Lennox International's Second Quarter Earnings Up 42% Before Restructuring Charges; Full-Year EPS Outlook Raised to $0.90-$1.00

July 23, 2002

DALLAS, July 23 /PRNewswire-FirstCall/ -- Lennox International Inc. (NYSE: LII) today reported second quarter 2002 earnings, before restructuring charges for programs announced in 2001, increased 42% to $27 million from $19 million in the year ago period. Diluted earnings per share were $0.45, comparing favorably with $0.33 last year. Total company sales were $831 million, down 2% versus last year.

Quarterly operating income for this year was up 21% to $53 million from $43 million last year. Operating margins rose to 6.3% from 5.1% last year. EBITDA increased 7% to $69 million. Foreign exchange benefited revenues by four-tenths of one percent and had a positive impact of less than $0.01 on earnings per share in the quarter.

During the second quarter of this year, the company incurred pretax charges of $1.2 million for previously announced restructuring programs to consolidate some operations and phase out certain non-core assets and underperforming product lines. Last year in the second quarter, the company incurred $38 million in restructuring charges to consolidate underperforming service centers in its Service Experts operation.

Had the FAS 142 accounting rule eliminating the amortization of goodwill been effective in 2001, operating income in the second quarter of 2001 would have been $4.6 million higher and earnings per share before restructuring charges would have been $0.40. On a GAAP basis, after accounting for restructuring charges, the company reported net earnings per share of $0.43 in the second quarter 2002, compared with a reported loss per share of $0.12 in the same quarter last year.

"We're very pleased the first-quarter 2002 improvement in LII's operating performance continued in the second quarter, despite mixed market demand in the sectors we serve and an especially challenging commercial air conditioning sector," said Bob Schjerven, chief executive officer. "We are particularly pleased to see the pace of improvement at Service Experts, our retail segment, accelerate in the second quarter."

LII continues a successful focus on free cash flow, with emphasis on working capital management and capital spending. Inventories are down 16%, or $55 million, year-over-year, while working capital - expressed as a percent of sales on a trailing 12 months basis - declined significantly to 21.1% from 24.0%. In the second quarter the company generated $2 million in free cash flow, bringing year-to-date free cash flow to $10 million. "Due to the seasonal nature of our business, we have typically used cash in the first half of the year and generated cash in the second half, so we are encouraged by this performance," Schjerven said.

The company also continues to make significant progress in paying down long-term debt, reducing its total debt as of June 30, 2002 to $511 million, down $103 million from the same time a year earlier. At the end of the second quarter, Debt to Total Capitalization was 53.2%, comparing favorably with 57.3% at the same time last year, adjusted for FAS 142 goodwill impairment charges taken in the first quarter of 2002.

Business segment highlights

All business segment highlights exclude restructuring charges.

North American residential: Revenues grew by 5% from the previous year to $351 million. Segment operating income for the quarter increased 11% to $36.1 million from $32.4 million last year, with FAS 142 contributing $1 million to the overall improvement. Segment operating margins expanded 60 basis points to 10.3%.

The company reported strong market acceptance for the new Dave Lennox Signature Series -- an innovative product line recently introduced by its Lennox Industries unit that features the industry's quietest air conditioners and furnaces, as well as the most effective home air purification system on the market today.

Service Experts: Despite a 7% decrease in revenues to $251 million, the Service Experts segment showed a substantial improvement in operating profitability for the second straight quarter. On a same store basis, adjusting for dealer service centers that were sold or closed in 2001, second quarter sales were down 4% -- a significant improvement over the 9% decline in the first quarter of this year. Segment operating income increased to $15.9 million from $4.2 million last year, with FAS 142 contributing $2.4 million to the year-over-year improvement. Operating margins for the second quarter were 6.3%, compared with 1.6% last year.

"Dennis Smith, who joined us as president of Service Experts in the fourth quarter of last year, is effectively instilling a performance-oriented culture throughout the organization," said Schjerven. "His management's attention to labor productivity -- critical to operating profitability in this type of service business -- and containing S,G & A costs are driving the improvement."

"While we certainly have a way to go to realize the full potential from Service Experts, we are pleased with the trend we are seeing."

Worldwide commercial air conditioning: LII faced lower demand levels for commercial air conditioning equipment, with North American industry shipments of unitary commercial HVAC equipment down approximately 12% in the first five months of 2002 and reports of lower demand levels in Europe. Segment revenues declined 11% in the second quarter to $115 million. Operating profits decreased 34% to $5.7 million due to lower volumes, which could only partially be offset by lower period expenses. As a result, segment operating margins for the quarter were 5%, down from 6.7% last year. Had FAS 142 been effective, 2001 quarterly operating income would have been $400,000 higher.

Worldwide commercial refrigeration: Revenues increased by 6% to $90 million, as the strengthening in the order rate reported at the end of the first quarter was sustained. Segment operating income increased 19% to $9.0 million, with FAS 142 contributing $400,000 to the year-over-year improvement. Benefiting from higher volumes and cost control initiatives, operating margins expanded 110 basis points to 10.0%.

Worldwide heat transfer: Demand for heat transfer components remains soft, with segment sales decreasing 9% to $52 million in the second quarter. This volume erosion resulted in a quarterly segment operating loss of $300,000, compared with operating income of $2.0 million the previous year. 2001 quarterly operating income would have been $300,000 higher if FAS 142 accounting had been effective. Segment operating margins were (0.6%) compared with 3.5% last year.

A planned joint venture with Outokumpu of Finland announced in April will result in Outokumpu purchasing a 55% interest in LII's heat transfer business segment for $55 million, with LII retaining 45% ownership. The joint venture agreement is on track to be completed in the third quarter of this year. "Assuming this transaction is completed as expected, our reported revenues will decline by approximately $60 million in the second half of this year, although it will not have a material impact on our EPS or free cash flow for 2002," said Rick Smith, chief financial officer.

Business outlook: earnings guidance raised

"We previously reported the first quarter of this year was a turning point for LII's operating performance, and we are very pleased to report that momentum carried into the second quarter," Schjerven said. "We are confident this broad-based improvement will continue and we are raising our earnings guidance for 2002." The company expects full year diluted earnings per share, excluding restructuring and goodwill impairment charges, will be in the range of $0.90 to $1.00. The outlook for free cash flow has also been raised to approximately $75 million for full year 2002.

The LII management team continues to focus on reducing product costs, eliminating waste in manufacturing processes, and streamlining overhead structures. Despite their progress, the company is feeling the pressure from increasing material costs, most notably on steel. "Our operating companies are considering the appropriate pricing actions to protect our margins," Schjerven said.

LII has scheduled a conference call to discuss financial results for the second quarter 2001 on Wednesday, July 24 at 9:30 a.m. (CDT). All interested parties are invited to listen as Bob Schjerven and Rick Smith comment on the company's operating results. To listen, please call the conference call line at 952-556-2844 10 minutes prior to the scheduled start time and use reservation number 644301. The number of connections for this call is limited to 200.

This conference call will be broadcast live on the Internet and can be accessed at http://www.firstcallevents.com/service/ajwz361374257gf12.html . A link to the broadcast can also be found on the company's web site at http://www.lennoxinternational.com . If you are unable to participate in this conference call, a replay will be available from 1:00 p.m. July 24 through July 31, 2002 on the Internet or by dialing 800-475-6701, access code 644301.

A Fortune 500 company operating in over 70 countries, Lennox International Inc. is a global leader in the heating, ventilation, air conditioning, and refrigeration markets. Lennox International stock is traded on the New York Stock Exchange under the symbol "LII". Additional information is available at: http://www.lennoxinternational.com or by contacting Bill Moltner, vice president, investor relations, at 972-497-6670.

This news release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from such statements. For information concerning these risks and uncertainties, see Lennox' publicly available filings with the Securities and Exchange Commission. Lennox disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months and Six Months Ended June 30, 2002 and 2001
(Unaudited, in thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2002	2001	2002	2001
NET SALES	$830,608	$848,346	$1,506,382	$1,564,312
COST OF GOODS SOLD	559,607	583,208	1,026,506	1,085,589
Gross profit	271,001	265,138	479,876	478,723
OPERATING EXPENSES:				
Selling, general and administrative expense	218,403	221,778	417,788	439,334
Restructurings	1,222	38,000	1,875	38,000
Income from operations	51,376	5,360	60,213	1,389
INTEREST EXPENSE, net	8,258	11,501	16,141	24,278
OTHER	(446)	(285)	(531)	378
MINORITY INTEREST	61	26	127	133
Income (loss) before income taxes and cumulative effect of accounting change	43,503	(5,882)	44,476	(23,400)
PROVISION FOR (BENEFIT FROM) INCOME TAXES	17,877	1,129	18,279	(6,141)

Income (loss) before cumulative effect of accounting change	25,626	(7,011)	26,197	(17,259)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	---	---	249,224	---
Net income (loss)	$25,626	$(7,011)	$(223,027)	$(17,259)
INCOME (LOSS) PER SHARE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE:				
Basic	$0.45	$(0.12)	$0.46	$(0.31)
Diluted	$0.43	$(0.12)	$0.45	$(0.31)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE PER SHARE:				
Basic	$---	$---	$(4.38)	$---
Diluted	$---	$---	$(4.27)	$---
NET INCOME (LOSS) PER SHARE:				
Basic	$0.45	$(0.12)	$(3.92)	$(0.31)
Diluted	$0.43	$(0.12)	$(3.82)	$(0.31)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Net Sales	2002	2001	2002	2001
North American residential	$350,935	$335,779	$626,144	$617,804
Service Experts	251,466	270,293	456,480	492,717
Commercial air conditioning	115,007	128,942	201,811	222,320
Commercial refrigeration	89,619	84,834	174,882	169,923
Heat transfer	52,137	57,048	100,813	115,323
Eliminations	(28,556)	(28,550)	(53,748)	(53,775)
	$830,608	$848,346	$1,506,382	$1,564,312

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
Income (Loss) from Operations	2002 (B)	2001 (B)	2001 Adj.(A,B)	2002 (B)	2001 (B)	2001 Adj.(A,B)
North American residential	$36,118	$32,442	$33,419	$51,620	$44,748	$46,443
Service Experts	15,886	4,212	6,626	13,093	(5,761)	(58)
Commercial air conditioning	5,718	8,622	9,009	5,555	6,805	7,017
Commercial refrigeration	8,993	7,564	8,011	17,252	13,785	14,442
Heat transfer	(293)	2,025	2,303	(1,093)	3,813	4,315
Corporate and other	(13,568)	(11,505)	(11,399)	(23,501)	(22,508)	(22,300)
Eliminations	(256)	---	---	(838)	(1,493)	(1,493)
	$52,598	$43,360	$47,969	$62,088	$39,389	$48,366

(A) To facilitate comparisons, the reported segment Income (Loss) from Operations amounts for the three and six months ended June 30, 2001 have been adjusted to reflect the discontinuation of goodwill and trademark amortization under SFAS 142.
(B) Excluding restructuring charges.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
As of June 30, 2002 and December 31, 2001
(In thousands, except share data)

ASSETS

	June 30, 2002 (Unaudited)	December 31, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$41,747	$34,393
Accounts and notes receivable, net	414,499	291,485
Inventories	301,046	281,170
Deferred income taxes	44,359	42,662
Other assets	58,288	63,655
Total current assets	859,939	713,365
PROPERTY, PLANT AND EQUIPMENT, net	278,558	291,531
GOODWILL, net	423,933	704,713
OTHER ASSETS	125,811	84,379
TOTAL ASSETS	$1,688,241	$1,793,988

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2002	December 31, 2001
CURRENT LIABILITIES:		
Short-term debt	$49,121	$23,701
Current maturities of long-term debt	22,923	28,895
Accounts payable	311,498	242,534
Accrued expenses	261,783	249,546
Income taxes payable	29,579	9,870
Total current liabilities	674,904	554,546
LONG-TERM DEBT	438,609	465,163
DEFERRED INCOME TAXES	893	673
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS	13,547	14,014
OTHER LIABILITIES	109,162	103,301
Total liabilities	1,237,115	1,137,697
MINORITY INTEREST	1,550	1,651
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 25,000,000 shares authorized, no shares issued or outstanding	---	---
Common stock, $.01 par value, 200,000,000 shares authorized, 61,713,890 shares and 60,690,198 shares issued for 2002 and 2001, respectively	617	607
Additional paid-in capital	384,957	372,877
Retained earnings	149,688	383,566
Accumulated other comprehensive loss	(47,096)	(68,278)
Deferred compensation	(7,874)	(3,710)
Treasury stock, at cost, 3,009,656 and 2,980,846 shares for 2002 and 2001, respectively	(30,716)	(30,422)
Total stockholders' equity	449,576	654,640
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,688,241	$1,793,988

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