UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _____ to _____

Commission file number 001-15149

Lennox International Inc.

Incorporated pursuant to the Laws of the State of DELAWARE

Internal Revenue Service Employer
Identification No. 42-0991521

2140 Lake Park Blvd., Richardson, Texas 75080
(972) 497-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES /X/ NO / /

As of November 1, 2001, the number of shares outstanding of the registrant's common stock, par value $.01 per share, was 56,562,629.

LENNOX INTERNATIONAL INC.

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
As of September 30, 2001 and December 31, 2000
(In thousands, except share data)

ASSETS

	September 30, 2001 (Unaudited)	December 31, 2000
CURRENT ASSETS:		
Cash and cash equivalents	$ 27,693	$ 40,633
Accounts and notes receivable, net	383,634	399,136
Inventories	316,305	359,531
Deferred income taxes	46,271	47,063
Other assets	52,972	54,847
Total current assets	826,875	901,210
PROPERTY, PLANT AND EQUIPMENT, net	309,486	354,172
GOODWILL, net	732,297	739,468
OTHER ASSETS	62,005	60,181
TOTAL ASSETS	$1,930,663	$2,055,031

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Short-term debt	$ 30,245	$ 31,467
Current maturities of long-term debt	28,422	31,450
Accounts payable	248,945	260,208
Accrued expenses	281,805	242,347
Income taxes payable	27,797	24,448
Total current liabilities	617,214	589,920
LONG-TERM DEBT	508,313	627,550
DEFERRED INCOME TAXES	1,078	941
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS	14,277	14,284
OTHER LIABILITIES	83,050	77,221
Total liabilities	1,223,932	1,309,916
MINORITY INTEREST	1,895	2,058
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, 60,818,145 shares and 60,368,599 shares issued for 2001 and 2000, respectively	608	604
Additional paid-in capital	374,117	372,690
Retained earnings	429,257	447,377
Accumulated other comprehensive loss	(64,162)	(37,074)
Deferred compensation	(4,562)	(6,457)
Treasury stock, at cost, 2,980,846 and 3,332,784 shares for 2001 and 2000, respectively	(30,422)	(34,083)
Total stockholders' equity	704,836	743,057
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,930,663	$2,055,031

The accompanying notes are an integral part of these consolidated financial statements.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
For the Three Months and Nine Months Ended September 30, 2001 and 2000
(Unaudited, in thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2001	2000	2001	2000
NET SALES	$826,849	$857,618	$2,391,161	$2,468,142
COST OF GOODS SOLD	575,176	587,056	1,660,765	1,681,815
Gross Profit	251,673	270,562	730,396	786,327
OPERATING EXPENSES:				
Selling, general and administrative expense	210,417	229,733	649,751	652,291
Restructurings	--	5,100	38,000	5,100
Income from operations	41,256	35,729	42,645	128,936
INTEREST EXPENSE, net	10,330	13,968	34,608	41,960
OTHER	(93)	497	285	1,243
MINORITY INTEREST	2	88	135	(427)
Income before income taxes	31,017	21,176	7,617	86,160
PROVISION FOR INCOME TAXES	15,838	8,790	9,697	35,757
Net (loss) income	$ 15,179	$ 12,386	$ (2,080)	$ 50,403
REPORTED (LOSS) EARNINGS PER SHARE:				
Basic	$ 0.27	$ 0.22	$ (0.04)	$ 0.90
Diluted	$ 0.27	$ 0.22	$ (0.04)	$ 0.89

The accompanying notes are an integral part of these consolidated financial statements.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2001 and 2000
(Unaudited, in thousands)

	For the Nine Months Ended September 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (2,080)	$ 50,403
Adjustments to reconcile net (loss) income to net cash provided by operating activities -		
Minority interest	135	(427)
Joint venture losses	72	1,106
Depreciation and amortization	63,061	65,018
Non-cash restructuring charge	37,302	--
Loss on disposal of equipment	219	1,297
Other	333	(220)
Changes in assets and liabilities, net of effects of acquisitions -		
Accounts and notes receivable	13	24,477
Inventories	33,235	(17,725)
Other current assets	(2,122)	(217)
Accounts payable	(3,340)	12,361
Accrued expenses	25,040	16,333
Deferred income taxes	534	(5,390)
Income taxes payable and receivable	(5)	2,679
Long-term warranty, deferred income and other liabilities	(7,761)	1,067
Net cash provided by operating activities	144,636	150,762
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the disposal of property, plant and equipment	6,638	2,454
Purchases of property, plant and equipment	(13,568)	(39,749)
Investment in joint ventures	--	(1,029)
Acquisitions, net of cash acquired	(16,835)	(227,236)
Net cash used in investing activities	(23,765)	(265,560)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving short-term debt	174	11,697
(Repayments of) proceeds from revolving long-term debt	(105,541)	106,323
Proceeds from new long-term debt	--	60,000
Repayment of long-term debt	(11,766)	(14,564)
Proceeds from issuance of common stock	5,127	790
Repurchases of common stock	(214)	(15,532)
Cash dividends paid	(21,314)	(16,263)
Net cash (used in) provided by financing activities	(133,534)	132,451

(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(12,663)	17,653
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(277)	(1,354)
CASH AND CASH EQUIVALENTS, beginning of period	40,633	29,174
CASH AND CASH EQUIVALENTS, end of period	$ 27,693	$ 45,473
Supplementary disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 33,292	$ 39,460
Income taxes	7,298	$ 41,727

The accompanying notes are an integral part of these consolidated financial statements.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and other Accounting Information:

The accompanying unaudited consolidated balance sheet as of September 30, 2001, and the consolidated statements of income for the three months and nine months ended September 30, 2001 and 2000 and the consolidated statements of cash flows for the nine months ended September 30, 2001 and 2000 should be read in conjunction with Lennox International Inc.'s (the "Company") consolidated financial statements and the accompanying footnotes as of December 31, 2000 and 1999 and for each of the three years in the period ended December 31, 2000. In the opinion of management, the accompanying consolidated financial statements contain all material adjustments, consisting principally of normal recurring adjustments, necessary for a fair presentation of the Company's financial position, results of operations, and cash flows. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to applicable rules and regulations, although the Company believes that the disclosures herein are adequate to make the information presented not misleading. The operating results for the interim periods are not necessarily indicative of the results to be expected for a full year.

The Company's fiscal year ends on December 31 of each year, and the Company's quarters are each comprised of 13 weeks. For convenience, throughout these financial statements, the 13 weeks comprising each three month period are denoted by the last day of the respective calendar quarter.

Certain reported amounts have been reclassified from the prior year presentation to conform to the current year presentation.

2. Reportable Business Segments:

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 131, the Company discloses business segment data for its reportable business segments, which have been determined using the "management approach." The management approach is based on the way segments are organized within the Company for making operating decisions and assessing performance. The Company's business operations are organized within five reportable business segments as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Net Sales	**2001**	**2000**	**2001**	**2000**
North American residential	$319,403	$308,370	$ 937,207	$ 954,040
North American retail	266,683	288,817	759,400	772,283
Commercial air conditioning	133,043	136,368	355,363	354,390
Commercial refrigeration	82,879	88,795	252,802	273,975
Heat transfer[1]	52,516	61,640	167,839	191,421
Eliminations	(27,675)	(26,372)	(81,450)	(77,967)
	$826,849	$857,618	$2,391,161	$2,468,142

[1]Additionally, the Heat Transfer segment had intersegment sales of $6,463 and $5,503 for the three months ended September 30, 2001 and 2000, respectively, and $21,985 and $17,901 for the nine months ended September 30, 2001 and 2000, respectively.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Income (Loss) from Operations	**2001**	**2000**	**2001**	**2000**
North American residential	$ 27,340	$ 23,663	$ 72,088	$ 86,631
North American retail[2]	3,840	11,822	(39,922)	36,482
Commercial air conditioning	11,681	6,015	18,486	7,695
Commercial refrigeration	7,102	9,216	20,887	24,711

Heat transfer	706	3,525	4,519	12,792
Corporate and other[3].....	(10,291)	(16,283)	(32,799)	(34,223)
Eliminations	878	(2,229)	(614)	(5,152)
	$ 41,256	$ 35,729	$ 42,645	$ 128,936

[2]Includes the retail restructuring charge of $38 million recorded in the second quarter of 2001.
[3]Includes Latin America restructuring charge of $5.1 million recorded in third quarter of 2000.

Total Assets	As of September 30, 2001	As of December 31, 2000
North American residential.....	$ 500,738	$ 529,492
North American retail.....	761,320	800,719
Commercial air conditioning.....	187,226	215,656
Commercial refrigeration.....	219,114	239,783
Heat transfer.....	149,131	149,813
Corporate and other.....	136,112	144,547
Eliminations.....	(22,978)	(24,979)
	$1,930,663	$2,055,031

3. Inventories:

Components of inventories are as follows (in thousands):

	As of September 30, 2001	As of December 31, 2000
Finished goods.....	$ 190,247	$ 216,547
Repair parts.....	40,297	35,024
Work in process.....	28,012	23,606
Raw materials.....	106,604	132,298
	365,160	407,475
Reduction for last-in, first-out.	48,855	47,944
	$ 316,305	$ 359,531

4. Shipping and Handling:

Shipping and handling costs are included as part of selling, general and administrative expense in the accompanying Consolidated Statements of Income in the following amounts (in thousands):

For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
2001	2000	2001	2000
$30,852	32,240	$95,000	$93,783

5. Lines of Credit and Financing Arrangements:

The Company has bank lines of credit aggregating $512 million, of which $295 million was outstanding at September 30, 2001, with the remaining $217 million available for future borrowing, subject to covenant limitations. Included in the available lines of credit are a $300 million domestic facility. Borrowings under the facilities bear interest, at the Company's option, at rates equal to either (a) the greater of the bank's prime rate of interest or the federal fund's rate plus 0.5% or (b) the London Interbank Offered Rate plus a margin of 0.5% to 2.25%, depending upon the ratio of indebtedness to EBITDA. The Company pays a commitment fee equal to 0.15% to 0.5% of the unused commitment, depending upon the ratio of total funded debt to EBITDA. The agreements provide restrictions on the Company's ability to incur additional indebtedness, encumber its assets, sell its assets, pay dividends or invest in its foreign subsidiaries. Additionally, the Company has pledged the capital stock of each of its major domestic subsidiaries.

6. Earnings per Share:

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net income by the sum of the

weighted average number of shares and the number of equivalent shares assumed outstanding, if dilutive, under the Company's stock-based compensation plans. Diluted earnings per share are computed as follows (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2001	2000	2001	2000
Net (loss) income	$15,179	$12,386	$ (2,080)	$50,403
Weighted average shares outstanding	56,397	56,308	56,109	56,070
Effect of diluted securities attributable to stock options and performance share awards	580	487	--	355
Weighted average shares outstanding, as adjusted	56,977	56,795	56,109	56,425
Diluted (loss) earnings per share	$ 0.27	$ 0.22	$ (0.04)	$ 0.89

7. Derivatives:

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS No. 133”). SFAS No. 133 requires that all derivative financial instruments be recognized as either assets or liabilities in the balance sheet and carried at fair value. Changes in fair value of these instruments are to be recognized periodically in earnings or stockholders’ equity depending on the intended use of the instrument. Gains or losses on derivatives designated as fair value hedges are recognized in earnings in the period of change. Gains or losses on derivatives designated as cash flow hedges are initially reported as a component of other comprehensive income and later classified into earnings in the period in which the hedged item also affects earnings. The Company hedges its exposure to the fluctuation on the prices paid for copper and aluminum metals by purchasing futures contracts on these metals. Gains or losses recognized on the closing of these contracts negate the losses or gains realized through physical deliveries of these metals. Quantities covered by these commodity futures contracts are for less than actual quantities expected to be purchased. As of September 30, 2001, the Company had metals futures contracts maturing at various dates to June 30, 2003, for which the fair value was a liability of $6.9 million. These are hedges of forecasted transactions, and under SFAS No. 133, such contracts are to be considered cash flow hedges. Accordingly, the Company has recorded an after-tax charge to other comprehensive income (loss), a direct component of owner’s equity, of $4.8 million for the nine months ended September 30, 2001. The charge to other comprehensive income (loss) will be reclassified into earnings when the related inventory is sold, generally within three to six months.

The Company also hedges its exposure to fluctuations in foreign currency exchange rates incurred by its Australian subsidiary. This subsidiary manufactures sophisticated machine tools, which generally require long manufacturing and installation times and which generally are sold at prices denominated in the local currency of the purchasing entity. This exposure to the fluctuations in foreign currency exchange rates is hedged through the sale of futures contracts for the various currencies. Since the customers are not invoiced and payments are not received until the equipment has been installed and operating satisfactorily, the currency futures contracts are deemed to be cash flow hedges and as such are recorded at fair value with an offset to other comprehensive income (loss) until realized. Gains or losses on the currency futures are transferred from other comprehensive income (loss) to the income statement when the related equipment is sold, generally within three to six months. As of September 30, 2001, the Company had currency futures contracts maturing at various dates through May of 2002, for which the fair value was a liability of $1.8 million. Accordingly, $1.3 million, net of applicable income tax, has been charged to other comprehensive income (loss).

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8. Comprehensive Income (Loss):

Comprehensive income (loss) is computed as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2001	2000	2001	2000
Net (loss) income	$15,179	$12,386	$ (2,080)	$ 50,403
Foreign currency translation adjustments	(6,256)	(12,741)	(22,245)	(29,222)
Derivatives	(516)	--	(4,843)	--
Total comprehensive income (loss)	$ 8,407	$ (355)	$(29,168)	$ 21,181

9. Contingent Consideration:

During the first nine months of 2001, the Company paid $5.7 million in cash to settle contingent consideration provisions on retail service centers originally purchased in prior years. This $5.7 million has been charged to goodwill and will be amortized to operations over 40 years, subject to accounting changes as detailed in Footnote 11 below.

10. Retail Restructuring Program:

In the second quarter of 2001, the Company recorded a restructuring charge of $38.0 million ($25.6 million, after tax) which covered the selling, closing or merging of 38 company-owned service centers. These centers were either under-performing, were located in geographic areas requiring disproportionate management effort or were focused on non-HVAC activities. This program was designed to enhance shareholder value and improve both operating efficiency and the Company's competitive position in its markets. The original charge consisted of: severance and benefit termination to 500 employees ($4.8 million), net loss on sale or disposal of assets ($21.1 million), contract exit costs ($3.3 million), lease termination costs ($4.7 million) and other items ($4.1 million). Through the third quarter of 2001, the Company had paid severance and benefits of $1.8 million, recorded asset impairments of $13.0 million, recorded contract exit costs of $5.7 million and paid or recorded other costs of $2.1 million, leaving a reserve balance of $15.4 million. It is now expected that completion of the restructuring process will extend through the second quarter of 2002, particularly with respect to the centers being merged. Net cash outlaid for the program through the third quarter of 2001 amounted to $700 thousand. It is expected that the remaining reserve balance is adequate to cover the remaining expected costs.

11. Recent Accounting Pronouncements:

Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142") becomes effective for the Company on January 1, 2002. SFAS No. 142 requires that goodwill and other intangible assets with an indefinite useful life no longer be amortized as expenses of operations, but rather carried on the balance sheet as permanent assets. These intangible assets are to be subject to at least annual assessments for impairment by applying a fair-value-based test. Amortization of goodwill and other indefinite-lived intangible assets amounted to $14.2 million ($12.3 million on an after-tax basis) for the first nine months of 2001 and is projected to amount to $18.9 million ($16.2 million on an after-tax basis) for the full year of 2001. These expense amounts, under SFAS 142, will not be recorded in years after 2001. The Company is developing plans to determine fair values of its operations in which goodwill and other indefinite-lived intangibles have been recorded and will complete its assessment by June 30, 2002.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company participates in five reportable business segments of the heating, ventilation, air conditioning and refrigeration ("HVACR") industry. The first segment is the North American residential market, in which Lennox manufactures and markets a full line of heating, air conditioning and hearth products for the residential replacement and new construction markets in the United States and Canada. The second segment is the North American retail market which includes sales and installation of, and maintenance and repair services for, HVACR equipment by Lennox-owned service centers in the United States and Canada. The third segment is the global commercial air conditioning market, in which Lennox manufactures and sells rooftop products and applied systems for commercial applications. The fourth segment is the global commercial refrigeration market in which Lennox manufactures and sells unit coolers, condensing units and other commercial refrigeration products. The fifth segment is the heat transfer market, in which Lennox designs, manufactures and sells evaporator and condenser coils, copper tubing and related manufacturing equipment to original equipment manufacturers and other specialty purchasers on a global basis.

Lennox sells its products to numerous types of customers, including distributors, installing dealers, property owners, national accounts and original equipment manufacturers. The demand for Lennox's products is influenced by national and regional economic and demographic factors, such as interest rates, the availability of financing, regional population and employment trends and general economic conditions, especially consumer confidence. In addition to economic cycles, demand for Lennox's products is seasonal and dependent on the weather. Hotter than normal summers generate strong demand for replacement air conditioning and refrigeration products and colder than normal winters have the same effect on heating products. Conversely, cooler than normal summers and warmer than normal winters depress sales of HVACR products.

The principal components of cost of goods sold are labor, raw materials, component costs, factory overhead and estimated costs of warranty expense. The principal raw materials used in Lennox's manufacturing processes are copper, aluminum and steel. In instances where Lennox is unable to pass on to its customers increases in the costs of copper and aluminum, Lennox enters into forward contracts for the purchase of those materials. Lennox attempts to minimize the risk of price fluctuations in key components by entering into contracts, typically at the beginning of the year, which generally provide for fixed prices for its needs throughout the year. These hedging strategies enable Lennox to establish product prices for the entire model year while minimizing the impact of price increases of components and raw materials on its margins. Warranty expense is estimated based on historical trends and other factors.

On January 21, 2000, Lennox acquired Service Experts, Inc., an HVAC company comprised of retail businesses across the United States, for approximately $307 million, including 12.2 million shares of Lennox common stock and the assumption of $175 million of debt. The acquisition added an additional 120 service centers to the U.S. retail network. While these centers have been integrated into the retail operation with the 104 centers acquired by Lennox since September 1, 1998, operating performance has not reached expected levels.

In the second quarter of 2001, the Company recorded a restructuring charge of $38.0 million ($25.6 million, after tax) which covered the selling, closing or merging of 38 company-owned service centers. These centers were either under-performing, were located in geographic areas requiring disproportionate management effort or were focused on non-HVAC activities. This program was designed to enhance shareholder value and improve both operating efficiency and the Company's competitive position in its markets. The original charge consisted of: severance and benefit termination to 500 employees ($4.8 million), net loss on sale or disposal of assets ($21.1 million), contract exit costs ($3.3 million), lease termination costs ($4.7 million) and other items ($4.1 million). Through the third quarter of 2001, the Company had paid severance and benefits of $1.8 million, recorded asset impairments of $13.0 million, recorded contract exit costs of $5.7 million and paid or recorded other costs of $2.1 million, leaving a reserve balance of $15.4 million. It is now expected that completion of the restructuring process will extend through the second quarter of 2002, particularly with respect to the centers being merged. Net cash outlaid for the program through the third quarter of 2001 amounted to $700 thousand. It is expected that that the remaining reserve balance is adequate to cover the remaining expected costs.

Lennox's fiscal year ends on December 31 of each year, and its fiscal quarters are each comprised of 13 weeks. For convenience, throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, the 13 week periods comprising each fiscal quarter are denoted by the last day of the calendar quarter.

Results of Operations

The following table sets forth, as a percentage of net sales, income data for the three months and nine months ended September 30, 2001 and 2000:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2001	2000	2001	2000
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	69.6	68.5	69.5	68.1
Gross profit	30.4	31.5	30.5	31.9
Selling, general and administrative expenses	25.4	26.7	27.1	26.5
Restructurings	--	0.6	1.6	0.2
Income from operations	5.0	4.2	1.8	5.2
Interest expense, net	1.2	1.6	1.5	1.6
Other	--	0.1	--	0.1
Income before income taxes	3.8	2.5	0.3	3.5
Provision for income taxes	2.0	1.1	0.4	1.5
Net (loss) income	1.8%	1.4%	(0.1)%	2.0%

The following table sets forth net sales by business segment and geographic market (dollars in millions):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2001		2000		2001		2000	
	Amount	%	Amount	%	Amount	%	Amount	%
Business Segment:								
North American residential	$319.4	38.6%	$308.4	36.0%	$ 937.2	39.2%	954.0	38.7%
North American retail	266.7	32.3	288.8	33.7	759.4	31.8	772.3	31.3
Commercial air conditioning	133.0	16.1	136.4	15.8	355.4	14.9	354.4	14.3
Commercial refrigeration	82.9	10.0	88.8	10.4	252.8	10.6	274.0	11.1
Heat transfer	52.5	6.3	61.6	7.2	167.8	7.0	191.4	7.8
Eliminations	(27.7)	(3.3)	(26.4)	(3.1)	(81.4)	(3.5)	(78.0)	(3.2)
Total net sales	$826.8	100.0%	$857.6	100.0%	$2,391.2	100.0%	$2,468.1	100.0%
Geographic Market:								
U.S.	$654.2	79.1%	$684.6	79.8%	$1,897.3	79.3%	$1,952.1	79.1%
International	172.6	20.9	173.0	20.2	493.9	20.7	516.0	20.9
Total net sales	$826.8	100.0%	$857.6	100.0%	$2,391.2	100.0%	$2,468.1	100.0%

Three Months Ended September 30, 2001 Compared to Three Months Ended September 30, 2000

Net sales. Net sales decreased $30.8 million, or 3.6%, to $826.8 million for the three months ended September 30, 2001 from $857.6 million for the three months ended September 30, 2000. Dealer service centers that were sold or closed earlier this year account for nearly two-thirds of the sales decrease. Foreign currency translation accounts for 29% of the sales decrease. The balance of the sales decrease is primarily attributable to difficult economic conditions in the markets served. The review of sales by segment describes the specific market conditions applicable to each segment.

Net sales in the North American residential segment were $319.4 million for the three months ended September 30, 2001, an increase of $11.0 million, or 3.6%, from $308.4 million for the three months ended September 30, 2000. These sales gains were made in spite of a very tight market, as homeowners continue to defer investment in new heating and cooling equipment, electing to repair rather than replace or upgrade existing home comfort systems. Also, industry shipments of residential equipment in the United States and Canada declined 1% in the July/August time period compared with very weak shipments in the same period last year. In these market conditions, the company has improved its market penetration, in part due to expanding relationships with top builders in the United States and Canada.

Net sales in the North American retail segment were $266.7 million for the three months ended September 30, 2001, a decrease of $22.1 million, or 7.7%, from $288.8 million for the three months ended September 30, 2000. The dealer service centers that were sold or closed earlier this year account for nearly all of the decrease in sales. Same store sales were essentially flat for the quarter.

Net sales in the commercial air conditioning segment decreased $3.4 million, or 2.4%, to $133.0 million for the three months ended September 30, 2001. Industry shipments of unitary commercial HVAC equipment in the US and Canada

dropped 14% versus last year for the July/August time period. Our share growth in this soft market was a result of strong performance from our national accounts group and commercial sales districts, along with excellent acceptance of our Value line product. Our Value line product allows us to compete in the more price sensitive segment of the market, while focusing the “L” series models on the segment of the market desiring product features and options.

Commercial refrigeration segment net sales decreased $5.9 million, or 6.7%, to $82.9 million for the three months ended September 30, 2001 compared to the three months ended September 30, 2000. Currency exchange accounted for $3.7 million of the $5.9 million sales decrease. The North American refrigeration market in which we participate is estimated to be 15% below year 2000 levels, with the supermarket and cold storage sectors most severely impacted. Internationally, our operations in Brazil were hindered by national energy concerns, which resulted in voluntary decreases in energy consumption and decreased demand for our products.

Net sales in the heat transfer segment decreased $9.1 million, or 14.8%, to $52.5 million for the three months ended September 30, 2001 compared to the three months ended September 30, 2000. Adjusted for foreign exchange, sales were down 13.2% compared to the same quarter of last year. The economic downturn continued to affect heat transfer sales to OEM customers. Demand has fallen off significantly in the recreational vehicle, telecommunications and transport refrigeration segments.

Gross profit. Gross profit was $251.7 million for the three months ended September 30, 2001 compared to $270.6 million for the three months ended September 30, 2000, a decrease of $18.9 million. Gross profit margin was 30.4% for the three months ended September 30, 2001 and 31.5% for the three months ended September 30, 2000. The decrease in gross profit margin is primarily a result of margin decline in the retail segment. The primary reasons for the decline in the retail segment margin are an inefficient utilization of labor and a shift in product mix. Consumers have chosen to repair home heating and cooling equipment rather than replace them, resulting in a shift in mix away from the higher margin replacement equipment business.

Selling,general and administrative expenses. Selling, general and administrative expenses were $210.4 million for the three months ended September 30, 2001, a decrease of $19.3 million, or 8.4%, from $229.7 million for the three months ended September 30, 2000. Selling, general and administrative expenses represented 25.4% and 26.7% of total revenues for the three months ended 2001 and 2000, respectively. Cost reduction programs, expense control initiatives and reductions in personnel, primarily in the retail and heat transfer segments, contributed to the decrease in selling, general and administrative expense.

Interest expense, net. Interest expense, net, for the three months ended September 30, 2001 decreased $3.6 million, or 26.0%, from $14.0 million for the three months ended September 30, 2000. The decreased interest expense was a result of decreased debt levels and lower interest rates. Strong cash flow generation has allowed us to continue to make significant progress in paying down our debt. At the end of September 2001, total debt was $567 million, $172 million less than September 30, 2000. Increased proceeds from our asset securitization program were responsible for $44 million of the $172 million decrease in total debt.

Other. Other expense (income) was $(0.1) million for the three months ended September 30, 2001 and $0.5 million for the three months ended September 30, 2000. Other expense (income) is primarily comprised of currency exchange gains or losses, which relate principally to operations in Canada, Australia, Europe and Brazil.

Provision for income taxes. The provision for income taxes was $15.8 million for the three months ended September 30, 2001 and $8.8 million for the three months ended September 30, 2000. The effective tax rates were 51.1% and 41.5% for the three months ended September 30, 2001 and 2000, respectively. These tax rates differ from the statutory federal rate of 35.0% principally due to state and local taxes, non-deductible goodwill expenses and foreign operating losses for which no tax benefits have been recognized.

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

Net sales. Net sales decreased $76.9 million, or 3.1%, to $2,391.2 million for the nine months ended September 30, 2001 from $2,468.1 million for the nine months ended September 30, 2000. Foreign currency translation is responsible for 46% of the decrease in sales. The balance of the sales decrease is a result of the closure of retail centers and soft economic conditions.

Net sales in the North American residential segment were $937.2 million for the nine months ended September 30, 2001, a decrease of $16.8 million, or 1.8%, from $954.0 million for the nine months ended September 30, 2000. A

weaker economic climate in the first nine months of 2001 resulted in a drop in discretionary spending by consumers. As a result, purchases of fireplaces and replacements or upgrades of existing home comfort systems were often deferred.

Net sales in the North American retail segment were $759.4 million for the nine months ended September 30, 2001, a decrease of $12.9 million, or 1.7%, from $772.3 million for the nine months ended September 30, 2000. The decrease in sales is attributable to dealer service centers that were sold or closed during 2001 and by the economic issues previously mentioned in the North American residential segment.

Net sales in the commercial air conditioning segment increased $1.0 million, or 0.3%, to $355.4 million for the nine months ended September 30, 2001, compared to the nine months ended September 30, 2000. The sales increase was 2.1% after adjusting for the impact of currency exchange. Although market conditions have softened in the third quarter of 2001, we continue to see growth as a result of strong performance from national accounts and commercial sales districts. Europe achieved double digit sales growth after adjusting for currency. The benefits of increased distribution, decreased product costs and improved customer service through a unified European marketing strategy are being realized.

Net sales in the commercial refrigeration segment decreased $21.2 million, or 7.7%, to $252.8 million for the nine months ended September 30, 2001 compared to the nine months ended September 30, 2000. Over 70% of the sales decrease is a result of currency exchange. The North American refrigeration market in which we participate is estimated to be 15% below year 2000 levels. Market share gains have been made, however, through targeted account efforts and customer services levels provided.

Net sales in the heat transfer segment decreased $23.6 million, or 12.3%, to $167.8 million for the nine months ended September 30, 2001 compared to the nine months ended September 30, 2000. After adjusting for the impact of foreign exchange, sales declined 9.7% compared to the same period last year. The heat transfer segment is the segment most affected by the economic downturn. Heat transfer products are sold to customers in the recreational vehicle, telecommunications, transport refrigeration and automotive industries. These industries have been impacted by the economic downturn to a greater degree than the general business community.

Gross profit. Gross profit was $730.4 million for the nine months ended September 30, 2001 compared to $786.3 million for the nine months ended September 30, 2000, a decrease of $55.9 million. Gross profit margin was 30.5% for

the nine months ended September 30, 2001 and 31.9% for the nine months ended September 30, 2000. Over 70% of the decrease in gross profit margin is in the retail segment. Inefficient utilization of labor and a shift in product mix are the reasons for the retail segment margin decline. The remaining 30% of the gross profit margin decline is primarily due to factory overhead variations, as a result of decreased production levels, and a shift in mix to parts sales as consumers repair rather than replace equipment.

Selling,general and administrative expenses. Selling, general and administrative expenses were $649.8 million for the nine months ended September 30, 2001, a decrease of $2.5 million, or 0.4%, from $652.3 million for the nine months ended September 30, 2000. Selling, general and administrative expenses represented 27.1% and 26.5% of total revenues for the nine months ended September 30, 2001 and 2000, respectively. Nearly one month's additional expense (approximately $11.0 million) was incurred in 2001 as a result of the acquisition of Service Experts, Inc., completed on January 21, 2000. Similarly, an additional $2.7 million in expense resulted from a full nine months of the accounts receivable securitization program. Selling, general and administrative expense incurred for accounts receivable securitization is more than offset by reduced interest expense. Cost reduction programs, expense control initiatives and reductions in personnel, primarily in the retail and heat transfer segments, provided expense reductions greater than the increases from the Service Experts, Inc. acquisition and asset securitization program.

Interest expense, net. Interest expense, net, for the nine months ended September 30, 2001 decreased $7.4 million, or 17.5%, from $42.0 million for the nine months ended September 30, 2000. The decreased interest expense was a result of decreased debt levels and lower interest rates. At the end of each quarter of 2001, total debt levels have been much lower than the comparable quarter of 2000. Strong cash flow generation has allowed us to make significant progress in paying down our debt. At the end of September 2001, total debt was $567 million, $172 million less than September 30, 2000. Increased proceeds from our asset securitization program were responsible for $44 million of the $172 million decrease in total debt.

Other. Other expense was $0.3 million for the nine months ended September 30, 2001 and $1.2 million for the nine months ended September 30, 2000. Other expense is primarily comprised of currency exchange gains or losses, which relate principally to operations in Canada, Australia, Europe and Brazil. Canada and Australia were responsible for most of the improvement over prior year.

Provision for income taxes. The provision for income taxes was $9.7 million for the nine months ended September 30, 2001 and $35.8 million for the nine months ended September 30, 2000. Excluding the tax benefit of $12.2 million provided in the second quarter of 2001 as a result of the restructuring charge, the effective tax rate was 48.0% for the nine months ended September 30, 2001 and 41.5% for the nine months ended September 30, 2000. This tax rate differs from the statutory federal rate of 35.0% principally due to state and local taxes, non-deductible goodwill expenses, and foreign operating losses for which no tax benefits have been recognized.

Liquidity and Capital Resources

The Company has bank lines of credit aggregating $512 million, of which $295 million was outstanding at September 30, 2001, with the remaining $217 million available for future borrowing, subject to covenant limitations. Included in the available lines of credit are a $300 million domestic facility and a $137.5 million domestic facility. Borrowings under the facilities bear interest, at the Company's option, at rates equal to either (a) the greater of the bank's prime rate of interest or the federal fund's rate plus 0.5% or (b) the London Interbank Offered Rate plus a margin of 0.5% to 2.25%, depending upon the ratio of indebtedness to EBITDA. The Company pays a commitment fee equal to 0.15% to 0.5% of the unused commitment, depending upon the ratio of total funded debt to EBITDA. The agreements provide restrictions on the Company's ability to incur additional indebtedness, encumber its assets, sell its assets, pay dividends or invest in its foreign subsidiaries. Additionally, the Company has pledged the capital stock of each of its major domestic subsidiaries.

Lennox believes that cash flow from operations, as well as available borrowings under its credit facilities, will be sufficient to fund operations for the foreseeable future.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142") becomes effective for the Company on January 1, 2002. SFAS No. 142 requires that goodwill and other intangible assets with an indefinite useful life no longer be amortized as expenses of operations, but rather carried on the balance sheet as permanent assets. These intangible assets are to be subject to at least annual assessments for impairment by applying a fair-value-based test. Amortization of goodwill and other indefinite-lived intangible assets amounted to $14.2 million ($12.3 million on an after-tax basis) for the first nine months of 2001 and is projected to amount to $18.9 million ($16.2 million on an after-tax basis) for the full year of 2001. These expense amounts, under SFAS 142, will not be recorded in years after 2001. The Company is developing plans to determine fair values of its operations in which goodwill and other indefinite-lived intangibles have been recorded and will complete its assessment by June 30, 2002.

Forward Looking Information

This Report contains forward-looking statements and information that are based on the beliefs of Lennox's management as well as assumptions made by and information currently available to management. All statements other than statements of historical fact included in this Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements identified by the words "may," "will," "should," "plan," "predict," "anticipate," "believe," "intend," "estimate" and "expect" and similar expressions. Such statements reflect Lennox's current views with respect to future events, based on what it believes are reasonable assumptions; however, such statements are subject to certain risks, uncertainties and assumptions. These include, but are not limited to, warranty and product liability claims; ability to successfully complete and integrate acquisitions; ability to manage new lines of business; the consolidation trend in the HVACR industry; adverse reaction from customers to the Company's acquisitions or other activities; the impact of the weather on business; competition in the HVACR business; increases in the prices of components and raw materials; general economic conditions in the U.S. and abroad; labor relations problems; operating risks and environmental risks. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those in the forward-looking statements. Lennox disclaims any intention or obligation to update or review any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Lennox's results of operations can be affected by changes in exchange rates. Net sales and expenses in currencies other than the United States dollar are translated into United States dollars for financial reporting purposes based on the average exchange rate for the period. Net sales from outside the United States represented 20.7% and 20.9% of total net sales for the nine months ended September 30, 2001 and 2000, respectively. Historically, foreign currency transaction gains (losses) have not had a material effect on Lennox's overall operations.

The Company from time to time enters into foreign exchange contracts to hedge receivables or payables denominated in foreign currencies. These contracts do not subject the Company to risk from exchange rate movements because the gains or losses on the contracts offset losses or gains, respectively, on the items being hedged. As of September 30, 2001, the Company had obligations to deliver $15.6 million of various currencies over the next nine months. The fair value of the various contracts was a liability of $1.8 million as of September 30, 2001.

The Company enters into commodity futures contracts to stabilize prices to be paid for raw materials and parts containing high copper and aluminum content. These contracts are for quantities equal to, or less than, quantities expected to be consumed in future production. As of September 30, 2001, the Company was committed for 39.1 million pounds of aluminum and 46.2 million pounds of copper under such arrangements. The fair value of these commodity contracts was a net liability of $6.9 million as of September 30, 2001.

The Company has contracts with various suppliers to purchase raw materials with high aluminum content at fixed prices over the next six months, thereby stabilizing costs for these products. As of September 30, 2001, 4.2 million pounds of such aluminum content was so committed. The fair value of this commitment was insignificant at September 30, 2001.

PART II -- OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

Exhibit Number		Description
*3.1	--	Restated Certificate of Incorporation of Lennox (Incorporated herein by reference to Exhibit 3.1 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).
*3.2	--	Amended and Restated Bylaws of Lennox (Incorporated herein by reference to Exhibit 3.2 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).
*4.1	--	Specimen stock certificate for the Common Stock, par value $.01 per share, of Lennox (Incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-75725)).
10.1	--	Intercreditor Agreement dated as of August 15, 2001 among the Company, Lennox Industries Inc., Armstrong Air Conditioning Inc., Excel Comfort Systems Inc., Service Experts Inc., the Lenders under the Note Purchase Agreements , The Chase Manhattan Bank, as administrative agent under the Revolving Credit Facility Agreement, The Chase Manhattan Bank, as as administrative agent under the 364 Day Revolving Facility Agreement, and The Chase Manhattan Bank collateral agent.
10.2	--	The Pledge Agreement dated as of August 15, 2001 by and between Lennox International Inc. and The Chase Manhattan Bank, as collateral agent for itself and certain other creditors.

*Incorporated herein by reference as indicated.

Reports on Form 8-K

(None)

SIGNATURE

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.

LENNOX INTERNATIONAL INC.

By: /s/ Richard A. Smith
Principal Financial Officer
and Duly Authorized Signatory

Date: November 13, 2001

INTERCREDITOR AGREEMENT

THIS INTERCREDITOR AGREEMENT (as amended, supplemented or otherwise modified from time to time, this "**Agreement**"), dated as of August 15, 2001, is made by and among LENNOX INTERNATIONAL INC. (the "**Company**"); LENNOX INDUSTRIES INC., ARMSTRONG AIR CONDITIONING INC., EXCEL COMFORT SYSTEMS INC., SERVICE EXPERTS INC. and each other party that becomes a party hereto as a "Material Restricted Subsidiary" (as hereinafter defined) after the date hereof (collectively herein the "**Guarantors**" and the Company and the Guarantors, herein the "**Obligated Parties**"); each of the noteholders listed as a noteholder on the signature pages hereto (collectively, together with the other holders from time to time of the hereinafter described Notes and their successors and assigns, the "**Noteholders**"); THE CHASE MANHATTAN BANK, in its capacity as the administrative agent under the Multiyear Credit Agreement (as hereinafter defined) and on behalf of the lenders party thereto (in such capacity, and together with its successors and assigns, the "**Multiyear Agent**" and such lenders, and their respective successors and assigns, the "**Multiyear Lenders**"); THE CHASE MANHATTAN BANK, in its capacity as the administrative agent under the 364 Day Credit Agreement (as hereinafter defined) and on behalf of the lenders party thereto (in such capacity, and together with its successors and assigns, the "**364 Day Agent**" and such lenders and their respective successors and assigns, the "**364 Day Lenders**"); any other lender which becomes a party to this Agreement in accordance with Section 7.2 or Section 7.3 of this Agreement (the "**New Lenders**"); and THE CHASE MANHATTAN BANK, in its capacity as collateral agent hereunder (in such capacity, and together with its successors and assigns, the "**Collateral Agent**") for the Noteholders, the Multiyear Agent, the Multiyear Lenders, the 364 Day Agent, the 364 Day Lenders and the New Lenders (the Noteholders, the Multiyear Lenders, the 364 Day Lenders, the New Lenders and any of their respective successors and assigns, herein the "**Lenders**").

RECITALS

A. The Company has entered into the following note purchase agreements:

(i) nine separate Note Purchase Agreements dated as of December 1, 1993, between the Company and each of The Prudential Insurance Company of America, Connecticut General Life Insurance Company, Connecticut General Life Insurance Company, on behalf of one or more separate accounts, United of Omaha Life Insurance Company, Mutual of Omaha Insurance Company, Companion Life Insurance Company, United World Life Insurance Company, First Colony Life Insurance Company, General Electric Capital Assurance Company (as a successor) and GE Life and Annuity Assurance Company (as a successor);

(ii) the Note Purchase Agreement dated as of July 6, 1995 between the Company and Teachers Insurance and Annuity Association of America;

(iii) eight separate Note Purchase Agreements dated as of April 3, 1998, between the Company and each of The Prudential Insurance Company of America, U.S. Private Placement Fund, Teachers Insurance and Annuity Association of America, Connecticut General Life Insurance Company, Connecticut General Life Insurance Company, on behalf of one or more separate accounts, CIGNA Property and Casualty Insurance Company, United of Omaha Life Insurance Company and Companion Life Insurance Company; and

(iv) that certain Master Shelf Agreement dated as of October 15, 1999

between the Company and The Prudential Insurance Company of America;

(as all such note purchase agreements have been and may hereafter be amended, supplemented and otherwise modified from time to time, the "**Note Agreements**"), pursuant to which (i) the Company has issued, and the Noteholders have purchased, certain Notes of the Company in the aggregate original principal amount of $255,000,000 and (ii) in the case of the Master Shelf Agreement, the Company may issue additional Notes (including any notes delivered in substitution or exchange therefor, the "**Notes**").

B. Under the terms of the Note Agreements, payment of the Notes and performance and observance of all other obligations of the Company arising under or in connection with the Note Agreements are and will be guaranteed by the Guarantors (such present and future guaranties as amended, supplemented or otherwise modified from time to time, collectively, the "**Note Guaranties**").

C. The Company, the Multiyear Agent, and certain lenders have entered into that certain Revolving Credit Facility Agreement dated as of July 29, 1999 (as amended, supplemented and otherwise modified from time to time, the "**Multiyear Credit Agreement**") and the Company, the 364 Day Agent and certain lenders have entered into that certain 364 Day Revolving Credit Facility Agreement dated as of January 22, 2000 (as amended, supplemented and otherwise modified from time to time, the "**364 Day Credit Agreement**"; the Multiyear Credit Agreement together with the 364 Day Credit Agreement, herein the "**Credit Agreements**"). Under the Credit Agreements, the Multiyear Agent and the 364 Day Agent are authorized to enter into this Agreement on behalf of the Multiyear Lenders and the 364 Day Lenders, respectively, and to bind them to the terms hereof.

D. Under the terms of the Credit Agreements, the repayment of credit extended under the Credit Agreements and performance and observance of all other obligations of the Company arising under or in connection with the Credit Agreements are and will be guaranteed by the Guarantors (such present and future guaranties as amended, supplemented or otherwise modified from time to time, collectively, the "**Bank Guaranties**" and, together with the Note Guaranties, the "**Guaranties**").

E. As required by the Note Agreements and the Credit Agreements (collectively with all Notes and other evidences of indebtedness issued pursuant to any of the foregoing and any note purchase agreement, credit agreement, note, other evidence of indebtedness or other similar documents of any New Lender that hereafter becomes a party hereto, the "**Credit Facilities**"), the Company will execute and deliver a Pledge Agreement (herein so called, as the same may be amended, supplemented or otherwise modified from time to time) in favor of the Collateral Agent in substantially the form of Attachment D hereto (the Pledge Agreement, together with all financing statements and other documents executed pursuant thereto, as the same may be amended, supplemented or otherwise modified from time to time, collectively, the "**Security Document**s"), providing security interests in favor of the Collateral Agent for the benefit of the Lenders, the Multiyear Agent, the 364 Day Agent and any administrative agent acting for the benefit of a New Lender (collectively, with the Collateral Agent, herein the "**Creditors**") in the capital stock of the Material Restricted Subsidiaries and the other property described therein in order to secure ratably (i) the obligations under and in respect of the Notes and the Note Agreements and (ii) the obligations under and in respect of the Credit Agreements.

F. Under applicable law and, if applicable, the terms of the Credit Facilities and the Guaranties, a Lender may be entitled to set off, appropriate and apply any deposits and any other indebtedness at any time held or owing by such parties to or for the credit or account of any Obligated Party against and on account of liabilities of such Obligated Party (collectively, such rights are hereinafter referred to as the "**Set–Off Rights**," including any right to receive a lien on amounts previously subject to the Set–Off Rights, and to recover such amounts, after the commencement of any action under any

bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect).

G. The Company and the Lenders have agreed that obligations of the Obligated Parties under and in respect of the Credit Agreements and the Bank Guaranties are to be secured and treated on a *pari passu* basis with the obligations of the Obligated Parties under and in respect of the Note Agreements, the Notes and the Note Guaranties.

H. The Credit Facilities require that this Agreement shall have been executed and delivered in order to (i) set forth certain responsibilities and obligations of the Collateral Agent, (ii) establish among the Lenders their respective rights with respect to certain payments that may be received: (a) by the Lenders from one or more of the Obligated Parties in respect of the Credit Facilities or the Guaranties; (b) by the Collateral Agent in respect of the Collateral; and (c) otherwise by any of the Lenders under, in connection with or pursuant to their respective Credit Facilities, including, without limitation, pursuant to any Set–Off Rights.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I.

Definitions

Section 1.1. **Uniform Definitions; Cross-references**. The capitalized terms used herein and defined in the Credit Facilities but not otherwise defined in this Agreement are used herein with the meaning therein specified as of the date hereof. Each term shall include the plural as well as the singular and vice-versa.

Section 1.2. Additional Definitions. The following terms, as used herein, have the following meanings:

"**364 Day Agent**" shall have the meaning specified in the preamble to this Agreement.

"**364 Day Credit Agreement**" shall have the meaning specified in Recital C of this Agreement.

" **364 Day Lenders**" shall have the meaning specified in the preamble to this Agreement.

"**Acceleration**" shall have the meaning specified in Section 2.1 of this Agreement.

"**Agreement**" shall have the meaning specified in the preamble to this Agreement.

"**Bank Guaranties**" shall have the meaning specified in Recital D of this Agreement.

"**Bankruptcy Event**" shall have the meaning specified in Section 2.1 of this Agreement.

"**Breakage Costs**" shall mean, at any time, amounts then payable by the Company under Section 8.05 (b) of the Multiyear Credit Agreement, and the similar provisions of the 364 Day Credit Agreement or any other Credit Facility upon the declaration or occurrence of an event of default, a termination event or a similar event or circumstance thereunder.

"**Business Day**" shall mean any day other than a Saturday, a Sunday or a day on which commercial banks in New York City, New York, or Houston, Texas are required or authorized to be closed.

" **Collateral**" has the meaning set forth in the Pledge Agreement.

" **Collateral Agent**" shall have the meaning specified in the preamble to this Agreement.

" **Company**" shall have the meaning specified in the preamble to this Agreement.

" **Credit Agreements**" shall have the meaning specified in Recital C of this Agreement.

"**Credit Facilities**" shall have the meaning specified in Recital E of this Agreement.

"**Creditors**" shall have the meaning specified in Recital E of this Agreement.

"**Date of Closing**" shall mean August 15, 2001.

"**Default**" shall mean any event or condition which upon notice, lapse of time or both would constitute an Event of Default.

"**Default Reference Date**" shall have the meaning specified in Section 2.1 of this Agreement.

"**Dollars**" shall mean lawful currency of the United States of America.

"**Event of Default**" shall mean the occurrence of any "Event of Default" as such term is defined in each of the Credit Facilities.

"**Financing Documents**" shall mean the Note Agreements, the Notes, the Credit Agreements, any notes executed pursuant to any Credit Agreement, the Guaranties, the Security Documents, this Agreement and any similar documentation executed in favor of any New Lender.

"**Funded Obligations**" shall mean, at any time of determination and with respect to any Lender under any Credit Facility, the aggregate amount payable at such time (whether or not then due) to such Lender under such Credit Facility in respect of

principal, interest (determined in accordance with the applicable provisions of such Credit Facility, but only to the extent accrued through the applicable determination date), Breakage Costs and Premium, plus the aggregate amount of such Lender's participation or other interest in all letters of credit outstanding at such time under such Credit Facility.

"**GAAP**" shall mean generally accepted accounting principles as in effect from time to time in the United States of America.

"**Guaranties**" shall have the meaning specified in Recital D of this Agreement.

"**Guarantors**" shall have the meaning specified in the preamble to this Agreement.

"**Lenders**" shall have the meaning specified in the preamble to this Agreement.

"**Material Restricted Subsidiary**" shall mean Lennox Industries Inc., Armstrong Air Conditioning Inc., Excel Comfort Systems Inc., Service Experts Inc. and each other Restricted Subsidiary (except LPAC Corp.) the book value (determined in accordance with GAAP) of whose total assets equals or exceeds ten percent (10%) of the book value (determined in accordance with GAAP) of the consolidated total assets of the Company and all Subsidiaries as determined as of the last day of each fiscal quarter.

"**Multiyear Agent**" shall have the meaning specified in the preamble of this Agreement.

"**Multiyear Credit Agreement**" shall have the meaning specified in Recital C of this Agreement.

"**Multiyear Lenders**" shall have the meaning specified in the preamble of this Agreement.

"**New Lender**" shall have the meaning specified in the preamble to this Agreement.

"**New Material Subsidiary**" shall have the meaning specified in Section 7.4 of this Agreement.

"**Note Agreements**" shall have the meaning specified in Recital A of this Agreement.

"**Note Guaranties**" shall have the meaning specified in Recital B of this Agreement.

"Notes" shall have the meaning specified in Recital A of this Agreement.

"**Notice of Event of Default**" shall have the meaning specified in Section 3.1(b) of this Agreement.

"**Obligated Parties**" shall have the meaning specified in the preamble to this Agreement.

"**Obligations**" shall mean at any time, the aggregate of all Funded Obligations and all other obligations, indebtedness and liabilities of the Obligated Parties (or any one or more of them) to the Creditors (or any one or more of them) arising pursuant to any of the Financing Documents (including without limitation, this Agreement and the Security Documents), whether now existing or hereafter arising, whether direct, indirect, related, unrelated, fixed, contingent, liquidated, unliquidated, joint, several, or joint and several, including, without limitation, the obligation of the Company to repay the loans made thereunder, the reimbursement obligations arising in connection with letters of credit issued under the terms of the Credit Facilities, all indemnification obligations thereunder and all fees, costs, and expenses (including attorneys' fees and expenses) provided for in the Financing Documents.

"**Person**" shall mean an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"**Pledge Agreement**" shall have the meaning specified in Recital E of this Agreement.

"**Premium**" shall mean, at any time with respect to any Credit Facility, the amount (whether denominated as a make-whole amount, yield maintenance amount or otherwise) payable as a premium in excess of principal and interest due on the prepayment or early acceleration, as determined pursuant to the terms thereof.

"**Proceeds**" shall mean any and all money or other property received upon the sale, lease, exchange, casualty loss or any other disposition of any Collateral.

"**Purchaser**" shall have the meaning specified in Section 7.2 of this Agreement.

"**Reallocable Payment**" shall have the meaning specified in Section 2.2 of this Agreement.

"**Required Lenders**" shall mean, at any time of determination, (a) Noteholders and New Lenders who have provided fixed rate term loan Credit Facilities holding at such time, in the aggregate, more than 66-2/3% of the principal outstanding under their respective Credit Facilities plus (b) the Multiyear Lenders, 364 Day Lenders and any New Lenders party to a revolving Credit Facility or to a floating rate term loan Credit Facility holding at such time, in the aggregate, more than 66-2/3% of the sum of (i) the principal outstanding under their respective Credit Facilities, (ii) the letters of credit outstanding thereunder and (iii) the unused commitments then available to be drawn thereunder.

"**Restricted Subsidiary**" shall mean any Subsidiary of the Company which is (a) listed as a Restricted Subsidiary in Schedule 3.05 to the Multiyear Credit Agreement or (b) organized under the laws of, and conducts substantially all of its business and maintains substantially all of its property and assets within, the United States or any state thereof (including the District of Columbia).

"**Security Documents**" shall have the meaning specified in Recital E of this Agreement.

"**Set-Off Rights**" shall have the meaning specified in Recital F of this Agreement.

"**Sharing Notice**" shall have the meaning specified in Section 2.1 of this Agreement.

"**Sharing Percentage**" shall mean, as to any Lender and at any time of determination, the percentage equivalent of a fraction of which the numerator is such Lender's Funded Obligations and the denominator is the aggregate of all Funded Obligations of all Lenders.

"**Subsidiary**" shall mean, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

ARTICLE II.

Sharing Among Lenders

Section 2.1. Sharing Notice. Upon an Acceleration with respect to any Credit Facility, the accelerating Lender shall immediately notify the Collateral Agent thereof and of its estimation of the Default Reference Date applicable thereto, and the Collateral Agent shall immediately give notice (a "**Sharing Notice**") to each of the Lenders informing them that the provisions of this Article II are to be implemented effective as of the Default Reference Date and requiring each Lender to provide it with all necessary information to enable it to calculate such Lender's Funded Obligations as of the Default Reference Date and the amount of any other Obligations then outstanding. Any Sharing Notice shall be effective as of the date it is sent by the Collateral Agent and shall remain effective until the accelerating Lender and the Required Lenders agree that such Sharing Notice is no longer in effect. After receiving the information required to be provided pursuant to this Section 2.1, the Collateral Agent shall calculate and promptly notify the Lenders as to the Funded Obligations of each Lender and, based on such information, the Sharing Percentage of each Lender, which notice shall demonstrate such calculations in reasonable detail. If the Collateral Agent thereafter receives information which demonstrates that the Collateral Agent's prior calculations were erroneous, the Collateral Agent shall recalculate each Lender's Funded Obligations and each Lender's Sharing Percentage, and shall promptly notify all Lenders of such recalculations. As used in this Section 2.1 and elsewhere in this Agreement, the following terms shall have the following meanings:

"**Default Reference Date**" shall mean the earlier of:

(a) if a Notice of Event of Default is given by a Lender pursuant to Section 3.1(b) (or was required by Section 3.1(b) to be given) and an Acceleration occurs for any reason thereafter without the related Event of Default having been cured or waived, the later of:

(i) the date of the Event of Default that resulted in the giving of such Notice of Event of Default; or

(ii) the date 180 days prior to the Acceleration; or

(b) the date on which Acceleration occurs.

"**Acceleration**" shall mean the earlier of (a) the acceleration of the maturity of any amount outstanding under a Credit Facility and (b) a Bankruptcy Event, with the term "**Bankruptcy Event**" meaning any of the following events: (a) any Obligated Party (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or (b) a court or governmental authority of competent jurisdiction enters an order appointing, without consent by an Obligated Party, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of an Obligated Party, or any such petition shall be filed against an Obligated Party and such petition shall not be dismissed within 60 days.

Section 2.2. Receipt of Reallocable Payments; Purchase of Participations. If any Lender obtains or obtained any Reallocable Payment after the Default Reference Date or if, after the Default Reference Date and the adjustment to the Sharing Percentages under Section 2.4 hereof, such Lender received more than its Sharing Percentage of a Reallocable Payment, such Lender shall promptly after the receipt of a Reallocable Payment (or, if later, after receipt of the Sharing Notice) purchase at par from the other Lenders such participations in the Funded Obligations held by such other Lenders as shall be necessary to cause such purchasing Lender to share such Reallocable Payment (net of any out-of-pocket costs and expenses paid by such Lender in so obtaining the same) ratably based on the Sharing Percentages then in effect. Such participations shall be evidenced by this Agreement. Although they shall have no obligation to do so, the Required Lenders may agree upon another arrangement for vesting in the sharing Lender the appropriate portion of the rights and benefits under the Credit Facilities of the Lenders with whom such Reallocable Payment is shared. As used in this Section 2.2 and elsewhere in this Agreement, the term "**Reallocable Payment**" shall mean any amount received by a Lender in respect of any Credit Facility by virtue of any voluntary or involuntary payment or prepayment made by or for the account of any Obligated Party, by virtue of the application of any provision of any of the Financing Documents (other than this Agreement), or by virtue of an exercise of any Set–Off Rights or similar mechanism or in any other manner (except pursuant to this Agreement); provided, however, that in no event shall any of the following be deemed to be Reallocable Payments:

(i) Proceeds (which shall be shared by the Lenders in accordance with Section 2.6);

(ii) The proceeds of any property other than the Collateral in which a Lender shall have been granted a Lien in accordance with the permissions of the Credit Facilities;

(iii) Any amount received (through the exercise of Set–Off Rights or otherwise) by a Lender and applied to any obligation owed to such Lender by an Obligated Party which arise directly from the deposit, collection and other cash management or deposit services provided by such Lender to such Obligated Party;

(iv) Payments accompanied by clear instructions from the applicable Obligated Party or other Person making the payment that such payments are to be applied to other obligations;

(v) Payments distributed by a court of competent jurisdiction or in a proceeding commenced under any bankruptcy or similar proceeding specifically for

application to or on account of other obligations;

(vi) With respect to any revolving credit facility, any repayments of advances made on a revolving basis after the Default Reference Date which are not in excess of the aggregate advances made after the Default Reference Date (provided that the amount of the repayments which are in excess of the aggregate advances made after the Default Reference Date shall be "Reallocable Payments" and shall be shared in accordance with this Section 2.2); and

(vii) regularly scheduled payment of principal or interest required under any Credit Facility (but excluding any such payment that is contingent upon the presence or happening of a specified event or occurrence such as the sale of assets, a change of control of the Company, a cash sweep or otherwise) received prior to the Default Reference Date.

Except as provided in the foregoing exceptions, any payments made by any Obligated Party at any time after the Default Reference Date to any Lender on any loans or other extensions of credit made to any Obligated Party other than under the Credit Facilities shall be deemed by the Lender receiving such payments to be payments under its respective Credit Facility and therefore Reallocable Payments. As among any Lender group, the provisions of this Section 2.2 shall supersede and control in the event of any conflict between this Section and any similar section contained in any Credit Facility.

Section 2.3. Preferences, *etc.* If any Lender purchases a participation pursuant to Section 2.2 and

(a) the amount obtained by such Lender which gave rise to such participation or any part thereof is required to be repaid, and is repaid, by such Lender to any Obligated Party or any other Person; or

(b) such purchase was made based upon an erroneous prior calculation of the Sharing Percentages as calculated in accordance with Section 2.1; or

(c) the Sharing Percentages on which such purchase was based changed in accordance with Section 2.4 and the purchasing Lender retains less than its Sharing Percentage of the applicable Reallocated Payment;

then the purchase of the participations under Section 2.2 shall be rescinded to the extent necessary to provide funds for such recovery, correct the error or take into account the changed Sharing Percentages and each selling Lender shall promptly (after its receipt of notification from the purchasing Lender) repay to the purchasing Lender the purchase price for such participation to such extent, together with an amount equal to such selling Lender's ratable share (according to the proportion of (x) the amount of such selling Lender's required repayment to the purchasing Lender to (y) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered or required to be returned.

Section 2.4. Adjustments to Sharing Percentages. If, at any time after the date of a Sharing Notice:

(a) a Lender is required to repay to any Obligated Party or any other Person all or any portion of an amount received on or prior to the date of such Sharing Notice with the result that such Lender's Funded Obligations are increased, or

(b) an amount originally included in the Funded Obligations of a Lender under its Credit Facility as a contingent obligation (such as a letter of credit) ceases to be an obligation because of its expiry, reduction, cancellation or otherwise, with the result that such Funded Obligation is reduced,

then the Sharing Percentages of the Lenders shall be adjusted on the first Business Day of the next calendar month to reflect such increase or reduction, and each Lender shall promptly (and in any event within five Business Days after its receipt of notification from the Collateral Agent) purchase or rescind its participation interest in the Funding Obligations in accordance with either Section 2.2 or 2.3 hereof, as applicable.

Section 2.5. Collateral Proceeds

(a) Pro Rata Treatment. The Collateral Agent shall be the secured party under the Security Documents and shall hold the Collateral, all for the benefit of the Creditors. The Lenders hereby agree that they will receive *pro rata* treatment in connection with all payments, distributions, collections or recoveries relating to the Collateral. Each payment or distribution by or from or received in connection with the exercise of remedies after a Default or an Event of Default in respect of the Collateral shall be shared and applied to the Obligations in accordance with Section 2.6.

(b) This Agreement Controlling. The provisions contained herein concerning the Collateral and Proceeds shall be controlling, notwithstanding the terms of any agreement between any Creditor and any Obligated Party under any other document or instrument between such parties, whether or not bankruptcy, receivership or insolvency proceedings shall at any time have been commenced.

Section 2.6. Application of Proceeds. The Proceeds of any sale, enforcement or other disposition of any of the Collateral or other distribution in respect of the Collateral, in each case following a Default or an Event of Default, shall be applied by the Collateral Agent in the following order:

first, to the payment of all costs, fees and expenses incurred by the Collateral Agent in connection with the realization upon the Collateral under the Security Documents or this Agreement, including, without limitation, reasonable costs and expenses incurred by the Collateral Agent in connection with the defense of any claim, suit, action or proceeding against the Collateral Agent, as provided below in Section 5.8;

second, to the payment of the Funded Obligations of the Lenders, which payment shall be shared by the Lenders according to their respective Sharing Percentages until all the liquidated Funded Obligations have been satisfied in full and all contingent reimbursement obligations in respect of letters of credit issued under any Credit Facility have been fully cash collateralized;

third, to the payment of the other Obligations owed to Creditors and then due, which payment shall be shared by the Creditors *pro rata* determined based on the outstanding amounts thereof;

fourth, to the payment to the Company or its successors or assigns, or as a court of competent jurisdiction may direct, or otherwise as required by law, if any surplus is then remaining from such proceeds.

Portions of the proceeds of the Collateral distributed to a Lender may thereafter be held as collateral for the contingent reimbursement obligations in respect of letters of credit issued under the Credit Facilities. In the event that any such letter of credit expires undrawn and as a result the contingent reimbursement obligations relating thereto terminate, the Creditor holding such Collateral agrees to return such proceeds to the Collateral Agent for distribution in accordance with this Section 2.6 to be distributed as Proceeds of Collateral hereunder.

Section 2.7. Proceeds Received Directly by a Lender. If any Creditor receives any Proceeds, other than from the Collateral Agent, such Person shall: (a) notify the Collateral Agent in writing of the nature of such receipt, the date of the receipt and the amount thereof, (b) deduct from the Proceeds received any costs or expenses (including attorneys' fees and expenses) incurred in connection with the acquisition of such Proceeds, (c) hold the remaining amount of such Proceeds in trust for the benefit of the Collateral Agent until paid over to the Collateral Agent and (d) pay the remaining amount of such Proceeds to the Collateral Agent promptly upon receipt thereof. Upon receipt, the Collateral Agent shall promptly distribute the Proceeds so received in accordance with Section 2.6.

Section 2.8. Incorrect Distribution If any Creditor receives any Proceeds in an amount in excess of the amount such Person is entitled to receive under the terms hereof, such Person shall (a) hold such excess Proceeds in trust for the benefit of the Collateral Agent until paid over to the Collateral Agent and (b) shall promptly pay the excess amount of such Proceeds to the Collateral Agent. The Collateral Agent shall promptly distribute the amount so received to in accordance with the terms of Section 2.6.

Section 2.9. Return of Proceeds. If at any time payment, in whole or in part, of any Proceeds distributed hereunder is rescinded or must otherwise be restored or returned by the Collateral Agent or by any Creditor as a preference, fraudulent conveyance or otherwise under any bankruptcy, insolvency or similar law, then each Person receiving any portion of such Proceeds agrees, upon demand, to return the portion of such Proceeds it has received to the Person responsible for restoring or returning such Proceeds.

Section 2.10. Notice to Persons making Distributions. Each Creditor shall promptly and appropriately instruct any Person (other than Collateral Agent) making any distribution of Proceeds or Reallocable Payments to make such distribution so as to give effect to this Agreement.

Section 2.11. Perfection by Possession. Collateral Agent hereby appoints each Lender, the Multiyear Agent and the 364 Day Agent to serve as its bailee to perfect the Collateral Agent's liens and security interest in any Collateral, including any Proceeds, in the possession of any such Person. Any such party possessing such Collateral agrees to so act as bailee for the Collateral Agent in accordance with the terms and provisions hereof.

Section 2.12. Non-Cash Proceeds. Notwithstanding anything contained herein to the contrary, if the Collateral Agent, acting upon the instructions of the Required Lenders, shall ever acquire any Collateral through foreclosure or by a conveyance in lieu of foreclosure or by retaining any of the Collateral in satisfaction of all or part of the Obligations or if any Proceeds or other property received by the Collateral Agent or any Creditor to be distributed and shared pursuant to this Article II are in a form other than immediately available funds, the Person receiving such Collateral, Proceeds or other property shall not be required to remit any share thereof under the terms hereof and the Creditors shall only be entitled to their undivided interests therein as determined hereby. The Creditors shall receive the applicable portions of any immediately available funds consisting of Proceeds from such Collateral or proceeds of such non-cash Proceeds or other property so acquired only if and when paid in connection with the subsequent disposition thereof. While any Collateral or other property to be shared pursuant to this Article II is held by the Collateral Agent or a Creditor pursuant to this Section 2.12, such Person shall hold such Collateral or other property for the benefit of the Creditors in accordance with their respective undivided interest therein and all matters relating to the management, operation, further disposition or any other aspect of such Collateral or other property shall be resolved by the agreement of the Required Lenders.

ARTICLE III.
Cooperation Among Creditors

Section 3.1. Cooperation. Each Creditor agrees with each of the other Creditors that:

(a) it will from time to time provide such information to the Collateral Agent as may be necessary to enable the Collateral Agent to make any calculation as referred to in Section 2.1 or Section 2.4 of this Agreement or otherwise required for any other purpose hereof;

(b) it will, not later than 60 days after it has become aware of the occurrence of any Event of Default which it believes will not be cured or waived, give the Collateral Agent notice, and if such notice is oral, confirmed in writing, of such Event of Default and stating that the same constitutes a Notice of Event of Default (a "**Notice of Event of Default**"); and

(c) it will give the Collateral Agent and the other Lenders immediate written notice of any acceleration of any of its Funded Obligations or suspension of all or any portion of its commitments to extend credit under any of the Credit Facilities.

Section 3.2. Parties Having Other Relationships. Each Creditor acknowledges and accepts that now and in the future the other Creditors or their respective affiliates may lend to the Company or any Subsidiary on a basis other than as covered by this Agreement or may accept deposits from, act as trustee under indentures of, act as servicing bank or any similar function under any credit relationship with, and generally engage in any kind of business with Company or any Subsidiary, all as if such Person were not a party to this Agreement. Except as set forth herein, each Creditor acknowledges that the other Creditors and their respective affiliates may exercise all contractual and legal rights and remedies which may exist from time to time with respect to such other existing and future relationships without any duty to account therefor to the other Creditors except as necessary to establish compliance with the provisions of this Agreement.

Section 3.3. Modification to Financing Documents. Nothing herein shall restrict the right of any Creditor to amend, waive, consent to the departure from or otherwise modify any Financing Documents to which it is a party in accordance with the terms thereof.

ARTICLE IV.
Obligated Party Agreements

Section 4.1. Consent. Each of the Obligated Parties consent to, and agrees with the terms of, this Agreement.

Section 4.2. Further Assurances. At any time and from time to time, upon the written request of the Collateral Agent, and at the expense of the Company, each Obligated Party will promptly execute and deliver any and all such further instruments and documentation and take such further action as the Collateral Agent reasonably deems necessary or advisable in obtaining the full benefits of this Agreement and the Security Documents and of the rights, remedies and powers herein and therein conferred or reserved.

Section 4.3. Obligations Unimpaired. Except as expressly provided herein, nothing contained in this Agreement shall impair, as between any Obligated Party and any Creditor, the obligation of the Obligated Parties to pay or perform any obligation or liability owed to such Creditor when the same shall become due and payable in accordance with the terms of the applicable Credit Facility.

Section 4.4. No Additional Rights for the Company. If any Creditor shall enforce its rights and remedies in violation of the terms of this Agreement, each Obligated Party agrees that it shall not use such violation as a defense to the enforcement by such Lender of any of its rights under any Credit Facility or any other Financing Documents to which it is a party nor assert such violation as a counterclaim or basis for setoff or recoupment against such Creditor. Compliance with this Section 4.4 will not constitute a violation of any other provisions of this Agreement by an Obligated Party.

Section 4.5. Set–Off Rights. Each Obligated Party agrees that each Lender purchasing a participation from another Lender pursuant to Section 2.2 hereof, may, to the fullest extent permitted by law, exercise all its rights of payment (including Set–Off Rights) with respect to such participation as fully as if such Lender were the direct creditor of the applicable Obligated Party in the amount of such participation.

ARTICLE V.

Collateral Agent

Section 5.1. Appointment and Authority of Collateral Agent. In order to expedite the enforcement of the rights and remedies set forth in this Agreement and the Security Documents, The Chase Manhattan Bank is hereby appointed to act as collateral agent for the Creditors hereunder and thereunder. The Collateral Agent is hereby authorized and directed to take such action on behalf of the Lenders under the terms and provisions of this Agreement and the Security Documents and to exercise such rights and remedies hereunder and thereunder as are specifically delegated to or required of the Collateral Agent under the terms and provisions hereof and thereof. The Collateral Agent is hereby expressly authorized as Collateral Agent on behalf of the Creditors, without hereby limiting the foregoing, and subject to, and in accordance with, the terms and conditions of this Agreement:

(a) to receive on behalf of each of the Creditors any payment of monies paid to the Collateral Agent in accordance with this Agreement and the Security Documents, and to distribute to each Creditor its share of all payments so received in accordance with the terms of this Agreement;

(b) to receive all documents and items to be furnished under the Security Documents;

(c) to maintain physical possession of any of the Collateral as contemplated in any of the Security Documents as agent and bailee for the Creditors to perfect the liens and security interests granted pursuant to the Security Documents therein;

(d) to act on behalf of the Creditors in and under the Security Documents;

(e) to execute and deliver to the Company requests, demands, notices, approvals, consents and other communications received from the Creditors in connection with the Security Documents, subject to the terms and conditions set forth herein and therein;

(f) to the extent permitted by this Agreement and the Security Documents, to exercise on behalf of each Creditor all remedies of the Creditors upon the occurrence and during the continuance of any Default or Event of Default under any of the Security Documents;

(g) to distribute to the Creditors information, requests, notices, documents and other items received from Company and other Persons in respect of the Collateral and the Security Documents;

(h) to accept, execute, and deliver the Security Documents as the secured party for the benefit of the Creditors;

(i) to take title to Collateral for the benefit of the Creditors pursuant to the exercise of any rights and remedies under the Security Documents and to manage the Collateral so acquired pursuant to the directions of the Required Lenders; and

(j) to take such other actions, other than as specified in Section 5.2 hereof, as may be requested by the Required Lenders or as are reasonably incident to any powers granted to the Collateral Agent hereunder and not in conflict with applicable law or regulation or any Financing Document.

Section 5.2. Actions of Agent Requiring Consent, or Upon Request, of the Required Lenders. Notwithstanding anything contained herein or in the Security Documents to the contrary, (a) the Collateral Agent shall not, without the prior written consent of all the Lenders, release or substitute any Collateral except as permitted by Section 5.12, (b) the Collateral Agent shall not, without the prior written consent of the Required Lenders, institute foreclosure proceedings with respect to all or any portion of the Collateral, and (c) the Collateral Agent shall not enter into any other amendment, modification or supplement of any of the Security Documents without the prior written consent of the Required Lenders; provided, however, that upon the Collateral Agent's receipt of the prior written consent, or upon the written instruction, of the Required Lenders, the Collateral Agent shall take such action as to which consent has been granted or such instruction has been given.

Section 5.3. Non-Reliance on Collateral Agent and Other Creditors. Each Creditor agrees that it has, independently and without reliance on the Collateral Agent or any other Creditor, and based upon such documents and information as it has deemed appropriate, made its own credit analysis of the

Obligated Parties and the Collateral, and its independent decision to enter into this Agreement, and that it will, independently and without reliance upon the Collateral Agent or any other Creditor, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement. The Collateral Agent shall not be required to keep the Creditors informed as to the performance or observance by any Obligated Party with the terms of this Agreement, the Pledge Agreement or any other Financing Document or to inspect the properties or books of any Obligated Party. The Collateral Agent shall not have any duty, responsibility or liability to provide any Creditor with any credit or other information concerning the affairs, financial condition or business of any Obligated Party which may come into the possession of Collateral Agent; provided, however, the Collateral Agent shall send to the Lenders written notice of any Event of Default of which it has been given notice and all payments and repayments of amounts required hereunder to be paid to the Lenders received by the Collateral Agent under or in connection with the Security Documents or this Agreement. The Collateral Agent shall provide each Lender with a schedule of all costs and expenses which the Collateral Agent has paid or proposes to pay from the proceeds of such payments or repayments as permitted hereunder.

Section 5.4. Collateral Agent and Affiliates. The Chase Manhattan Bank and any successor Collateral Agent, in its capacity as a Lender and an agent under the Credit Agreements, shall have the same rights and powers under the Financing Documents and may exercise or refrain from exercising the same as though it were not the Collateral Agent hereunder, and such Lender and its affiliates may lend money to and generally engage in any kind of lending, investment, trust, hedging or other business with or for any Lender, any Obligated Party, or any of their respective affiliates, as if it were not acting as Collateral Agent hereunder.

Section 5.5. Action by Collateral Agent. The obligations of the Collateral Agent hereunder and under the Security Documents are only those expressly set forth herein and therein. Notwithstanding anything contained herein or in any Financing Document to the contrary, the Collateral Agent shall not be required to take any action with respect to any Default or Event of Default, except as expressly provided herein.

Section 5.6. Consultation with Experts. The Collateral Agent may consult with legal counsel, independent public accountants and any other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts. Furthermore, the Collateral Agent (a) shall have no duties or responsibilities except those set forth in this Agreement and the other Security Documents and (b) shall not be required to initiate any litigation, foreclosure or collection proceedings hereunder or under any Security Document except to the extent requested by Required Lenders.

Section 5.7. Liability of Collateral Agent. The Collateral Agent shall be entitled to rely on any communication or document believed by it to be genuine and correct and to have been communicated or signed by the Person by whom it purports to be communicated or signed and shall not be liable to any Creditor for any of the consequences of such reliance. Neither the Collateral Agent nor any director, officer, employee or agent of the Collateral Agent shall be liable for any action taken or not taken by it or them under, or in connection with, this Agreement or any of the Financing Documents in the absence of its or their gross negligence or willful misconduct. As to any matters not expressly provided for herein, the Collateral Agent shall act or refrain from acting in accordance with written instructions from the Required Lenders or, in the absence of such instructions, in

accordance with its discretion, taking into account the interests of all Lenders. The Collateral Agent shall not be obligated to follow any such written directions to the extent that it shall determine that such directions are in conflict with any provision hereof or of any applicable law or regulation or any Financing Document or which exposes the

Collateral Agent to personal liability. Neither the Collateral Agent nor any director, officer, employee or agent of the Collateral Agent shall be responsible for or have any duty to ascertain, inquire into or verify (a) any statement, warranty or representation made in connection with any of the Financing Documents or any payment thereunder; (b) the performance or observance of any of the covenants or agreements of any Obligated Party or any Creditor under any of the Financing Documents; (c) the validity, effectiveness or genuineness of the Financing Documents or any other instrument or writing furnished in connection therewith; or (d) the existence, genuineness or value of any of the Collateral or the validity, effectiveness, perfection, priority or enforceability of the security interests in or liens on any of the Collateral.

Section 5.8. Indemnification of Collateral Agent; Defense of Claims

(a) EACH LENDER HEREBY AGREES TO INDEMNIFY THE COLLATERAL AGENT AND EACH OF THE COLLATERAL AGENT'S DIRECTORS, OFFICERS, AFFILIATES, REPRESENTATIVES AND AGENTS (AS USED IN THIS SECTION 5.8 "**COLLATERAL AGENT**" SHALL MEAN ALL OF THE FOREGOING) AGAINST ALL LOSS, COST, LIABILITY AND EXPENSE (TO THE EXTENT NOT PAID BY AN OBLIGATED PARTY AND NOT ARISING OUT OF OR AS A RESULT OF GROSS NEGLIGENCE OR WILLFUL MISCONDUCT ON THE PART OF THE COLLATERAL AGENT BUT INCLUDING ALL LOSS, COST, LIABILITY AND EXPENSE ARISING OUT OF OR AS A RESULT OF THE NEGLIGENCE ON THE PART OF THE COLLATERAL AGENT), INCLUDING REASONABLE ATTORNEYS' FEES, RESULTING FROM ANY ACTION TAKEN OR TO BE TAKEN BY IT AS COLLATERAL AGENT ON BEHALF OF THE LENDERS WITHIN THE SCOPE OF ITS AUTHORITY AS PROVIDED IN THIS AGREEMENT OR ANY OF THE SECURITY DOCUMENTS, TO THE EXTENT OF SUCH LENDER'S *PRO RATA* SHARE (BASED UPON ITS SHARING PERCENTAGE) OF ANY SUCH LOSS, COST, LIABILITY AND EXPENSE.

(b) The Collateral Agent shall notify each Lender as promptly as is reasonably practicable of the written assertion of, or the commencement of, any claim, suit, action or proceeding filed against the Collateral Agent arising out of, or in connection with, the acceptance or administration of the duties imposed upon the Collateral Agent hereunder or under any of the Financing Documents or any action or omission taken or made within the scope of the rights or powers conferred upon the Collateral Agent hereunder or under the Financing Documents promptly after the Collateral Agent shall have received the written assertion or have been served with the summons or other first legal process giving information as to the nature and basis of the lawsuit. Each Lender shall be entitled to participate in and assume, at its own expense, the defense of any such claim, suit, action or proceeding, and such defense shall be conducted by counsel chosen by such Lender and reasonably satisfactory to the Collateral Agent, provided, however, that (i) if any Lender has not assumed the defense of such claim, suit, action or proceeding, (ii) if the attorneys handling the defense are not reasonably satisfactory to the Collateral Agent, or (iii) if the defendants in any such action include both the Collateral Agent and the Lenders and the Collateral Agent shall have been advised by its counsel that there may be legal defenses available to it that are different from or additional to those available to the Lenders, which in the reasonable opinion of such counsel are sufficient to make it undesirable for the same counsel to represent both the Lenders and the Collateral Agent, the Collateral Agent shall have the right to employ its own counsel in all such instances described in (i), (ii) or (iii) above, and shall be entitled to recover from any proceeds received pursuant to Section 2.6 all reasonable fees and expenses of such counsel. If more than one Lender gives notice of assumption of defense, the matter shall be presented to all the Lenders and, unless the Collateral Agent receives notice from the Required Lenders specifying the Lender that is to assume the defense, the Collateral Agent shall proceed itself with the defense. Except as provided above, the Collateral Agent's right to recover its reasonable counsel fees and expenses from proceeds received pursuant to Section 2.6 shall cease upon any Lender's assumption of the defense of the claim, suit, action or proceeding. Each

Lender and the Collateral Agent is always entitled to defend itself at its own expense. Neither the Lenders nor the Collateral Agent shall be bound by any settlement entered into by the other parties without such party's consent.

Section 5.9. Resignation or Removal of Collateral Agent. Subject to the appointment and acceptance of a successor Collateral Agent as provided below, the Collateral Agent may resign at any time by giving notice thereof to each Lender and may be removed, upon thirty days' prior written notice of such removal from the Required Lenders. Upon any such resignation or removal, a successor Collateral Agent may be appointed by the Required Lenders. If no successor Collateral Agent shall have been appointed as aforesaid and shall have accepted such appointment within 30 days after the retiring Collateral Agent's giving of notice of resignation or having received notice of removal, then the retiring Collateral Agent may, on behalf of the Lenders, appoint a successor Collateral Agent which shall be a depository institution with capital and surplus greater than $500,000,000 and which shall be qualified to perform its duties hereunder and under the Security Documents.

Upon the acceptance of any appointment as Collateral Agent hereunder by a successor Collateral Agent, such successor Collateral Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Collateral Agent, and the retiring Collateral Agent shall be discharged from its duties and obligations under this Agreement or any Security Document, except to the extent for acts or omissions prior to the resignation or removal. After any retiring Collateral Agent's resignation or removal hereunder as Collateral Agent, (a) the provisions of Sections 5.7 and 5.8 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Collateral Agent, (b) any Collateral held in possession of the retiring Collateral Agent shall be delivered to the successor Collateral Agent, and (c) the retiring Collateral Agent shall assign all of its rights as secured party with respect to all of the Collateral to the successor Collateral Agent for the benefit of the Creditors.

Section 5.10. Appointment of Co-Agents. At any time or times, in order to comply with any legal requirement in any jurisdiction, the Collateral Agent may appoint a bank or trust company or one or more other Persons, either to act as co-agent or co-agents, jointly with the Collateral Agent, or to act as separate agent or agents on behalf of the Lenders with such power and authority as may be necessary for the effectual operation of the provisions hereof and may be specified in the instrument of appointment (which may, in the discretion of the Collateral Agent, include provisions for the protection of such co-agent or separate agent similar to the provisions of this Article V).

Section 5.11. Compensation of Collateral Agent; Expenses. The Collateral Agent agrees to serve hereunder without compensation except for the reimbursement of its customary custodial fees charged for the safekeeping of the certificates evidencing the stock pledged as collateral under the Pledge Agreement. Any successor Collateral Agent appointed pursuant to Section 5.9 shall be compensated by the Company on a basis which shall be approved by the Required Lenders. The Lenders agree that such compensation paid to any successor Collateral Agent and all reasonable out-of-pocket expenses (including, without limitation, attorneys' fees and expenses) incurred by the Collateral Agent or such successor Collateral Agent on behalf of the Creditors incident to the exercise or enforcement of any terms or provisions of the Security Documents shall be indebtedness to the Collateral Agent or such successor Collateral Agent, secured by the Collateral. Upon the request of the Collateral Agent or such successor Collateral Agent, however, the Lenders will reimburse the Collateral Agent or such successor Collateral Agent, to the extent not paid by the Obligated Parties, for any such fees or expenses in accordance with each Lender's Sharing Percentage.

Section 5.12. Release of Collateral. The Company may from time to time request the Collateral Agent in writing, with copies thereof delivered simultaneously to all Lenders, to release portions of the Collateral, if and to the extent such Collateral is required to be released in connection with any sale of Collateral that is permitted under the Credit Facilities. Promptly after the Collateral Agent receives (a) such written request from the Company and (b) written notice from the Required Lenders that the proposed disposition is permitted under the terms of the Credit Facilities, then if no Default or Event of Default exists the Collateral Agent shall release such Collateral. If all the Obligations arising under the Credit Agreements have been paid and satisfied in full and the commitments thereunder terminated, the Company may request the Collateral Agent in writing, with copies thereof delivered simultaneously to all Noteholders, to release all of the Collateral. Promptly after the Collateral Agent receives (a) such written request from the Company and (b) written notice from the Noteholders that the proposed release is permitted (which notice the Noteholders agree to deliver if no Default or Event of Default exists, no other creditors of the Company enjoy the benefits of collateral or guaranties to secure the amounts owed by the Company [other than purchase money lenders and holders of

capital leases] and all other conditions to the release of the Note Guaranties under the Note Agreements have been satisfied), then if no Default or Event of Default exists the Collateral Agent shall release all the Collateral. If the proposed sale or release of the Collateral is not permitted by the Credit Facilities or hereby, the Collateral Agent may only release the Collateral upon the written consent of all the Lenders.

Section 5.13. Emergency Actions. The Collateral Agent, is authorized, but not obligated, to take any action reasonably required to perfect or continue the perfection of the security interests in the Collateral for the benefit of the Creditors and following the occurrence of an Event of Default and before the Required Lenders have given the Collateral Agent directions, to take any action (subject to the restrictions in Section 5.2) which the Collateral Agent, in its sole discretion and good faith, believes to be reasonably required to promote and protect the interests of the Lenders and to maximize both the value of the Collateral and the present value of the recovery by the Lenders on the Obligations; provided, however, that once such directions have been received, the actions of the Collateral Agent shall be governed thereby and the Collateral Agent shall not take any further action which would be contrary thereto. The Collateral Agent shall give written notice of any such action to the Lenders within one Business Day and shall cease any such action upon its receipt of written instructions from the Required Lenders.

Section 5.14. Interpleader; Declaratory Judgment. In the event any controversy arises between or among the Lenders with respect to this Agreement, the Security Documents or any rights of any Creditor hereunder or thereunder, the Collateral Agent shall have the right to institute a bill of interpleader in any court of competent jurisdiction with respect to any amounts held by the Collateral Agent hereunder or to initiate proceedings in any court of competent jurisdiction for a declaratory judgment to determine the rights of the parties.

ARTICLE VI.

Enforcement of Remedies

Section 6.1. Waivers of Rights. Except as otherwise expressly set forth herein, so long as the Obligations remain unpaid, the Creditors (other than the Collateral Agent) hereby agree to refrain from exercising any and all rights each may individually (*i.e.*, other than through the Collateral Agent) now or hereafter have applicable to the Collateral to exercise any right pursuant to the Security Documents, the Uniform Commercial Code as in effect in any applicable jurisdiction, or under similar provisions of the laws of any jurisdiction or otherwise dispose of or retain any of the Collateral. The Creditors (other than the Collateral Agent) hereby agree not to take any action whatsoever to enforce any term or provision of

the Security Documents or to enforce any right with respect to the Collateral, in conflict with this Agreement or the terms and provisions of the Security Documents.

Section 6.2. Permitted Action by the Lenders. Any Creditor may (but in no event shall be required to), without instruction from the Collateral Agent, take action permitted by applicable law or in accordance with the terms of the Security Documents to preserve its rights, security interests and liens in any item of Collateral securing the payment and performance of the Obligations, including but not limited to curing any default or alleged default under any contract entered into by any Obligated Party, paying any tax, fee or expense on behalf of any Obligated Party, exercising any offset or recoupment rights and paying insurance premiums on behalf of any Obligated Party so long as such action shall not impair the rights of the Collateral Agent or of any other Creditor.

Section 6.3. Right to Instruct Collateral Agent. Upon Acceleration under a Credit Facility, the Required Lenders may instruct the Collateral Agent to liquidate all or any portion of the Collateral, and to take any other action, in the manner, and upon the terms and conditions, described in the Security Documents.

Section 6.4. Permitted Exercise of other Rights. Except as otherwise specifically provided in this Article VI, each Creditor shall have all the rights and remedies available to them under the Financing Documents to which they are a party upon the occurrence of a Default or an Event of Default or at any other time, and without limiting the generality of the foregoing, each Creditor shall have the independent right, exercised in accordance with the applicable Financing Documents and applicable law, to do any of the following:

(a) accelerate the Obligations owing to such Creditor pursuant to the Financing Documents (other than this Agreement and the Security Documents) to which such Creditor is a party;

(b) institute suit against any Obligated Party (i) under the terms of the applicable Financing Documents (including the Guaranties but excluding this Agreement and the Security Documents) for collection of the amounts owing thereunder or (ii) seeking an injunction, restraining order or any other similar remedy;

(c) seek the appointment of a receiver for any Obligated Party (but not any of the Collateral);

(d) file an involuntary petition under any bankruptcy or insolvency laws against any Obligated Party or file a proof of claim in any bankruptcy or insolvency proceeding;

(e) exercise any Set-Off Right; or

(f) take any other enforcement action with respect to any Default or Event of Default pursuant to and in accordance with the Financing Documents (other than this Agreement and the Security Documents) to which it is a party.

If any Creditor obtains any payment of any Obligations owed as a result of the exercise of any right or remedy permitted by this Section 6.4, such Creditor shall comply with its obligations under Section 2.2 or Section 2.7 hereof (as applicable) with respect thereto.

ARTICLE VII.

Successors and Assigns; New Parties

Section 7.1. Assignees. No provision of this Agreement shall restrict in any manner the assignment, participation or other transfer by any Creditor (other than the Collateral Agent) of all or any part of its right, title or interest under any Credit Facility; provided that, unless the transferee becomes a party hereto for purposes hereof in accordance with Section 7.2, the transferor shall remain responsible for performance of this Agreement with respect to the interest transferred, all as more fully set forth herein, and the Collateral Agent shall have no responsibilities to and need not acknowledge the interests of such transferee.

Section 7.2. Assignees of the Creditors. In connection with an assignment of all, or of a proportionate part of all, of a Creditor's right, title and interest under any Credit Facility to any insurance company, bank or other financial institution (a "**Purchaser**"), all in accordance with the applicable provisions of such Credit Facility, such Purchaser shall become a party hereunder only upon the receipt by the Collateral Agent of a Supplement to Intercreditor Agreement substantially in the form of Attachment A hereto properly completed, executed and delivered by such Purchaser.

Section 7.3. Additional Lenders. Any bank, insurance company or other financial institution that has extended credit to the Company after the Closing Date the proceeds of which are used to repay any of the then outstanding Funded Obligations may become a "Lender" hereunder (and their credit agreement, note purchase agreement

and/or related documents may become a "Credit Facility" hereunder entitled to share in the Reallocable Payments and the Collateral and any administrative agent appointed by such Lender may become a "Creditor") upon the receipt by the Collateral Agent of a Supplement to Intercreditor Agreement substantially in the form of Attachment B hereto properly completed, executed and delivered by such new lender. Any other bank, insurance company or other financial institution that has extended credit to the Company after the Closing Date may become a "Lender" hereunder (and their credit agreement, note purchase agreement and/or related documents may become a "Credit Facility" hereunder entitled to share in the Reallocable Payments and the Collateral and any administrative agent appointed by such Lender may become a "Creditor") with the written consent of the Required Lenders and upon the receipt by the Collateral Agent of a Supplement to Intercreditor Agreement substantially in the form of Attachment B hereto executed and delivered by such new lender.

Section 7.4. Addition of New Material Restricted Subsidiaries. Within forty–five (45) days after the end of each fiscal quarter, the Company is required under certain of the Financing Documents to cause each Material Restricted Subsidiary created or acquired during such fiscal quarter, and each Restricted Subsidiary that, as a result of a change in assets, became a Material Restricted Subsidiary during such fiscal quarter (any such Material Restricted Subsidiary, herein a "**New Material Subsidiary**"), to execute and deliver a joinder agreement joining it as a guarantor under the Guaranties. Simultaneously with the execution and delivery of any such joinder agreement, the Company shall cause the New Material Subsidiary to join into this Agreement and become a "Guarantor" hereunder by the execution and delivery of a Supplement to Intercreditor Agreement substantially in the form of Attachment C hereto

ARTICLE VIII.

Miscellaneous

Section 8.1. Indemnification. EACH OBLIGATED PARTY, JOINTLY AND SEVERALLY, INDEMNIFIES THE COLLATERAL AGENT AND ITS AFFILIATES AND THE DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS OF THE FOREGOING (EACH SUCH PERSON BEING CALLED AN "INDEMNITEE") AGAINST, AND TO HOLD EACH INDEMNITEE HARMLESS FROM, ANY AND ALL LOSSES, CLAIMS, DAMAGES, LIABILITIES AND RELATED EXPENSES, INCLUDING REASONABLE COUNSEL FEES AND EXPENSES, INCURRED BY OR ASSERTED AGAINST ANY INDEMNITEE ARISING OUT OF (I) THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY SECURITY DOCUMENT, OR (II) ANY CLAIM, LITIGATION, INVESTIGATION OR PROCEEDING RELATING TO ANY OF THE FOREGOING, WHETHER OR NOT ANY INDEMNITEE IS A PARTY THERETO (INCLUDING, WITHOUT LIMITATION, ANY LOSSES, CLAIMS, DAMAGES, LIABILITIES AND RELATED EXPENSES ARISING FROM THE SOLE OR CONTRIBUTORY NEGLIGENCE OF THE INDEMNITEE); PROVIDED THAT SUCH INDEMNITY SHALL NOT, AS TO ANY INDEMNITEE, BE AVAILABLE TO THE EXTENT THAT SUCH LOSSES, CLAIMS, DAMAGES, LIABILITIES OR RELATED EXPENSES (I) ARE DETERMINED TO HAVE RESULTED FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH INDEMNITEE OR (II) RESULT FROM ANY LITIGATION BROUGHT BY SUCH INDEMNITEE AGAINST AN OBLIGATED PARTY OR BY AN OBLIGATED PARTY AGAINST SUCH INDEMNITEE, IN WHICH THE OBLIGATED PARTY IS THE PREVAILING PARTY.

Section 8.2. Expenses. The Obligated Parties, jointly and severally, agree to pay the Collateral Agent on demand (a) all costs and expenses incurred by the Collateral Agent in connection with the preparation, negotiation, and execution of this Agreement and any and all amendments, modifications, renewals, extensions, and supplements thereof and thereto (whether or not the same become effective), including, without limitation, the fees and expenses of legal counsel for the Collateral Agent, (b) all costs and expenses incurred by the Collateral Agent in connection with the enforcement of this Agreement or the Security Documents, including, without limitation, the fees and expenses of legal counsel for the Collateral Agent, and (c) all other costs and expenses incurred by the Collateral Agent in connection with this Agreement or the Security Documents, including, without limitation, all costs, expenses, taxes, assessments, filing fees, and other charges levied by any governmental authority or otherwise payable in respect of this Agreement or the Security Documents and the Collateral Agent's customary custodial fees charged for the safekeeping of the certificates evidencing the stock pledged as collateral under the Pledge Agreement.

Section 8.3. No Partnership or Joint Venture. Nothing contained in this Agreement, and no action taken by any Creditor pursuant hereto, is intended to constitute or shall be deemed to constitute the Creditors as a partnership, association, joint venture or other entity.

Section 8.4. Notices. Unless otherwise specified herein, all notices, requests and other communications to any party hereunder shall be in writing (including overnight delivery service, facsimile copy or similar writing) and shall be given to such party at its address or facsimile number specified pursuant to the Credit Facilities to which it is a party or such other address or facsimile number as such party may hereafter specify for the purpose by notice to the Collateral Agent. All such notices and other communications shall, when mailed, delivered by overnight delivery service or transmitted by facsimile, be effective when deposited in the mails, delivered to the overnight delivery service or transmitted by facsimile with receipt confirmed and with a copy sent by mail or overnight delivery service, respectively.

Section 8.5. Entire Agreement; Amendments and Waivers. THIS AGREEMENT AND THE OTHER DOCUMENTS REFERRED TO HEREIN EMBODY THE FINAL, ENTIRE AGREEMENT

AMONG THE PARTIES HERETO AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS, AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO. Any provision of this Agreement may be amended or waived if, and only if, such amendment or waiver is in writing and signed by the Required Lenders (and, if the rights or duties of the Collateral Agent are affected thereby, by the Collateral Agent); provided that no amendment, waiver or other modification shall without the consent of all the Lenders modify the terms of Section 5.12 or this Section 8.5 or release any Collateral except as permitted by Section 5.12.

Section 8.6. Payments. All payments hereunder shall be made in Dollars in immediately available funds. All payments to the Collateral Agent shall be made to it at such office or account as it may specify for the purpose by notice to the Lenders. All payments to any Creditor shall be made to it, to the extent practicable, in accordance with the provisions of the Credit Facilities.

Section 8.7. Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be an original, and all of which taken together shall constitute a single agreement, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when the Collateral Agent shall have received counterparts hereof executed by each of the parties listed on the signature pages hereof.

Section 8.8. Benefits. This Agreement is solely for the benefit of and shall be binding upon the Obligated Parties, the Lenders, the Collateral Agent and the other Creditors and their successors or assigns, and no other Person shall have any right, benefit, priority or interest under or by reason of this Agreement. No Obligated Party may assign their rights or obligations hereunder without the consent of all the Lenders.

Section 8.9. No Waiver; Cumulative Remedies. No failure on the part of any Creditor to exercise and no delay in exercising, and no course of dealing with respect to, any right, power, or privilege under this Agreement or any Security Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or privilege under this Agreement or any Security Document preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided for in this Agreement and the Security Documents are cumulative and not exclusive of any rights and remedies provided by law.

Section 8.10. Term. This Agreement shall terminate upon the occurrence of the following events if no Default or Event of Default then exists: (i) the irrevocable payment in full of the Obligations under the Credit Agreements (provided, however, this Agreement shall be reinstated if any such payment is required to be returned by any Creditor); (ii) no Lender shall have any commitment to lend or otherwise extend credit under any Credit Agreement; and (iii) the release of the liens on the Collateral in accordance with Section 5.12 or otherwise. If an Event of Default has occurred which has not been cured or waived, this Agreement shall terminate only upon the occurrence of the following

events: (i) the irrevocable payment in full of the Obligations (provided, however, this Agreement shall be reinstated if any such payment is required to be returned by any Creditor); (ii) no Lender shall have any commitment to lend or otherwise extend credit under any Credit Facility; and (iii) the release of the liens on the Collateral or the total liquidation of the Collateral and the distribution of all the proceeds in accordance herewith. Without prejudice to the survival of any other obligations hereunder, the indemnification and reimbursement obligations of the Obligated Parties under Sections 8.1 and 8.2 of this Agreement and the obligations of the Lenders under Section 5.11 shall survive the termination of this Agreement.

Section 8.11. Governing Law. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA.

Section 8.12. Limitation of Liability. Neither the Collateral Agent nor any affiliate, officer, director, employee, attorney, or agent thereof shall have any liability with respect to, and each Obligated Party and each other Creditor hereby waives, releases, and agrees not to sue any of them upon, any claim for any special, indirect, incidental, consequential or punitive damages suffered or incurred by any Obligated Party or any other Creditor in connection with, arising out of, or in any way related to, this Agreement or any of the other Financing Documents, or any of the transactions contemplated by this Agreement or any of the other Financing Documents.

Section 8.13. Severability. Any provision of this Agreement held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Agreement and the effect thereof shall be confined to the provision held to be invalid or illegal.

Section 8.14. Headings. The headings, captions, and arrangements used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

Section 8.15. Construction. Each Obligated Party and each Creditor acknowledge that each of them has had the benefit of legal counsel of its own choice and has been afforded an opportunity to review this Agreement with its legal counsel and that this Agreement shall be construed as if jointly drafted by the parties hereto.

Section 8.16. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers hereunto duly authorized as of the date first above set forth.

COMPANY:

LENNOX INTERNATIONAL INC.

By:_____
Richard A. Smith, Executive Vice President
and Chief Financial Officer

GUARANTORS

LENNOX INDUSTRIES INC.
SERVICE EXPERTS INC.
ARMSTRONG AIR CONDITIONING INC.
EXCEL COMFORT SYSTEMS INC.

By:_____
Name:_____
Authorized officer for each Guarantor

COLLATERAL AGENT:

THE CHASE MANHATTAN BANK, in its capacities
as Collateral Agent for the Lenders and as administrative
agent for the Multiyear Lenders and the 364 Day
Lenders

By:_____
Name:_____
Title:_____

NOTEHOLDERS:

THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA

By:_____

Ric E. Abel,
Vice President

U.S. PRIVATE PLACEMENT FUND

By: Prudential Private Placement Investors, L.P.,
Investment Advisor

By: Prudential Private Placement Investors,
its General Partner

By:_____
Ric E. Abel,
Vice President

TEACHERS INSURANCE AND ANNUITY
ASSOCIATION OF AMERICA

By:_____
Name:_____
Title:_____

CIG & CO.

By:_____
Name:_____
Title:_____

UNITED OF OMAHA LIFE INSURANCE COMPANY

By:_____
Curtis R. Caldwell,
First Vice President

MUTUAL OF OMAHA INSURANCE COMPANY

By:_____
Curtis R. Caldwell,
First Vice President

COMPANION LIFE INSURANCE COMPANY

By:_____
Curtis R. Caldwell,
Authorized Signer

UNITED WORLD LIFE INSURANCE COMPANY

By:_____
Curtis R. Caldwell,
Authorized Signer

FIRST COLONY LIFE INSURANCE COMPANY

By:_____
Morian C. Mooers,
Vice President and Investment Officer

GENERAL ELECTRIC CAPITAL ASSURANCE COMPANY

By:_____
Morian C. Mooers,
Investment Officer

GE LIFE AND ANNUITY ASSURANCE COMPANY

By:_____
Morian C. Mooers,
Investment Officer

EVIDENCE OF APPROVAL BY THE MULTIYEAR LENDERS AND 364 DAY LENDERS

The Multiyear Agent is authorized to enter into this Agreement on behalf of the Multiyear Lenders (binding the Multiyear Lenders hereto) under the terms of the Multiyear Credit Agreement upon its approval by the "Required Lenders" thereunder which means Lenders having 66-2/3% or more of the Total Commitments (as defined in the Multiyear Credit Agreement and such percentage applicable to a Multiyear Lender herein such Lender's "Multiyear Required Percentage"). For purposes of determining the effectiveness of this Agreement, each Multiyear Lender's Multiyear Required Percentage is set forth on Schedule 1 hereto and each Multiyear Lender whose signature appears below hereby approves this Agreement and agrees to be bound by the terms hereto.

The 364 Day Agent is authorized to enter into this Agreement on behalf of the 364 Day Lenders (binding the 364 Day Lenders hereto) under the terms of the 364 Day Credit Agreement upon its approval by the "Required Lenders" thereunder which means Lenders having 66-2/3% or more of the Total Commitments (as defined in the 364 Day Credit Agreement and such percentage applicable to a 364 Day Lender herein such Lender's "364 Required Percentage"). For purposes of determining the effectiveness of this Agreement, each 364 Day Lender's 364 Required Percentage is set forth on Schedule 2 hereto and each 364 Day Lender whose signature appears below hereby approves this Agreement and agrees to be bound by the terms hereto.

Executed as of the date first written above.

THE CHASE MANHATTAN BANK, as successor in interest by merger to Chase Bank of Texas, National Association, individually as Lender

By:_____
Allen King
Vice President

WACHOVIA BANK, N.A., individually as a Lender and as Syndication Agent

By:_____
Name:_____
Title:_____

THE BANK OF NOVA SCOTIA, individually as a Lender and as documentation agent

By:_____
Name:_____
Title:_____

THE NORTHERN TRUST COMPANY, individually as a Lender and as a co-agent

By:_____
Name:_____
Title:_____

UNITED WORLD LIFE INSURANCE COMPANY

By:_____
Curtis R. Caldwell,
Authorized Signer

FIRST COLONY LIFE INSURANCE COMPANY

By:_____
Morian C. Mooers,
Vice President and Investment Officer

THE NORTHERN TRUST COMPANY, individually as a Lender and as a co-agent

By:_____
Name:_____
Title:_____

BANK ONE, TEXAS, N.A., as a Lender

By:_____
Name:_____
Title:_____

BANK ONE, TEXAS, N.A., as a Lender

By:_____
Name:_____
Title:_____

THE BANK OF TOKYO-MITSUBISHI,
LTD., as a Lender

By:_____
Name:_____
Title:_____

WELLS FARGO BANK (TEXAS), N.A.,
as a Lender

By:_____
Name:_____
Title:_____

ROYAL BANK OF CANADA,
as a Lender

By:_____
Name:_____
Title:_____

ABN AMRO BANK N.A., as a Lender

By:_____
Name:_____
Title:_____

By:_____
Name:_____
Title:_____

THE BANK OF NEW YORK, as a Lender

By:_____
Name:_____
Title:_____

COMPASS BANK, as a Lender

By:_____
Name:_____
Title:_____

FIRST UNION NATIONAL BANK, as a Lender

By:_____
Name:_____
Title:_____

FIRSTAR BANK N.A.(formerly Mercantile Bank
National Association)

By:_____
Gregory L. Dryden, Vice President

UBS AG, Stamford Branch

By:_____
Gregory L. Dryden, Vice President

Schedule 1
to
Intercreditor Agreement

MULTIYEAR REQUIRED LENDER PERCENTAGES

Lender	Required Lender Percentage Held	Lenders Agreeing to Agreement (insert % from prior column if Lender signs this Agreement then total percentages in this column)
The Chase Manhattan Bank	11.333%	
Wachovia Bank, N.A.	11.333%	
The Bank of Nova Scotia	11.333%	
The Northern Trust Company	11.333%	
Bank One, Texas N.A.	8.333%	
Bank of Texas, N.A.	8.333%	
The Bank of Tokyo - Mitsubishi, Ltd.	8.333%	
Wells Fargo Bank (Texas), N.A.	8.333%	
Royal Bank of Canada	6.333%	
ABN Amro Bank N.V.	5.000%	
The Bank of New York	5.000%	
Compass Bank	5.000%	
TOTAL	100%	

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Schedule 2
to
Intercreditor Agreement

364 Day REQUIRED LENDER PERCENTAGES

Lender	Required Lender Percentage Held	Lenders Agreeing to Agreement (insert % from prior column if Lender signs this Agreement then total percentages in this column)
The Chase Manhattan Bank	13.5385%	
Wachovia Bank, N.A.	12.9231%	
The Bank of Nova Scotia	9.2308%	
ABN AMRO BANK, N.V.	7.6923%	
First Union National Bank	12.3077%	
Firstar Bank N.A.	9.2308%	
Royal Bank of Canada	9.8462%	
The Bank of New York	3.0769%	
The Bank of Tokyo - Mitsubishi, Ltd.	3.0769%	
The Northern Trust Company	3.6923%	
UBS AG, Stamford Branch	15.3846%	
TOTAL	100%	

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Attachment A

SUPPLEMENT TO INTERCREDITOR AGREEMENT
(SUCCESSSOR CREDITORS)

[Date]

The Chase Manhattan Bank
2200 Ross Avenue, 3rd Floor
Dallas, TX 75201
Attention of Allen King
Telecopy No. 214/965-2044

with a copy to
The Chase Manhattan Bank
1 Chase Manhattan Plaza, 8th Floor
New York, New York 10081
Attention: Muniram Appanna
Telecopy No. 212/552-7490

Re: Intercreditor Agreement dated as of August 15, 2001, among Lennox International Inc., certain of its subsidiaries, the noteholders, lenders and agents named therein and THE CHASE MANHATTAN BANK, as the collateral agent for itself and the other Creditors (the **"Intercreditor Agreement"**); capitalized terms used herein and not otherwise defined herein shall have the meaning provided in the Intercreditor Agreement.

Ladies and Gentlemen:

We acknowledge that we have received a copy of the Intercreditor Agreement and we refer to Section 7.2 thereof.

Upon your receipt of this Supplement, we (a) shall have all the rights and benefits of a "Lender" [**"Creditor"**] under the Intercreditor Agreement as if we were an original signatory thereto, and (b) agree to be bound by the terms and conditions set forth in the Intercreditor Agreement and to be obligated thereunder as if we were an original signatory thereto.

We hereby advise you that we have succeeded to **[[_____]%** of] the interest of **[applicable Lender]** or **[applicable administrative agent]** under the **[Note Agreements] [Credit Agreements]** and have assumed the obligations of **[applicable Lender]** thereunder.

We hereby advise you of the following administrative details:

Address: _____
Facsimile: _____
Telephone: _____

IN WITNESS WHEREOF, the undersigned has caused this Supplement to be duly executed by its proper officer hereunto duly authorized.

[NEW PARTY:]

By:_____
Name:_____
Title:_____

Attachment B

SUPPLEMENT TO INTERCREDITOR AGREEMENT
(NEW LENDER)

[Date]

The Chase Manhattan Bank
2200 Ross Avenue, 3rd Floor
Dallas, TX 75201
Attention of Allen King
Telecopy No. 214/965-2044

with a copy to
The Chase Manhattan Bank
1 Chase Manhattan Plaza, 8th Floor
New York, New York 10081
Attention: Muniram Appanna
Telecopy No. 212/552-7490

Re: Intercreditor Agreement dated as of August 15, 2001, among Lennox International Inc., certain of its subsidiaries, the noteholders, lenders and agents named therein and THE CHASE MANHATTAN BANK, as the collateral agent for itself and the other Creditors (the **"Intercreditor Agreement"**); capitalized terms used herein and not otherwise defined herein shall have the meaning provided in the Intercreditor Agreement.

Ladies and Gentlemen:

We acknowledge that we have received a copy of the Intercreditor Agreement and we refer to Section 7.3 thereof and confirm that we are entitled to become a "Lender" under the terms of Section 7.3 of the Intercreditor Agreement.

Upon your receipt of this Supplement, we (a) shall have all the rights and benefits of a "Lender" under the Intercreditor Agreement as if we were an original signatory thereto, and (b) agree to be bound by the terms and conditions set forth in the Intercreditor Agreement and to be obligated thereunder as if we were an original signatory thereto. _____ is our administrative agent and shall have all the rights and benefits of a "Creditor" under the Intercreditor Agreement as if it were an original signatory thereto and by its execution below agrees to be bound by the terms and conditions set forth in the Intercreditor Agreement and to be obligated thereunder as if it were an original signatory thereto.

We hereby advise you that we have extended credit to the Company on the terms summarized on Schedule 1 hereto and that our Financing Documents are described on Schedule 2 hereto.

We hereby advise you of the following administrative details:

Address: _____
Facsimile: _____
Telephone: _____

IN WITNESS WHEREOF, the undersigned has caused this Supplement to be duly executed by its proper officer hereunto duly authorized.

[NEW ADMINISTRATIVE AGENT:]

By:_____
Name:_____
Title:_____

[NEW LENDER:]

By:_____
Name:_____
Title:_____

Attachment C

SUPPLEMENT TO INTERCREDITOR AGREEMENT
(New Guarantor)

[Date]

[Date]

The Chase Manhattan Bank
2200 Ross Avenue, 3rd Floor
Dallas, TX 75201
Attention of Allen King
Telecopy No. 214/965-2044

with a copy to
The Chase Manhattan Bank
1 Chase Manhattan Plaza, 8th Floor
New York, New York 10081
Attention: Muniram Appanna
Telecopy No. 212/552-7490

Re: Intercreditor Agreement dated as of August 15, 2001, among Lennox International Inc, certain of its subsidiaries, the noteholders, lenders and agents named therein and THE CHASE MANHATTAN BANK, as the collateral agent for itself and the other Creditors (the **"Intercreditor Agreement**"); capitalized terms used herein and not otherwise defined herein shall have the meaning provided in the Intercreditor Agreement.

Ladies and Gentlemen:

We acknowledge that we have received a copy of the Intercreditor Agreement and we refer to Section 7.4 thereof.

Upon your receipt of this Supplement, we (a) shall have all the rights and benefits of a "Guarantor" under the Intercreditor Agreement as if we were an original signatory thereto, and (b) agree to be bound by the terms and conditions set forth in the Intercreditor Agreement and to be obligated thereunder as if we were an original signatory thereto.

IN WITNESS WHEREOF, the undersigned has caused this Supplement to be duly executed by its proper officer hereunto duly authorized.

[NEW GUARANTOR:]

By:_____
Name:_____
Title:_____

Solo Page

PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT (the "Agreement") dated as of August 15, 2001 is by and between LENNOX INTERNATIONAL INC. ("Pledgor") and THE CHASE MANHATTAN BANK, as collateral agent for itself and certain other creditors ("Secured Party").

RECITALS:

The Pledgor has entered into that certain Intercreditor Agreement dated as of August 15, 2001 with certain subsidiaries of the Pledgor, certain of the Pledgor's noteholders, other lenders party thereto, the administrative agents of such lenders and the Secured Party (such Intercreditor Agreement, as it may hereafter be amended or otherwise modified from time to time, being hereinafter referred to as the "Intercreditor Agreement", and capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Intercreditor Agreement). Under the Credit Facilities, the Pledgor is required to execute and deliver this Agreement in favor of the Secured Party.

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I.

Security Interest and Pledge

Section 1.1. Security Interest and Pledge. As collateral security for the prompt payment in full when due of all Obligations, Pledgor hereby pledges and grants to Secured Party a first priority security interest in all of Pledgor's right, title and interest in and to the following property (such property being hereinafter sometimes called the "Collateral"):

(a) all the capital stock and other equity securities issued by, and all other ownership interest in, the Material Restricted Subsidiaries described on Schedule 1 hereof and all other Material Restricted Subsidiaries hereafter created or acquired and owned by Pledgor, whether any of the foregoing are now owned or hereafter acquired, including without limitation, the capital stock or other ownership interests described on Schedule 1; and

(b) all proceeds, distributions, dividends, stock dividends, securities, payment intangibles and other property, rights, interests and other general intangibles that Pledgor receives or is at any time entitled to receive on account of the property described in clause (a) preceding.

ARTICLE II.

Representations and Warranties

Pledgor represents and warrants to Secured Party that:

Section 2.1. Title. Pledgor owns, and with respect to Collateral acquired after the date hereof, Pledgor will own, legally and beneficially, the Collateral free and clear of any lien, security interest, pledge, claim, or other encumbrance or any right or option on the part of any third Person to purchase or otherwise acquire the Collateral or any part thereof, except for the security interest granted hereunder. The Collateral is not subject to any restriction on transfer or assignment except for compliance with the

Financing Documents and compliance with applicable federal and state securities laws and regulations promulgated thereunder. Pledgor has the unrestricted right to pledge the Collateral as contemplated hereby. All of the capital stock pledged as Collateral has been duly and validly issued and is fully paid and non-assessable.

Section 2.2. Principal Place of Business; Jurisdiction of Organization The principal place of business and chief executive office of Pledgor, and the office where Pledgor keeps its books and records, is located at 2140 Lake Park Blvd., Richardson, Texas 75080. The Pledgor's jurisdiction of organization is Delaware. Within the last four months from the date hereof Pledgor has not (a) had any other chief place of business, chief executive office, or jurisdiction of organization; (b) acquired substantially all of the assets of any Person; nor (c) merged with or into a Person. Pledgor does not do business and has not done business during the past five years under any trade-name or fictitious business name.

Section 2.3. Delivery of Collateral. Except as provided by Section 4.3, Pledgor has delivered to Secured Party all Collateral the possession of which is necessary to perfect the security interest of Secured Party therein.

ARTICLE III.

Affirmative and Negative Covenants

Pledgor covenants and agrees with Secured Party that:

Section 3.1. Delivery. Prior to or concurrently with the execution and delivery of this Agreement, Pledgor shall deliver to Secured Party all certificate(s) of capital stock identified in Section 1.1(a) hereof, accompanied by undated stock powers or assignments, as applicable, duly executed in blank. Each time Section 1.1(a) hereto is amended in accordance with Section 3.5 hereof or otherwise, Pledgor shall deliver to Secured Party all new certificate(s) identified in any Pledge Amendment delivered pursuant to Section 3.5 or otherwise identified, accompanied by undated stock powers or assignments, as applicable, duly executed in blank.

Section 3.2. Encumbrances. Pledgor shall not create, permit, or suffer to exist, and shall defend the Collateral against, any lien, security interest, or other encumbrance on the Collateral except the pledge and security interest of Secured Party hereunder. Pledgor shall defend Pledgor's rights in the Collateral and Secured Party's security interest in the Collateral against the claims of all Persons.

Section 3.3. Distributions. If Pledgor shall become entitled to receive or shall receive: (i) any stock certificate (including, without limitation, any certificate representing a stock dividend or a distribution in connection with any reclassification, increase, or reduction of capital or issued in connection with any reorganization), option or rights, whether as an addition to, in substitution of, or in exchange for any Collateral; or (ii) subject to the right of Pledgor to receive cash dividends under Section 4.3 hereof, or as may otherwise be provided in the Credit Facilities: (a) any sums paid in respect of the Collateral upon the liquidation or dissolution of the issuer thereof; (b) any other distribution of capital made on or in respect of the Collateral or any other property distributed upon or in respect of the Collateral pursuant to any recapitalization or reclassification of the capital of the issuer thereof or pursuant to any reorganization of the issuer thereof; or (c) any other Collateral the possession of which is necessary to perfect the security interest of Secured Party therein, then Pledgor agrees to accept the same as Secured Party's agent and to hold the same in trust for Secured Party, and to deliver the same forthwith to Secured Party in the exact form received, with the appropriate endorsement of Pledgor when necessary and/or appropriate undated stock powers or assignments duly executed in blank, to be held by Secured

Party as additional Collateral for the obligations secured hereby, subject to the terms hereof. Subject to the right of Pledgor to receive cash dividends or other distributions under Section 4.3 hereof, all sums of money and property so paid or distributed in respect of the Collateral that are received by Pledgor shall, until paid or delivered to Secured Party, be held by Pledgor in trust as additional security for the Obligations.

Section 3.4. Additional Securities Pledgor shall not consent to or approve the issuance of any additional shares of any class of capital stock or any additional ownership interest of the issuer of any Collateral, or any securities convertible into, or exchangeable for, any such shares or ownership interest or any warrants, options, rights, or other commitments entitling any Person to purchase or otherwise acquire any such shares or any additional ownership interest (any of the foregoing herein an "Equity Right"); provided however, Pledgor may consent to or approve the issuance of any Equity Right if such Equity Right is permitted to be issued under the terms of the Credit Facilities and if such Equity Right is granted to Pledgor and is delivered to Secured Party as additional Collateral in accordance with the terms hereof to secure the obligations secured hereby.

Section 3.5. Additional Pledged Collateral. Pledgor shall pledge hereunder, immediately upon its acquisition thereof, any and all additional shares of stock, other certificates or other instruments evidencing Collateral. Pledgor agrees that it will, upon obtaining any additional shares of stock, other certificates or other instruments required to be pledged hereunder as provided in this Section 3.5 or Section 3.3 or Section 3.4 or which is otherwise required to be pledged hereunder under the terms of the Financing Documents, promptly (and in any event within fifteen Business Days) deliver to Secured Party a Pledge Amendment, duly executed by Pledgor, in substantially the form of Schedule 2 annexed hereto (a "Pledge Amendment"), in respect of the additional property to be pledged pursuant to this Agreement. Pledgor hereby authorizes Secured Party to attach each Pledge Amendment to this Agreement and agrees that all property listed on any Pledge Amendment delivered to Secured Party shall for all purposes hereunder be considered Collateral; provided that the failure of Pledgor to execute a Pledge Amendment with respect to any additional property pledged pursuant to this Agreement shall not impair the security interest of Secured Party therein or otherwise adversely affect the rights and remedies of Secured Party hereunder with respect thereto.

Section 3.6. Further Assurances. At any time and from time to time, upon the reasonable request of Secured Party, and at the sole expense of Pledgor, Pledgor shall promptly execute and deliver all such further documentation and take such further action as Secured Party may deem necessary or desirable to preserve and perfect its security interest in the Collateral and carry out the provisions and purposes of this Agreement, including, without limitation, the execution and filing of such financing statements as Secured Party may require (the Secured Party is hereby authorized to file without the consent or approval of the Pledgor, any financing statement naming it as Secured Party and the Pledgor as the Debtor which describes the Collateral).

Section 3.7. Sale of Collateral. Pledgor shall not sell, assign, or otherwise dispose of the Collateral or any part thereof without the prior written consent of all the Lenders or except as permitted by the Financing Documents.

Section 3.8. Corporate Changes. Pledgor shall not change its name, identity, or corporate structure in any manner that might make any financing statement filed in connection with this Agreement seriously misleading, in Secured Party's judgment, unless Pledgor shall have given Secured Party thirty (30) days prior written notice thereof and shall have taken all action deemed

necessary or desirable by Secured Party to make each financing statement not seriously misleading. Pledgor shall not change its principal place of business, chief executive office or jurisdiction of organization unless it shall have given Secured Party thirty (30) days' prior written notice thereof and shall have taken all action deemed necessary or desirable by Secured Party to cause its security interest in the Collateral to be protected and perfected with the priority required by this Agreement, including, without limitation, the delivery of a legal opinion satisfactory to the Secured Party as to the continued perfection and priority of the security interest hereby created.

ARTICLE IV.

Rights of Secured Party and Pledgor

Section 4.1. Power of Attorney. PLEDGOR HEREBY IRREVOCABLY CONSTITUTES AND APPOINTS SECURED PARTY AND ANY OFFICER OR AGENT THEREOF, WITH FULL POWER OF SUBSTITUTION, AS ITS TRUE AND LAWFUL ATTORNEY-IN-FACT WITH FULL IRREVOCABLE POWER AND AUTHORITY IN THE PLACE AND STEAD AND IN THE NAME OF PLEDGOR OR IN ITS OWN NAME, IN SECURED PARTY'S DISCRETION, TO TAKE, WHEN AN EVENT OF DEFAULT EXISTS, ANY AND ALL ACTION AND TO EXECUTE ANY AND ALL DOCUMENTS AND INSTRUMENTS WHICH MAY BE NECESSARY OR DESIRABLE TO ACCOMPLISH THE PURPOSES OF THIS AGREEMENT AND, WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, HEREBY GIVES SECURED PARTY THE POWER AND RIGHT ON BEHALF OF PLEDGOR AND IN ITS OWN NAME TO DO, WHEN AN EVENT OF DEFAULT EXISTS, ANY OF THE FOLLOWING WITHOUT NOTICE TO OR THE CONSENT OF PLEDGOR:

(a) to demand, sue for, collect, or receive in the name of Pledgor or in its own name, any money or property at any time payable or receivable on account of or in exchange for any of the Collateral and, in connection therewith, endorse checks, notes, drafts, acceptances, money orders, or any other instruments for the payment of money under the Collateral;

(b) to pay or discharge taxes, liens, security interests, or other encumbrances levied or placed on or threatened against the Collateral;

(c) (i) to direct account debtors and any other parties liable for any payment under any of the Collateral to make payment of any and all monies due and to become due thereunder directly to Secured Party or as Secured Party shall direct; (ii) to receive payment of and receipt for any and all monies, claims, and other amounts due and to become due at any time in respect of or arising out of any Collateral; (iii) to sign and endorse any drafts, assignments, proxies, stock powers, verifications, notices, and other documents relating to the Collateral; (iv) to commence and prosecute any suit, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any part thereof and to enforce any other right in respect of any Collateral; (v) to participate in the defense of, or if Pledgor fails to defend, to defend any suit, action, or proceeding brought against Pledgor with respect to any Collateral; (vi) to settle, compromise, or adjust any suit, action, or proceeding described in clauses (iv) or (v) above, and, in connection therewith, to give such discharges or releases as Secured Party may deem appropriate; (vii) to exchange any of the Collateral for other property upon any merger, consolidation, reorganization, recapitalization, or other readjustment of the issuer thereof and, in connection therewith, deposit any of the Collateral with any committee, depositary, transfer agent, registrar, or other designated agency upon such terms as Secured Party may determine; and (viii) to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though Secured Party were the absolute owner thereof for all purposes, and to do, at Secured Party's option and Pledgor's expense, at any time, or from time to time, all acts and things which Secured Party deems necessary to protect, preserve, or realize upon the Collateral and Secured Party's security interest therein.

THIS POWER OF ATTORNEY IS A POWER COUPLED WITH AN INTEREST AND SHALL BE IRREVOCABLE. Secured Party shall be under no duty to exercise or withhold the exercise of any of the rights, powers, privileges and options expressly or implicitly granted to Secured Party in this Agreement, and Secured Party shall not be liable for any failure to do so or any delay in doing so. Secured Party shall not be liable for any act or omission or for any error of judgment or any mistake of fact or law in its individual capacity or in its capacity as attorney-in-fact except acts or omissions resulting from its gross negligence or willful misconduct. This power of attorney is conferred on Secured Party solely to protect, preserve and realize upon its security interest in the Collateral.

Section 4.2. Voting Rights. Unless an Event of Default exists, Pledgor shall be entitled to exercise any and all voting rights pertaining to the Collateral or any part thereof for any purpose not inconsistent with the terms of this Agreement, any Credit Facility or the Intercreditor Agreement. Secured Party shall execute and deliver to Pledgor all such proxies and other instruments as Pledgor may reasonably request for the purpose of enabling Pledgor to exercise the voting rights which it is entitled to exercise pursuant to this Section.

Section 4.3. Dividends. Unless an Event of Default exists, Pledgor shall be entitled to receive and retain any dividends paid on the Collateral in cash to the extent and only to the extent that such dividends are permitted by the Credit Facilities and applicable law.

Section 4.4. Secured Party's Duty of Care. Other than the exercise of reasonable care in the physical custody of the Collateral while held by Secured Party hereunder, Secured Party shall have no responsibility for or obligation or duty with respect to all or any part of the Collateral or any matter or proceeding arising out of or relating thereto, including, without limitation, any obligation or duty to collect any sums due in respect thereof or to protect or preserve any rights against prior parties or any other rights pertaining thereto, it being understood and agreed that Pledgor shall be responsible for preservation of all rights in the Collateral. Without limiting the generality of the foregoing, Secured Party shall be conclusively deemed to have exercised reasonable care in the custody of the Collateral if Secured Party takes such action, for purposes of preserving rights in the Collateral, as Pledgor may reasonably request in writing, but no failure or omission or delay by Secured Party in complying with any such request by Pledgor, and no refusal by Secured Party to comply with any such request by Pledgor, shall be deemed to be a failure to exercise reasonable care.

ARTICLE V.

Default

Section 5.1. Rights and Remedies. If any Event of Default occurs, Secured Party shall have the following rights and remedies:

(a) In addition to all other rights and remedies granted to Secured Party in this Agreement , the Intercreditor Agreement and in any other instrument or agreement securing, evidencing, or relating to any of the obligations secured hereby, Secured Party shall have all of the rights and remedies of a secured party under the Uniform Commercial Code as adopted by the State of Texas or of a creditor with a lien or charge on the Collateral under the laws of the jurisdiction of the organization of the issuer of any of the Collateral. Without limiting the generality of the foregoing, Secured Party may (i) without demand or notice to Pledgor, collect, receive, or take possession of the Collateral or any part thereof, (ii) sell or otherwise dispose of the Collateral, or any part thereof, in one or more parcels at public or private sale or sales, at Secured Party's offices or elsewhere, for cash, on credit, or for future delivery and/or (iii) bid and become a purchaser at any public (or private, to the extent permitted by applicable

law) sale free of any right or equity of redemption in Pledgor, which right or equity is hereby expressly waived and released by Pledgor. Upon the request of Secured Party, Pledgor shall assemble the Collateral not already in the possession of Secured Party and make it available to Secured Party at any place designated by Secured Party that is reasonably convenient to Pledgor and Secured Party. Pledgor agrees that Secured Party shall not be obligated to give more than ten (10) days prior written notice of the time and place of any public sale or of the time after which any private sale may take place and that such notice shall constitute reasonable notice of such matters; provided, however, if any of the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Secured Party may sell or otherwise dispose of the Collateral without notification of any kind. Secured Party shall not be obligated to make any sale of the Collateral regardless of notice of sale having been given. Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Pledgor shall be liable for all reasonable expenses of retaking, holding, preparing for sale, or the like, and all reasonable attorneys' fees and other expenses incurred by Secured Party in connection with the collection of the obligations secured hereby and the enforcement of Secured Party's rights under this Agreement, all of which expenses and fees shall constitute additional obligations secured by this Agreement. Secured Party may apply the Collateral against the obligations secured hereby in such order and manner as Secured Party may determine in its discretion subject however, to the provisions of the Intercreditor Agreement. Pledgor shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay the obligations secured hereby. Pledgor waives all rights of marshaling in respect of the Collateral.

(b) Secured Party may cause any or all of the Collateral held by it to be transferred into the name of Secured Party or the name or names of Secured Party's nominee or nominees.

(c) Secured Party may collect or receive all money or property at any time payable or receivable on account of or in exchange for any of the Collateral, but shall be under no obligation to do so.

(d) Secured Party shall have the right, but shall not be obligated to, exercise or cause to be exercised all voting, consensual and other powers of ownership pertaining to the Collateral, and Pledgor shall deliver to Secured Party, if requested by Secured Party, irrevocable proxies with respect to the Collateral in form satisfactory to Secured Party.

(e) Pledgor hereby acknowledges and confirms that Secured Party may be unable to effect a public sale of any or all of the Collateral by reason of certain prohibitions contained in the Securities Act of 1933, as amended, and applicable state or foreign securities laws and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers who will be obligated to agree, among other things, to acquire any shares of the Collateral for their own respective accounts for investment and not with a view to distribution or resale thereof. Pledgor further acknowledges and confirms that any such private sale may result in prices or other terms less favorable to the seller than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner, and Secured Party shall be under no obligation to take any steps in order to permit the Collateral to be sold at a public sale. Secured Party shall be under no obligation to delay a sale of any of the Collateral for any period of time necessary to permit any issuer thereof to register such Collateral for public sale under the Securities Act of 1933, as amended, or under applicable state or foreign securities laws.

ARTICLE VI.

Miscellaneous

Section 6.1. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Pledgor and Secured Party and their respective successors and assigns, except that Pledgor may not assign any of its rights or obligations under this Agreement without the prior written consent of the Lenders.

Section 6.2. AMENDMENT; ENTIRE AGREEMENT. THIS AGREEMENT, THE INTERCREDITOR AGREEMENT AND THE OTHER FINANCING DOCUMENTS EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO AND SUPERSEDES ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO. The provisions of this Agreement may be amended or waived with the consent of the Required Lenders except as otherwise provided in the Intercreditor Agreement; provided that no amendment, waiver or other modification shall without the consent of all the Lenders modify the terms of Section 3.7 or this Section 6.2.

Section 6.3. Notices. All notices and other communications provided for in this Agreement shall be given or made in accordance with the Credit Agreements.

Section 6.4. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas and the applicable laws of the United States of America.

Section 6.5. Headings. The headings, captions and arrangements used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

Section 6.6. Counterparts. This Agreement may be executed in any number of counterparts and on telecopy counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

Section 6.7. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first written above.

PLEDGOR

LENNOX INTERNATIONAL INC.

By:_____
Richard A. Smith, Executive Vice President
and Chief Financial Officer

Secured Party:

THE CHASE MANHATTAN BANK,
as Collateral Agent

By:_____
Allen King, Vice President

STATE OF TEXAS §
§
COUNTY OF_____ §

The foregoing instrument was acknowledged before me this _____ day of August 2001 by Richard A. Smith, the Executive Vice President and Chief Financial Officer of LENNOX INTERNATIONAL INC., a Delaware corporation, on behalf of said corporation.

_____
Notary Public, State of Texas

_____
Printed Name of Notary Public

[S E A L]
My Commission Expires:
_____

Schedule 1
to
PLEDGE AGREEMENT

Collateral

Issuer	Ownership Interest	Number of Shares	Certificate Number	Par Value (per share)
Armstrong Air Conditioning Inc.	Common Stock	1,030 shares	2, 3, 4, and 5	$1.00
Excel Comfort Systems Inc.	Common Stock	1,000 shares	1	$1.00
Lennox Industries Inc.	Common Stock	994,394 shares	C8196, C8197, C8198,C8199	$0.01
Service Experts Inc.	Common Stock	1,000 shares	1	$0.01

Solo Page

Schedule 2
to
PLEDGE AGREEMENT

Pledge Amendment

This Pledge Amendment, dated _____, ____, is delivered pursuant to Section 3.5 of the Pledge Agreement referred to below. The undersigned hereby agrees that this Pledge Amendment may be attached to the Pledge Agreement dated as of August 15, 2001 between the undersigned and THE CHASE MANHATTAN BANK, as collateral agent, as secured party (the "Pledge Agreement", capitalized terms defined therein being used herein as therein defined). Schedule 1 to the Pledge Agreement is hereby amended to add the property described below and the property listed on this Pledge Amendment shall be part of the Collateral and shall secure all obligations secured by the Pledge Agreement.

LENNOX INTERNATIONAL INC.

By:_____
Name:_____
Title:_____

Issuer	Ownership Interest	Number of Shares	Certificate Number	Par Value (per share)