | (50)                | 4,497           |
| <b>Intersegment sales</b>                             |                    |          |               |        |                     |                 |
| 2010  | \$ 52              | \$ 52    | \$ 67         | \$ 55  | \$ (226)            | \$              |
| 2009  | 31                 | 85       | 64            | 45     | (225)               |                 |
| <b>Depreciation and amortization</b>                  |                    |          |               |        |                     |                 |
| 2010  | \$ 78              | \$ 26    | \$ 22         | \$ 6   | \$ 9                | \$ 141          |
| 2009  | 67                 | 28       | 20            | 5      | 10                  | 130             |
| <b>Restructuring (see Note 8)</b>                     |                    |          |               |        |                     |                 |
| 2010  | \$ 13              | \$ 2     | \$            | \$     | \$ 1                | \$ 16           |
| 2009  | 3                  | 16       | 3             | 1      | 1                   | 24              |
| <b>Operating profit (loss)</b>                        |                    |          |               |        |                     |                 |
| 2010  | \$ 114             | \$ 26    | \$ 143        | \$ 5   | \$ (54)             | \$ 234          |
| 2009  | 140                | 14       | 93            | 8      | (66)                | 189             |
| <b>Total assets</b>                                   |                    |          |               |        |                     |                 |
| September 30, 2010                                    | \$ 8,480           | \$ 3,180 | \$ 3,354      | \$ 807 | \$ (222)            | \$ 15,599       |
| December 31, 2009                                     | 8,123              | 3,216    | 2,887         | 690    | 178                 | 15,094          |
| <b>Capital expenditures</b>                           |                    |          |               |        |                     |                 |
| 2010  | \$ 59              | \$ 16    | \$ 33         | \$ 5   | \$ 7                | \$ 120          |
| 2009  | 74                 | 20       | 14            | 2      | 9                   | 119             |

| Nine Months Ended September 30 - Millions of dollars | OPERATING SEGMENTS |          |               |        |                     | Total Whirlpool |
|--|--------------------|----------|---------------|--------|---------------------|-----------------|
|  | North America      | Europe   | Latin America | Asia   | Other/ Eliminations |                 |
| <b>Net sales</b>                                     |                    |          |               |        |                     |                 |
| 2010   | \$ 7,219           | \$ 2,305 | \$ 3,306      | \$ 650 | \$ (155)            | \$ 13,325       |
| 2009   | 7,001              | 2,382    | 2,525         | 466    | (139)               | 12,235          |
| <b>Intersegment sales</b>                            |                    |          |               |        |                     |                 |
| 2010   | \$ 148             | \$ 198   | \$ 189        | \$ 149 | \$ (684)            | \$              |
| 2009   | 106                | 243      | 175           | 128    | (652)               |                 |
| <b>Depreciation and amortization</b>                 |                    |          |               |        |                     |                 |
| 2010   | \$ 223             | \$ 78    | \$ 67         | \$ 15  | \$ 31               | \$ 414          |
| 2009   | 211                | 75       | 55            | 14     | 33                  | 388             |
| <b>Restructuring (see Note 8)</b>                    |                    |          |               |        |                     |                 |
| 2010   | \$ 35              | \$ 20    | \$ 1          | \$     | \$ 2                | \$ 58           |
| 2009   | 22                 | 33       | 5             | 9      | 2                   | 71              |
| <b>Operating profit (loss)</b>                       |                    |          |               |        |                     |                 |
| 2010   | \$ 408             | \$ 73    | \$ 475        | \$ 30  | \$ (180)            | \$ 806          |
| 2009   | 424                | 2        | 225           | 23     | (185)               | 489             |
| <b>Total assets</b>                                  |                    |          |               |        |                     |                 |
| September 30, 2010                                   | \$ 8,480           | \$ 3,180 | \$ 3,354      | \$ 807 | \$ (222)            | \$ 15,599       |
| December 31, 2009                                    | 8,123              | 3,216    | 2,887         | 690    | 178                 | 15,094          |
| <b>Capital expenditures</b>                          |                    |          |               |        |                     |                 |
| 2010   | \$ 240             | \$ 49    | \$ 64         | \$ 12  | \$ 22               | \$ 387          |
| 2009   | 193                | 62       | 39            | 5      | 49                  | 348             |



**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****EXECUTIVE OVERVIEW**

Whirlpool Corporation ( Whirlpool ) is the world's leading manufacturer of major home appliances with revenues of \$17 billion and net earnings available to Whirlpool common stockholders of \$328 million for the year ended December 31, 2009. We are a leading producer of major home appliances in North America and Latin America and have a significant presence in markets throughout Europe and India. We have received worldwide recognition for accomplishments in a variety of business and social efforts, including leadership, diversity, innovative product design, business ethics, social responsibility and community involvement. We conduct our business through four reportable segments, which we define based on geography. For additional information about our operating segments, see Note 11 to the Consolidated Condensed Financial Statements.

Our global branded consumer products strategy is to introduce innovative new products, increase customer brand loyalty, expand our presence in foreign markets, enhance our trade management platform, improve total cost and quality by expanding and leveraging our global operating platform and where appropriate, make strategic acquisitions and investments.

We continue to experience macroeconomic challenges which have impacted the global economy, the capital markets and global demand for our products. Although we have made significant progress in reducing cost to better align with global demand, and in improving our liquidity position, we expect that we will continue to experience the effects of liquidity strain on our suppliers, continued instability in global consumer confidence and discretionary spending.

**RESULTS OF OPERATIONS**

For the three months ended September 30, 2010 and 2009, consolidated net sales were \$4.5 billion. Consolidated net earnings available to Whirlpool common stockholders were \$79 million, or \$1.02 per diluted share, compared to \$87 million or \$1.15 per diluted share in 2009. For the nine months ended September 30, 2010, consolidated net sales were \$13.3 billion, increasing from \$12.2 billion in 2009. Consolidated net earnings available to Whirlpool common stockholders were \$448 million, or \$5.79 per diluted share, increasing from \$233 million, or \$3.10 per diluted share in 2009. Impacting the results for both the three and nine months ended September 30, 2010 is \$93 million, or \$1.20 per diluted share, in charges resulting from plea agreements entered into with the U.S. Department of Justice and the Director of Public Prosecutions in Canada related to antitrust investigations of Embraco, an indirect subsidiary of Whirlpool. See Note 5 to the Consolidated Condensed Financial Statements for additional information on these plea agreements. The following discussion highlights significant drivers of our operating performance.

**Consolidated Net Sales**

Consolidated net sales increased 0.5% for the three months ended September 30, 2010 and 8.9% for the nine months ended September 30, 2010 compared to the same periods in 2009. The increase for the three month period is primarily due to an increase in units sold and higher BEFIEX credits in our Latin America segment, partially offset by lower product price/mix. The increase for the nine month period is primarily due to an increase in units sold. Excluding the impact of foreign currency, consolidated net sales increased 0.7% and 5.7% for the three and nine months ended September 30, 2010, respectively.

The following table summarizes consolidated net sales by region:

| Millions of dollars | Three Months Ended September 30, |          |        | Nine Months Ended September 30, |           |        |
|---------------------|----------------------------------|----------|--------|---------------------------------|-----------|--------|
|                     | 2010                             | 2009     | Change | 2010                            | 2009      | Change |
| North America       | \$ 2,429                         | \$ 2,494 | (2.6)% | \$ 7,219                        | \$ 7,001  | 3.1%   |
| Europe              | 827                              | 899      | (8.1)  | 2,305                           | 2,382     | (3.2)  |
| Latin America       | 1,122                            | 992      | 13.0   | 3,306                           | 2,525     | 30.9   |
| Asia                | 195                              | 162      | 20.7   | 650                             | 466       | 39.4   |
| Other/eliminations  | (54)                             | (50)     |        | (155)                           | (139)     |        |
| Consolidated        | \$ 4,519                         | \$ 4,497 | 0.5%   | \$ 13,325                       | \$ 12,235 | 8.9%   |

Significant regional trends were as follows:

North America net sales decreased 2.6% for the three months ended September 30, 2010 compared to the same period in 2009, primarily due to lower product price/mix, offset by a 1.4% increase in units sold and the favorable impact of foreign currency. For the nine month period, net sales increased 3.1% compared to the same period in 2009, primarily due to a 6.1% increase in units sold, offset by lower product price/mix. Excluding the impact of foreign currency, North America net sales decreased 3.3% and increased 1.6% for the three and nine months ended September 30, 2010, respectively, compared to the same periods in 2009.



Europe net sales decreased 8.1% for the three months ended September 30, 2010 compared to the same period in 2009, primarily due to the unfavorable impact of foreign currency and lower product price/mix, partially offset by a 5.9% increase in units sold. For the nine month period, net sales decreased 3.2% compared to the same period in 2009, primarily due to the unfavorable impact of foreign currency and lower product price/mix, partially offset by a 4.0% increase in units sold. Excluding the impact of foreign currency, Europe net sales increased 0.1% and decreased 0.6% for the three and nine months ended September 30, 2010, respectively, compared to the same periods in 2009.

Latin America net sales increased 13.0% for the three months ended September 30, 2010 compared to the same period in 2009, primarily due to an 8.9% increase in units sold, the favorable impact of higher BEFIEX credits and foreign currency, partially offset by lower product price/mix. For the nine month period, net sales increased 30.9% compared to the same period in 2009, primarily due to a 16.6% increase in units sold and the favorable impact of foreign currency. During the three months ended September 30, 2010 and 2009, we monetized \$56 million and \$8 million of BEFIEX credits, respectively. During the nine months ended September 30, 2010 and 2009, we monetized \$144 million and \$52 million of BEFIEX credits, respectively. We expect to continue recognizing credits as they are monetized. As of September 30, 2010, \$590 million of BEFIEX credits remain. Future actions by the Brazilian government could limit our ability to monetize these export credits. Excluding the impact of foreign currency, Latin America net sales increased 9.1% and 18.6% for the three and nine months ended September 30, 2010, respectively, compared to the same periods in 2009.

Asia net sales increased 20.7% for the three months ended September 30, 2010 compared to the same period in 2009, primarily due to an 18.1% increase in units sold and the favorable impact of foreign currency. For the nine month period, net sales increased 39.4% compared to the same period in 2009, primarily due to a 29.9% increase in units sold, the favorable impact of foreign currency and improved product price/mix. Excluding the impact of foreign currency, Asia net sales increased 16.4% and 31.7% for the three and nine months ended September 30, 2010, respectively, compared to the same periods in 2009.

### Gross Margin

Consolidated gross margin percentage for the three months and nine months ended September 30, 2010 increased compared to the same periods in 2009 primarily due to continued productivity improvements and cost reduction initiatives and higher regional tax incentives associated with BEFIEX, partially offset by raw material and oil related cost increases and lower product price/mix. For the nine month period ended September 30, 2010, the consolidated gross margin percentage increased compared to the same period in 2009 primarily due to continued productivity improvements and cost reduction initiatives and higher regional tax incentives associated with BEFIEX, partially offset by lower product price/mix. In addition, the nine month period was unfavorably impacted by the net impact of certain one-time items including the 2010 dishwasher recall charge and lower curtailment gains in 2010 associated with our postretirement benefit and pension plans, partially offset by a foreign operating tax settlement in 2009. These one-time items resulted in a net reduction in gross margin of \$48 million, or 0.4 percentage points for the nine months ended September 30, 2010.

The following table summarizes gross margin percentages by region:

|               | Three Months Ended September 30, |       |          | Nine Months Ended September 30, |       |          |
|---------------|----------------------------------|-------|----------|---------------------------------|-------|----------|
|               | 2010                             | 2009  | Change   | 2010                            | 2009  | Change   |
| North America | 11.9%                            | 12.6% | (0.7)pts | 12.7%                           | 13.4% | (0.7)pts |
| Europe        | 12.3                             | 11.8  | 0.5      | 13.2                            | 10.9  | 2.3      |
| Latin America | 20.0                             | 16.9  | 3.1      | 21.4                            | 16.1  | 5.3      |
| Asia          | 16.7                             | 20.2  | (3.5)    | 17.5                            | 19.7  | (2.2)    |
| Consolidated  | 14.3                             | 13.8  | 0.5      | 15.4                            | 13.9  | 1.5      |

Significant regional trends were as follows:

North America gross margin percentage decreased for the three months ended September 30, 2010 primarily due to lower product price/mix and higher material and oil-related costs, partially offset by continued productivity improvements and cost reduction initiatives. For the nine month period ended September 30, 2010, the gross margin percentage decreased primarily due to lower product price/mix, certain one-time items and higher material and oil-related costs partially offset by continued productivity

## Edgar Filing: WHIRLPOOL CORP /DE/ - Form 10-Q

improvements and cost reductions. One-time items resulted in a net expense of \$63 million, or 0.9 percentage point, which include the 2010 dishwasher recall charge, the 2009 refrigerator recall charge and lower 2010 curtailment gains associated with our postretirement benefit and pension plans. See Notes 5 and 10 to the Consolidated Condensed Financial Statements for additional information related to product recalls and curtailment gains, respectively.

Europe gross margin percentage increased for the three and nine months ended September 30, 2010 primarily due to continued productivity improvements and cost reductions, partially offset by lower product price/mix and higher material and oil-related costs.

Latin America gross margin percentage increased for the three months ended September 30, 2010 primarily due to increased regional tax incentives associated with BEFIEX and continued productivity improvements and cost reduction initiatives, partially offset by higher material and oil-related costs and lower product price/mix. For the nine month period ended September 30, 2010, gross margin percentage increased primarily due to increased regional tax incentives associated with BEFIEX, lower raw materials costs, and a \$26 million charge recognized in 2009 associated with a foreign operating tax settlement. The above items were partially offset by certain credits recognized in 2009 related to refundable energy surcharges. See Note 5 to the Consolidated Condensed Financial Statements for additional information related to the foreign operating tax settlement.

Asia gross margin percentage decreased for the three and nine months ended September 30, 2010 due to higher raw materials costs, lower product price/mix and a \$3 million gain associated with an asset sale recognized in 2009.

### Selling, General and Administrative

The following table summarizes selling, general and administrative expenses as a percentage of sales by region:

| Millions of dollars | Three Months Ended September 30, |                    |        |                    | Nine Months Ended September 30, |                    |          |                    |
|---------------------|----------------------------------|--------------------|--------|--------------------|---------------------------------|--------------------|----------|--------------------|
|                     | 2010                             | As a %<br>of Sales | 2009   | As a %<br>of Sales | 2010                            | As a %<br>of Sales | 2009     | As a %<br>of Sales |
| North America       | \$ 169                           | 7.0%               | \$ 168 | 6.7%               | \$ 491                          | 6.8%               | \$ 490   | 7.0%               |
| Europe              | 75                               | 9.1                | 92     | 10.3               | 232                             | 10.0               | 258      | 10.8               |
| Latin America       | 81                               | 7.3                | 75     | 7.6                | 233                             | 7.1                | 182      | 7.2                |
| Asia                | 28                               | 14.3               | 25     | 15.4               | 84                              | 12.8               | 69       | 14.7               |
| Other/eliminations  | 38                               |                    | 40     |                    | 123                             |                    | 118      |                    |
| Consolidated        | \$ 391                           | 8.7%               | \$ 400 | 8.9%               | \$ 1,163                        | 8.7%               | \$ 1,117 | 9.1%               |

For the three months ended September 30, 2010, consolidated selling, general and administrative expenses, as a percent of consolidated net sales, decreased compared to the same period in 2009 primarily as a result of cost reductions. For the nine months ended September 30, 2010, consolidated selling, general and administrative expenses, as a percent of consolidated net sales, decreased compared to the same period in 2009 primarily due to improved leverage from increases in net sales.

### Restructuring

Restructuring initiatives resulted in charges of \$16 million and \$58 million for the three and nine months ended September 30, 2010, respectively, associated with ongoing efforts to optimize our global operating platform. These amounts have been identified as a separate component of operating profit and primarily consist of charges to shift refrigeration and laundry capacity within North America and dishwasher capacity within Europe and reorganize the salaried and hourly workforces throughout Europe. For additional information about restructuring activities see Note 8 to the Consolidated Condensed Financial Statements.

### Interest and Sundry Income (Expense)

Interest and sundry income (expense) increased \$53 million to a net expense of \$104 million for the three months ended September 30, 2010 compared to the same period in 2009 primarily due to higher charges incurred for legal contingencies and legal defense. Included within these legal contingencies and legal defense costs are \$93 million in charges resulting from plea agreements entered into with the U.S. Department of Justice and the Director of Public Prosecutions in Canada related to antitrust investigations of Embraco, an indirect subsidiary of Whirlpool. During the three months ended September 2009, we incurred charges of \$43 million related to an agreement to settle antitrust investigations in Brazil. See Note 5 to the Consolidated Condensed Financial Statements for additional information on these agreements. Interest and sundry income (expense) increased \$75 million for the nine month period ended September 30, 2010 compared to the same period in 2009 primarily due to the same factors described for the three month period, partially offset by higher interest income. For additional information regarding legal contingencies, see Note 5 to the Consolidated Condensed Financial Statements.

### Interest Expense

## Edgar Filing: WHIRLPOOL CORP /DE/ - Form 10-Q

Interest expense decreased \$4 million for the three month period ended September 30, 2010 compared to the same period in 2009 due to lower average debt levels, partially offset by higher interest rates. For the nine months ended September 30, 2010, interest expense decreased \$11 million compared to the same period in 2009 due to a one time interest charge recognized in 2009 related to a foreign operating tax settlement and lower average debt levels, partially offset by higher effective interest rates.

## Income Taxes

The effective income tax rate for the three and nine months ended September 30, 2010 was a benefit of 9.6% and 4.0%, respectively, compared to a benefit of 15.6% and 25.2% in the same periods in 2009, respectively. For the three months ended September 30, 2010, changes in the effective tax rate compared to the same period in 2009 include unfavorable impacts related to the non-deductibility of the settlement with the U.S. Department of Justice and audit settlements, partially offset by an increase in tax credits. For the nine months ended September 30, 2010, the change in the effective tax rate compared to the same period in 2009 is primarily due to higher earnings and related tax expense. For additional information about income taxes see Note 9 to the Consolidated Condensed Financial Statements.

## Net Earnings Available to Whirlpool Common Stockholders

Net earnings available to Whirlpool common stockholders for the three months ended September 30, 2010 were \$79 million or \$1.02 per diluted share, compared to \$87 million, or \$1.15 per diluted share in 2009 due to the factors described above. Net earnings available to Whirlpool common stockholders for the nine months ended September 30, 2010 were \$448 million or \$5.79 per diluted share, compared to \$233 million, or \$3.10 per diluted share in 2009 due to the factors described above.

## UPDATE: FORWARD-LOOKING PERSPECTIVE

We are updating our guidance as a result of plea agreements entered into by Embraco North America, Inc., an indirect subsidiary of Whirlpool's compressor business headquartered in Brazil, we incurred charges of \$93 million, or approximately \$1.20 per diluted share, during the third quarter of 2010. Including this expense, we now expect to report net earnings of \$7.80 to \$8.30 per diluted share compared with our previous outlook of \$9.00 to \$9.50 per diluted share.

The table below reconciles projected 2010 cash provided by operations determined in accordance with generally accepted accounting principles (GAAP) in the United States to free cash flow, a non-GAAP measure. Management believes that free cash flow provides shareholders with a relevant measure of liquidity and a useful basis for assessing Whirlpool's ability to fund its activities and obligations. There are limitations to using non-GAAP financial measures, including the difficulty associated with comparing companies that use similarly named non-GAAP measures whose calculations may differ from our calculations. We define free cash flow as cash provided by continuing operations after capital expenditures and proceeds from the sale of assets/businesses. The projections shown here are based upon many estimates and are inherently subject to change based on future decisions made by management and the board of directors of Whirlpool, and significant economic, competitive and other uncertainties and contingencies.

| Millions of dollars                     | 2010 Outlook |          |
|---|--------------|----------|
| Cash provided by operating activities   | \$ 1,115     | \$ 1,225 |
| Capital expenditures                    | (575)        | (625)    |
| Proceeds from sale of assets/businesses | 10           | 50       |
| Free cash flow                          | \$ 550       | \$ 650   |

## FINANCIAL CONDITION AND LIQUIDITY

Our objective is to finance our business through operating cash flow and the appropriate mix of long-term and short-term debt. By diversifying the maturity structure, we avoid concentrations of debt, reducing liquidity risk. We have varying needs for short-term working capital financing as a result of the nature of our business. The volume and timing of refrigeration and air conditioning production impacts our cash flows and consists of increased production in the first half of the year to meet increased demand in the summer months.

We have experienced negative global economic trends in the recent quarters. To succeed in this environment we have aggressively taken steps to further reduce all areas of cost, production capacity and working capital. Outside the United States, short-term funding is provided by bank borrowings on uncommitted lines of credit. We believe that our operating cash flow, together with access to sufficient sources of liquidity, will be adequate to meet our ongoing funding requirements.

As of September 30, 2010, there was no balance outstanding under our credit facility and we are in compliance with the financial covenants for all periods presented.

**Pension and Postretirement Benefit Plans**

On August 28, 2009, we announced the closure of our manufacturing facility in Evansville, Indiana, which triggered a curtailment gain in our United States retiree healthcare plan to be recognized as the employees terminate. During the March and June

2010 quarters, we recognized curtailment gains of \$29 million and \$33 million, respectively. The announcement also triggered a curtailment loss of \$6.6 million within our pension plan for Evansville hourly employees, which was recognized during the September 2009 quarter. The curtailment gains and loss were recognized in our Consolidated Condensed Statement of Income as a component of cost of products sold with an offset in our Consolidated Condensed Balance Sheet to other comprehensive income, net of tax.

On February 9, 2009, we announced the indefinite suspension of the annual credit to retirement health savings accounts for the majority of active participants. The result of the suspension was a curtailment gain of \$89 million.

Our funding policy is to contribute to our U.S. pension plans amounts sufficient to meet the minimum funding requirement as defined by employee benefit and tax laws, which for 2011 is estimated to be approximately \$200 million. Additionally, we may contribute discretionary amounts incremental to the minimum funding required.

For additional information about pension and postretirement benefit plans, see Note 10 to the Consolidated Condensed Financial Statements.

### **Sources and Uses of Cash**

We expect to meet our cash needs for 2010 from cash flows from operations, cash and equivalents and financing arrangements. Our cash and equivalents were \$901 million at September 30, 2010 compared to \$725 million at September 30, 2009.

#### *Cash Flows from Operating Activities*

Cash provided by operating activities for the nine months ended September 30, 2010 totaled \$377 million, a decrease of \$275 million compared to 2009. The decrease in cash provided by operations was due primarily to higher inventory balances resulting from higher production related to the fourth quarter selling season, certain product transitions and lower than expected industry demand, partially offset by higher accounts payable balances due to increased production and improved terms in 2010, higher cash earnings, a U.S. income tax refund and higher collections on accounts receivable due to improved customer terms.

#### *Cash Flows from Investing Activities*

Cash used in investing activities during the nine months ended September 30, 2010 totaled \$423 million compared to \$294 million in 2009. The increase in cash used in investing activities was primarily due to lower proceeds from the sale of assets, higher capital spending and the acquisition of a brand within our European segment during 2010.

#### *Cash Flows from Financing Activities*

Cash used in financing activities during the nine months ended September 30, 2010 totaled \$431 million compared to cash provided by financing activities of \$184 million in 2009. During 2009 we received \$863 million in proceeds from the issuance of long-term debt and repaid \$546 million of short and long-term debt. During 2010, we repaid \$380 million of short and long-term debt and received \$72 million from the exercise of stock options.

### **OTHER MATTERS**

Government authorities in various jurisdictions are conducting antitrust investigations of the global compressor industry, including our compressor business headquartered in Brazil ( Embraco ). In 2009, Embraco sales represented approximately 7% 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 as other expense in 2009.

In September 2010, the DOJ and Embraco entered into a plea agreement related to the investigation. The plea agreement remains subject to the approval of the United States District Court for the Eastern District of Michigan, which is expected to consider the matter during the fourth

## Edgar Filing: WHIRLPOOL CORP /DE/ - Form 10-Q

quarter of 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 U.S. 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. Assuming the court approves the plea agreement, Embraco will pay the fine in six annual installments, with the first payment expected to be made in the first quarter of 2011. The full amount of the fine was recorded within interest and sundry income (expense) in the third quarter of 2010.



In October 2010, the Director of Public Prosecutions of Canada (the DPP) and Embraco entered into a plea agreement, which has been submitted for court approval, related to the investigation. Pursuant to the plea agreement, Embraco (1) acknowledged that it violated Canadian antitrust law with respect to the sale of certain compressors in Canada during 2005 and (2) agreed to pay a fine totaling approximately \$1.5 million to the Canadian government. Under the plea agreement, DPP agreed not to bring further charges against Embraco or any related entities for any conspiracy involving pricing of the relevant products during the investigation period. The full amount of the fine was recorded within interest and sundry income (expense) in the third quarter of 2010.

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 with certainty. An accrual has been established only where we have determined that a loss is probable and the amount of loss can be reasonably estimated. As of September 30, 2010, we have accrued, in the aggregate, charges of approximately \$202 million related to these matters. 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.

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. The settlement is in the process of being ratified by the Brazilian tax authority.

In 1989, a Brazilian affiliate (now a subsidiary) brought an action against a financial institution in Brazil seeking a Declaration of Non-Enforceability of Obligations relating to loan documentation entered into without authority by a senior officer of the affiliate. In September 2000, an adverse decision in the declaratory action became final. In 2001, the financial institution began a collection action and we responded with a counterclaim. The lower court dismissed the counterclaim in 2002 and the Superior Court confirmed the lower court decision in December 2005. The Superior Court dismissed our counterclaim in 2007. In late 2008, the lower court issued a decision in the collection action in favor of the financial institution in the amount of 283 million Brazilian reais (approximately \$167 million), plus judicial adjustments, which could be significant. We have appealed this decision. Based on our outside counsel's assessment of the case, we increased the amount previously accrued for our estimated exposure for this litigation by 95 million reais (approximately \$53 million) in the June 2010 quarter. However, the amount of the final award, if any, may be materially different than the amount we have accrued.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to our exposures to market risk since December 31, 2009.

**ITEM 4. CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures.

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) that are designed to provide reasonable assurance that information required to be disclosed in our filings under the Securities Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Prior to filing this report, we completed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2010. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2010.

(b) Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the most recent quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to legal proceedings can be found under the heading "Commitments and Contingencies" in Note 5 to the Consolidated Condensed Financial Statements contained in Part I, Item 1 of this report.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2009. The risk factors disclosed in our Annual Report on Form 10-K, in addition to the other information set forth in this report, could materially affect our business, financial condition or results. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may materially adversely affect our business, financial condition or results.

Item 2. Unregistered Sale of Securities, Use of Proceeds and Issuer Purchases of Equity Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. (Removed and Reserved)

Item 5. Other Information

None

Item 6. Exhibits

|              |   |
|--------------|---|
| Exhibit 31.1 | Certification of Chief Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                     |
| Exhibit 31.2 | Certification of Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                     |
| Exhibit 32.1 | Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS      | XBRL Instance Document*   |
| 101.SCH      | XBRL Taxonomy Extension Schema Document*  |
| 101.CAL      | XBRL Taxonomy Extension Calculation Linkbase Document*  |
| 101.LAB      | XBRL Taxonomy Extension Label Linkbase Document*  |
| 101.PRE      | XBRL Taxonomy Extension Presentation Linkbase Document*   |

\* Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WHIRLPOOL CORPORATION  
(Registrant)

By /s/ ROY W. TEMPLIN  
Name: Roy W. Templin  
Title: Executive Vice President

and Chief Financial Officer

(Principal Financial Officer)

October 27, 2010