

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2022

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.

(Exact name of Registrant as specified in its charter)

Delaware

42-0991521

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

2140 Lake Park Blvd. Richardson, Texas 75080

(Address of principal executive offices, including zip code)

(Registrant's telephone number, including area code): (972) 497-5000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.01 par value per share	LII	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 last 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2022, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$7 billion based on the closing price of the registrant's common stock on the New York Stock Exchange. As of February 3, 2023, there were 35,474,054 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's 2022 Definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the registrant's 2022 Annual Meeting of Stockholders to be held on May 18, 2023 are incorporated by reference into Part III of this report.

Auditor Name: KPMG LLP

Auditor Location: Dallas, Texas

Auditor Firm ID: 185

LENNOX INTERNATIONAL INC.
FORM 10-K
For the Fiscal Year Ended December 31, 2022

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PART I

Item 1. *Business*

References in this Annual Report on Form 10-K to “we,” “our,” “us,” “LII” or the “Company” refer to Lennox International Inc. and its subsidiaries, unless the context requires otherwise.

The Company

We are a global leader in energy-efficient climate-control solutions. We design, manufacture and market a broad range of products for the heating, ventilation, air conditioning and refrigeration (“HVACR”) markets. We have leveraged our expertise to become an industry leader known for innovation, quality and reliability. Our products and services are sold through multiple distribution channels under various brand names. The Company was founded in 1895, in Marshalltown, Iowa, by Dave Lennox, the owner of a machine repair business for railroads. He designed and patented a riveted steel coal-fired furnace, which led to numerous advancements in heating, cooling and climate control solutions.

Shown in the table below are our three business segments, the key products, services and well-known product and brand names within each segment and net sales in 2022 by segment. Segment financial data for 2022, 2021 and 2020, including financial information about foreign and domestic operations, is included in Note 3 of the Notes to our Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” and is incorporated herein by reference.

Segment	Products & Services	Product and Brand Names	2022 Net Sales (in millions)
Residential Heating & Cooling	Furnaces, air conditioners, heat pumps, packaged heating and cooling systems, indoor air quality equipment, comfort control products, replacement parts and supplies	Lennox, Dave Lennox Signature Collection, Armstrong Air, Ducane, AirEase, Concord, MagicPak, ADP Advanced Distributor Products, Allied, Elite Series, Merit Series, Comfort Sync, Healthy Climate, Healthy Climate Solutions, iComfort ComfortSense and Lennox Stores	\$ 3,198.3
Commercial Heating & Cooling	Unitary heating and air conditioning equipment, applied systems, controls, installation and service of commercial heating and cooling equipment, variable refrigerant flow commercial products	Lennox, Model L, CORE, Emergence, Prodigy, Strategos, Landmark, Raider, Lennox VRF, Lennox National Account Services, Allied Commercial, MagicPak	900.7
Refrigeration	Condensing units, unit coolers, fluid coolers, air cooled condensers, air handlers, process chillers, controls, compressorized racks.	Heatcraft Worldwide Refrigeration, Lennox (Europe HVAC), Bohn, MAGNA, Larkin, Climate Control, Chandler Refrigeration, Friga-Bohn, HK Refrigeration, Hyfra, IntelliGen and Interlink	619.4
Total			\$ 4,718.4

In November 2022, we announced the decision to explore strategic alternatives for our European commercial HVAC and refrigeration businesses, which represent approximately 5% of our annual revenues. We will continue to invest in our Heatcraft Worldwide Refrigeration business which will become part of the Commercial Heating & Cooling segment beginning in 2023 and the European portfolio will be presented with Corporate and Other beginning in 2023 until disposition. As we will manage the businesses in this manner beginning in 2023, we will present the financial results of the revised segments beginning in 2023.

Products and Services

Residential Heating & Cooling

Heating & Cooling Products. We manufacture and market a broad range of furnaces, air conditioners, heat pumps, packaged heating and cooling systems, equipment and accessories to improve indoor air quality, comfort control products, replacement parts and supplies and related products for both the residential replacement and new construction markets in North America. These products are available in a variety of designs and efficiency levels and at a range of price points, and are intended to provide a complete line of home comfort systems. We believe that by maintaining a broad product line marketed under multiple brand names, we can address different market segments and penetrate multiple distribution channels.

The “Lennox” business and brands (“Dave Lennox Signature Collection,” “Elite Series,” “Merit Series,” “iComfort,” “ComfortSense” and “Healthy Climate Solutions”) are sold directly to independent installing dealers, making us one of the largest wholesale distributors of residential heating, ventilation, and air conditioning products in North America. We continue to invest in our network of 245 Lennox Stores across the United States and Canada. These stores provide an easy access solution for contractors and independent dealers to obtain universal service and replacement parts, supplies, convenience items, tools, Lennox equipment and OEM parts.

The Allied Air Enterprise business and brands (“Armstrong Air,” “AirEase,” “Concord,” “Ducane,” “Allied,” and “MagicPak”) include a full line of heating, ventilation and air conditioning products and are sold through independent wholesale distributors in the U.S. and Canada. The Allied Air Enterprise business also sells a full line of heating, ventilation and cooling equipment through private label brands.

The Advanced Distributor Products (“ADP”) business and brand (“ADP Advanced Distributor Products”) sells evaporator coils, air handlers and unit heaters to independent HVAC wholesale distributors across the U.S. and Canada.

Commercial Heating & Cooling

North America. In North America, we manufacture and sell unitary heating and cooling equipment used in light commercial applications, such as low-rise office buildings, restaurants, retail centers, distribution, churches and schools. Our product offerings for these applications include rooftop units ranging from 2 to 50 tons of cooling capacity and split system/air handler combinations, which range from 1.5 to 20 tons of cooling capacity. These products are distributed primarily through commercial contractors and directly to national account customers. In 2021, we launched the Lennox Model L rooftop unit featuring the industry leading CORE control system and advanced variable-speed technology to maximize rebates and energy savings. In late 2022, we introduced the Enlight rooftop unit which features a high efficiency heat pump line perfectly positioned to help our customers reach their environmental and sustainability goals. We believe the success of our products is attributable to their efficiency, impact to the environment, design flexibility, total cost of ownership, ease of service, and advanced control technology.

National Account Services. National Account Service (“NAS”) provides installation, service and preventive maintenance for commercial HVAC national account customers in the United States and Canada.

Refrigeration

We manufacture and market equipment for the global commercial refrigeration markets under the Heatcraft Worldwide Refrigeration name. We sell these products to distributors, installing contractors, engineering design firms, original equipment manufacturers and end-users. Our global manufacturing, distribution, sales and marketing footprint serves customers in approximately 100 countries worldwide.

North America. Our commercial refrigeration products for the North American market include condensing units, unit coolers, fluid coolers, air-cooled condensers, air handlers and refrigeration rack systems. These products preserve food and other perishables in supermarkets, convenience stores, restaurants, warehouses and distribution centers. In addition, our products are used to cool a wide variety of industrial processes, including data centers, machine tooling, and other critical cooling applications. We routinely provide application engineering for consulting engineers, contractors, store planners, end customers and others to support the sale of commercial refrigeration products.

International. In Europe, we manufacture and sell unitary HVAC products, which range from 2 to 70 tons of cooling capacity, and applied systems with up to 200 tons of cooling capacity. Our European products consist of small package units, rooftop units, chillers, air handlers and fan coils that serve medium-rise commercial buildings, shopping malls, other retail and entertainment buildings, institutional applications and other field-engineered applications. We manufacture heating and cooling products in several locations in Europe and market these products through both direct and indirect distribution channels in Europe, the United Kingdom, Eastern Europe, Turkey, Africa, and the Middle East.

We also manufacture and market refrigeration products including condensing units, unit coolers, air-cooled condensers, fluid coolers, compressor racks and industrial process chillers. We have manufacturing locations in Germany, France and Spain. In addition, we own a 50% interest in a joint venture in Mexico that produces unit coolers, air-cooled condensers, condensing units, compressors and compressorized racks of the same design and quality as those manufactured by our U.S. business. This joint venture product line is complemented with imports from the U.S., which are sold through the joint

venture's distribution network.

Business Strategy

Lennox offers a full spectrum of cooling, heating, indoor air quality and refrigeration products to meet the energy-efficient climate-control needs of residential and commercial customers across North America. We are focused on expanding our market position primarily through organic growth while leveraging costs to drive margin expansion and higher profit. This strategy is supported by the following four strategic priorities:

Innovative Product and System Solutions. In all of our markets, we are building on our heritage of innovation by developing residential and commercial products that give families and business owners more precise control over more aspects of their indoor environments, while significantly lowering their energy costs.

Manufacturing and Sourcing Excellence. We maintain our commitment to manufacturing and sourcing excellence by maximizing factory efficiencies and leveraging our engineering capabilities, purchasing power and sourcing initiatives to expand the use of lower-cost materials and components that meet our high-quality standards.

Distribution Excellence. By investing resources in expanding our distribution network and capabilities, we are making products available to our customers in a timely, cost-efficient manner. Additionally, we provide enhanced dealer support through the use of technology, training, advertising and merchandising.

Expense Reduction. Through our cost management initiatives, we are optimizing operating, manufacturing and administrative costs.

Marketing and Distribution

We utilize multiple channels of distribution and offer different brands at various price points in order to better penetrate the HVACR markets. Our products and services are sold through a combination of direct sales, distributors and company-owned parts and supplies stores. Dedicated sales forces and manufacturers' representatives are deployed across our business segments and brands in a manner designed to maximize our ability to service each distribution channel. To optimize enterprise-wide effectiveness, we have active cross-functional and cross-organizational teams coordinating approaches to pricing, product design, distribution and national account customers.

The North American residential heating and cooling market provides an example of the competitive strength of our marketing and distribution strategy. We use three distinct distribution approaches in this market: the company-owned distribution system, the independent distribution system and direct sales to end-users. We distribute our "Lennox" brands in a company-owned process directly to independent dealers that install these heating and cooling products. We distribute our "Armstrong Air," "Ducane," "Air-Ease," "Concord," "MagicPak" and "ADP Advanced Distributor Products" brands through the traditional independent distribution process pursuant to which we sell our products to distributors who, in turn, sell the products to installing contractors. We also sell our products through our Lennox Stores.

Manufacturing

We operate manufacturing facilities worldwide and utilize the best available manufacturing techniques based on the needs of our businesses, including the use of lean manufacturing and principles of Six Sigma, a disciplined, data-driven approach and methodology for improving quality. We use numerous metrics to track and manage annual efficiency improvements. Some facilities are impacted by seasonal production demand, and we manufacture both heating and cooling products in those facilities to balance production and maintain a relatively stable labor force. We may also hire temporary employees to meet changes in demand.

Strategic Sourcing

We rely on various suppliers to furnish the raw materials and components used in the manufacturing of our products. To maximize our buying effectiveness in the marketplace, we have a central strategic sourcing group that consolidates purchases of certain materials, components and indirect items across business segments. The goal of the strategic sourcing group is to develop global strategies for a given component group, concentrate purchases with three to five suppliers and develop long-term relationships with these vendors. By developing these strategies and relationships, we seek to leverage our material needs to reduce costs and improve financial and operating performance. Our strategic sourcing group also works with selected suppliers to reduce costs, improve quality and delivery performance by employing lean manufacturing and Six Sigma.

Compressors, motors and controls constitute our most significant component purchases, while steel, copper and aluminum account for the bulk of our raw material purchases. We own a minority equity interest in a joint venture that manufactures compressors. This joint venture provides us with compressors for our residential and commercial heating and cooling, and refrigeration businesses.

Research and Development and Technology

Research and development is a key pillar of our growth strategy. We operate a global engineering and technology organization that focuses on new technology invention, product development, product quality improvements and process enhancements, including our development of next-generation control systems as well as heating and cooling products that include some of the most efficient products in their respective categories. We leverage intellectual property and innovative designs across our businesses. We also leverage product development cycle time improvements and product data management systems to commercialize new products to market more rapidly. We use advanced, commercially available computer-aided design, computer-aided manufacturing, computational fluid dynamics and other sophisticated design tools to streamline the design and manufacturing processes. We use complex computer simulations and analyses in the conceptual design phase before functional prototypes are created. We also operate a full line of prototype machine equipment and advanced laboratories certified by applicable industry associations.

Seasonality

Our sales and related segment profit tend to be seasonally higher in the second and third quarters of the year because summer is the peak season for sales of air conditioning equipment and services in the U.S. and Canada. For the same reason, our working capital needs are generally greater in the first and second quarters, and we generally have higher operating cash inflows in the third and fourth quarters.

HVAC markets are driven by seasonal weather patterns. HVAC products and services are sold year round, but the volume and mix of product sales and service change significantly by season. The industry generally ships roughly twice as many units during June as it does in December. Overall, cooling equipment represents a substantial portion of the annual HVAC market. Between the heating season (roughly November through February) and cooling season (roughly May through August) are periods commonly referred to as “shoulder seasons” when the distribution channel transitions its buying patterns from one season to the next. These seasonal fluctuations in mix and volume drive our sales and related segment profit, resulting in somewhat higher sales in the second and third quarters due to the higher volume in the cooling season relative to the heating season.

Patents and Trademarks

We hold numerous patents that relate to the design and use of our products. We consider these patents important, but no single patent is material to the overall conduct of our business. We proactively obtain patents to further our strategic intellectual property objectives. We own or license several trademarks and service marks we consider important in the marketing of our products and services, and we protect our marks through national registrations and common law rights.

Competition

Substantially all markets in which we participate are competitive. The most significant competitive factors we face are availability, reliability, energy efficiency, product performance, service and price, with the relative importance of these factors varying among customer applications. The following are some of the companies we view as significant competitors in each of our three business segments, with relevant brand names, when different from the company name, shown in parentheses. The marks below may be the registered or unregistered trademarks or trade names of their respective owners.

- Residential Heating & Cooling - Carrier Global Corporation (Carrier, Bryant, Payne, Tempstar, Comfortmaker, Heil, Arcoaire, KeepRite, Day & Night); Trane Technologies plc (Trane, American Standard, Ameristar, Oxbox, RunTru); Paloma Industries, Inc. (Rheem, Ruud, Weather King); Johnson Controls, Inc. (York, Luxaire, Coleman); Daikin Industries, Ltd. (Daikin, Goodman, Amana, GMC); and Melrose Industries PLC (Maytag, Westinghouse, Frigidaire, Tappan, Philco, Kelvinator, Gibson, Broan, NuTone).
- Commercial Heating & Cooling - Carrier Global Corporation (Carrier, ICP Commercial); Trane Technologies plc (Trane); Paloma Industries, Inc. (Rheem, Ruud); Johnson Controls, Inc. (York); Daikin Industries, Ltd. (Goodman, McQuay); Melrose Industries PLC (Mammoth); and AAON, Inc.

- Refrigeration - Hussmann Corporation; Paloma Industries, Inc. (Rheem Manufacturing Company (Heat Transfer Products Group)); Emerson Electric Co. (Copeland); Carrier Global Corporation (Carrier); GEA Group (Kuba, Searle, Goedhart); Alfa Laval; Guntner GmbH; Kelvion - Profroid (Carrier); Panasonic Corp. (Sanyo); Technotrans; and Deltatherm.

Human Capital Management

Our success, in large part, relies on the character of our people. That character is reflected in our core values of integrity, respect and excellence. Our continued success depends on our ability to attract, motivate, develop and retain employees who embody our core values.

Management strives to maintain the right number of employees with the necessary skills to match the expected demand for the products we manufacture and distribute. As of December 31, 2022, we employed approximately 13,200 people. Of these employees, approximately 5,100 were salaried and 8,100 were hourly. The number of hourly workers varies in order to match our labor needs during periods of fluctuating demand.

Approximately 3,000 of our employees, including international locations, are represented by unions. We believe we have good relationships with our employees and with the unions representing them. On November 1, 2021, our Marshalltown, Iowa-based union ratified a five-year labor agreement. We currently do not anticipate any material adverse consequences resulting from negotiations to renew other collective bargaining agreements.

To succeed in an ever-changing and competitive labor market, we have identified priorities we believe are critical to our success in attracting, motivating, developing, and retaining employees. These include among other things: (1) providing competitive compensation and benefit programs, (2) providing career development programs, (3) promoting health and safety, and (4) championing a diverse and inclusive work environment. Further information is available in our Environmental Social and Governance (ESG) report available on our website. The information on our website, including the ESG Report, is not a part of, or incorporated by reference into, this Annual Report on Form 10-K.

Compensation and Benefit Programs. We are committed to providing our employees with a competitive compensation package that rewards performance and achievement of desired business results. Our compensation package consists of three primary benefits: pay (base pay and incentive programs), health and welfare benefits, and retirement contributions. We analyze our compensation and benefits programs annually to ensure we remain competitive and make changes as necessary.

Career Development Programs. To help our employees succeed in their roles and grow their careers at Lennox, we provide numerous training and development programs. One example is our “Career Journey” program which provides employees with engaging tools enabling them to reflect on skills and interests, and explore a variety of potential career paths. Career Journey allows employees to have more meaningful career development conversations with their manager. In addition to training and development programs we have a robust performance review and goal setting process for all employees. We believe this helps ensure that employees meet expectations throughout the year while continuing development of their long-term careers at Lennox.

Employee Health and Safety. As part of our effort to attract and retain a competitive workforce, we are committed to ensuring that every employee returns home safe at the end of each day. Safety is our top priority and our safety programs are succeeding to reduce risks across our operations. In response to the COVID-19 pandemic, we have taken extensive actions that are aligned with the World Health Organization and Centers for Disease Control and Prevention to protect the health and safety of our workers.

Diversity and Inclusion. We are committed to a diverse workforce built on a foundation of respect and value for people of different backgrounds, experiences, and perspectives. Our commitment to diversity and inclusion enables all employees to be creative, feel challenged, and thrive, which allows us to leverage the unique strengths of our employees to deliver innovative products and solutions for our customers.

Our senior managers, together with our human resources team, are devoted to promoting the above priorities to ensure we remain an employer of choice. We regularly conduct anonymous surveys to seek feedback from our employees on a variety of subjects, including safety, communications, diversity and inclusion, management support to succeed within our company, and career growth.

Despite these efforts, we have experienced, and could continue to experience, higher employee absenteeism, particularly in manufacturing and distribution locations. These concerns have decreased the pool of available qualified talent for certain functions. As a result, we have made and continue to make strong efforts to maintain and recruit qualified talent and are committed to being competitive to retain the best talent possible.

Environmental Regulation

Our operations are subject to evolving and often increasingly stringent international, federal, state and local laws and regulations concerning the environment. Environmental laws affect or could affect our operations. We believe we are in substantial compliance with such existing environmental laws and regulations.

Energy Efficiency. The U.S. Department of Energy has numerous active energy conservation rulemakings that impact residential and commercial heating, air conditioning and refrigeration equipment. We are actively involved in U.S. Department of Energy activities related to energy efficiency. We are prepared to have compliant products in place in advance of the effective dates of all such regulations being considered by the U.S. Department of Energy.

Refrigerants. The use of hydrofluorocarbons (“HFCs”) as refrigerants for air conditioning and refrigeration equipment is common practice in the HVACR industry and is regulated. We believe we have complied with applicable rules and regulations in various countries governing the use of HFCs. We are an active participant in the ongoing international and domestic dialogue on this subject and are well positioned to react in a timely manner to changes in the regulatory landscape.

Remediation Activity. In addition to affecting our ongoing operations, applicable environmental laws can impose obligations to remediate hazardous substances at our properties, at properties formerly owned or operated by us and at facilities to which we have sent or send waste for treatment or disposal. We are aware of contamination at some of our facilities; however, based on facts presently known, we do not believe that any future remediation costs at such facilities will be material to our results of operations. For more information, see Note 5 in the Notes to our Consolidated Financial Statements.

In the past, we have received notices that we are a potentially responsible party along with other potentially responsible parties in Superfund proceedings under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup of hazardous substances at certain sites to which the potentially responsible parties are alleged to have sent waste. Based on the facts presently known, we do not believe environmental cleanup costs associated with any Superfund sites about which we have received notice that we are a potentially responsible party will be material to our results of operations.

E-Waste and Related Compliance. Many countries around the world as well as many states in the U.S. have enacted directives, laws, and regulations directed at preventing electrical and electronic equipment waste by encouraging reuse and recycling as well as restricting the use of hazardous products in electrical and electronic equipment. All HVACR products and certain components of such products are potentially subject to these types of requirements. We are not uniquely affected as compared to other manufacturers. We actively monitor the development and evolution of such requirements and believe we are well positioned to comply with such directives in the required time frames.

Available Information

Our web site address is www.lennoxinternational.com. We make available, free of charge through our web site, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, including exhibits, and amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as soon as reasonably possible after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. The information on our web site is not a part of, or incorporated by reference into, this Annual Report on Form 10-K.

The Securities and Exchange Commission maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers, including Lennox International, that file electronically with the Securities and Exchange Commission.

Information about our Executive Officers

Our executive officers, their present positions and their ages are as follows as of February 3, 2023:

Name	Age	Position
Alok Maskara	51	Chief Executive Officer
Joseph W. Reitmeier	58	Executive Vice President, Chief Financial Officer
Douglas L. Young	60	Executive Vice President
Gary S. Bedard	58	Executive Vice President & President LII Residential Heating & Cooling
Prakash Bedapudi	56	Executive Vice President, Chief Technology Officer
Daniel M. Sessa	58	Executive Vice President, Chief Human Resources Officer
John D. Torres	64	Executive Vice President, Chief Legal Officer and Secretary
Joe Nassab	55	Executive Vice President & President LII North America Commercial Heating & Cooling
Chris A. Kosel	55	Vice President, Chief Accounting Officer and Controller

Alok Maskara joined Lennox International Inc. as Chief Executive Officer on May 9, 2022. Most recently he served for five years as CEO of Luxfer Holdings PLC, an international industrial company focused on advanced materials. Mr. Maskara also served for nearly a decade as president of several global business units at Pentair PLC, a leading provider of water treatment and sustainable applications. Previously he held various leadership positions at General Electric Corporation and McKinsey & Company. Mr. Maskara also serves on the board of Franklin Electric (Nasdaq: FELE) a company focused on global water and fluid solutions. Mr. Maskara graduated with a bachelor of technology degree in chemical engineering from the Indian Institute of Technology in 1992 and a master's degree in chemical engineering from the University of New Mexico in 1994. In 2000, he earned an MBA from the Kellogg School of Management at Northwestern University.

Joseph W. Reitmeier was appointed Executive Vice President, Chief Financial Officer in July 2012. He had served as Vice President of Finance for the LII's Commercial Heating & Cooling segment since 2007 and as Director of Internal Audit from 2005 to 2007. Before joining the Company, he held financial leadership roles at Cummins Inc. and PolyOne Corporation. He is a director of Watts Water Technologies, Inc., a global provider of plumbing, heating and water quality solutions for residential, industrial, municipal and commercial settings. Mr. Reitmeier holds a bachelor's degree in accounting from the University of Akron and an MBA from Case Western Reserve University. He is also a Certified Public Accountant.

Douglas L. Young has served as an Executive Vice President since January 2023. Most recently he served as Executive Vice President, President and Chief Operating Officer of LII's Residential Heating & Cooling segment in October 2006. Mr. Young had previously served as Vice President and General Manager of North American Residential Products since 2003 and as Vice President and General Manager of Lennox North American Residential Sales, Marketing, and Distribution from 1999 to 2003. Prior to his career with LII, Mr. Young was employed in the Appliances division of GE, where he held various management positions before serving as General Manager of Marketing for GE Appliance division's retail group from 1997 to 1999 and as General Manager of Strategic Initiatives in 1999. He holds a BSBA from Creighton University and a master's of science in management from Purdue University. Mr. Young serves on the Board of Directors of Beacon Roofing Supply, a general building material distributor and is a past Chairman of the Board of Directors of AHRI (the Air-Conditioning, Heating, and Refrigeration Institute), the trade association for the HVACR and water heating equipment industries. In November 2022, Mr. Young advised leadership that he intended to retire effective June 30, 2023.

Gary S. Bedard was appointed Executive Vice President & President of LII's Residential Heating & Cooling business in January 2023. Most recently, he served as Executive Vice President & President of LII's Worldwide Refrigeration business, a position he held since October 2017. Prior to that, Mr. Bedard served as Vice President and General Manager, LII Residential Heating & Cooling for 12 years. He has also held the positions of Vice President, Residential Product Management, LII Worldwide Heating and Cooling, Director of Brand and Product Management, and District Manager for Lennox Industries' New York District. Before joining LII in 1998, Mr. Bedard spent eight years at York International in product management and sales leadership roles for commercial applied and unitary systems as well as residential systems. Mr. Bedard has a bachelor's degree in engineering management from the United States Military Academy at West Point. Mr. Bedard serves on the Board of Directors of the AHRI, the trade association for the HVACR and water heating equipment industries.

Prakash Bedapudi was appointed Executive Vice President, Chief Technology Officer in July 2008. He had previously served as Vice President, Global Engineering and Program Management for Trane Inc. Commercial Systems from 2006 through 2008, and as Vice President, Engineering and Technology for Trane's Residential Systems division from 2003 through 2006. Prior to his career at Trane, Mr. Bedapudi served in senior engineering leadership positions for GE Transportation Systems, a division of General Electric Company, and for Cummins Engine Company. He holds a bachelor of science in mechanical/automotive engineering from Karnataka University, India and a master's of science in mechanical/aeronautical engineering from the University of Cincinnati.

Daniel M. Sessa was appointed Executive Vice President, Chief Human Resources Officer in June 2007. He had previously served in numerous senior human resources and legal leadership positions for United Technologies Corporation since 1996, including Vice President, Human Resources for Otis Elevator Company - Americas from 2005 to 2007, Director, Employee Benefits and Human Resources Systems for United Technologies Corporation from 2004 to 2005, and Director, Human Resources for Pratt & Whitney from 2002 to 2004. He holds a bachelor of arts in law and society from the State University of New York at Binghamton and a juris doctor from the Hofstra University School of Law.

John D. Torres was appointed Executive Vice President, Chief Legal Officer and Secretary in December 2008. He had previously served as Senior Vice President, General Counsel and Secretary for Freescale Semiconductor, a semiconductor manufacturer that was originally part of Motorola. He joined Motorola's legal department as Senior Counsel in 1996 and was appointed Vice President, General Counsel of the company's semiconductor business in 2001. Prior to joining Motorola, Mr. Torres served 13 years in private practice in Phoenix, specializing in commercial law. He holds a bachelor of arts from Notre Dame and a juris doctor from the University of Chicago.

Joe Nassab was appointed Executive Vice President & President of our North America Commercial Heating & Cooling business on May 4, 2022. He joined LII in 2010 as Vice President and General Manager of Allied Air. Before joining LII, Joe worked for 20 years at General Electric Company in a variety of general management, product management, and marketing leadership roles. Joe has a bachelor's degree in finance from the University of Michigan.

Chris A. Kosel was appointed Vice President, Chief Accounting Officer and Controller in May 2017. He had previously served as Vice President, Business Analysis and Planning for the Company since 2016. He also had served as Vice President, Finance and Controller and Director of Finance for the Company's North America Commercial Business from 2015 to 2016 and Director, Financial Planning and Analysis for the Company's Residential Business Unit from 2014 to 2015. Prior to 2014 he had served as Director, Finance for the Company's Lennox Stores business and Director of the Company's Financial Shared Services function. Prior to joining Lennox, he worked for Ernst & Young. He holds a bachelor's degree in accounting from Texas A&M University. He is also a Certified Public Accountant.

Item 1A. Risk Factors

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act that are based on information currently available to management as well as management's assumptions and beliefs as of the date hereof. All statements, other than statements of historical fact, included in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the words "may," "will," "should," "plan," "predict," "anticipate," "believe," "intend," "estimate" and "expect" and similar expressions. Statements that are not historical should also be considered forward-looking statements. Such statements reflect our current views with respect to future events. Readers are cautioned not to place undue reliance on these forward-looking statements. We believe these statements are based on reasonable assumptions; however, such statements are inherently subject to risks and uncertainties, including but not limited to the specific uncertainties discussed elsewhere in this Annual Report on Form 10-K and the risk factors set forth in Item 1A. Risk Factors in this Annual Report on Form 10-K. These risks and uncertainties may affect our performance and results of operations. 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. We disclaim 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 unless required by law.

Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. We believe these are the principal material risks currently facing our business; however, additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. If any of the following risks or those disclosed in our other SEC filings occurs, our business, financial condition or results of operations could be materially adversely affected.

Business and Operational Risks

We May Not be Able to Compete Favorably in the Competitive HVACR Business.

Substantially all of the markets in which we operate are competitive. The most significant competitive factors we face are product reliability, product performance, reputation of our company and brands, service and price and global supply chain constraints, with the relative importance of these factors varying among our product lines. Other factors that affect competition in the HVACR market include the development and application of new technologies, an increasing emphasis on the development of more efficient HVACR products and new product introductions. We may not be able to adapt to market changes as quickly or effectively as our current and future competitors. Also, the establishment of manufacturing operations in low-cost countries could provide cost advantages to existing and emerging competitors. Some of our competitors may have greater financial resources than we have, allowing them to invest in more extensive research and development and/or marketing activity and making them better able to withstand adverse HVACR market conditions. Current and future competitive pressures may cause us to reduce our prices or lose market share, or could negatively affect our cash flow, all of which could have a material adverse effect on our results of operations.

If We Cannot Successfully Execute our Business Strategy, Our Results of Operations Could be Adversely Impacted.

Our future success depends on our continued investment in research and new product development as well as our ability to commercialize new HVACR technological advances in domestic and global markets. If we are unable to continue to timely and successfully develop and market new products, achieve technological advances, or extend our business model and technological advances into international markets, our business and results of operations could be adversely impacted.

We are engaged in various manufacturing rationalization actions designed to achieve our strategic priorities of manufacturing, sourcing, and distribution excellence and of lowering our cost structure. For example, we are continuing to reorganize our North American distribution network in order to better serve our customers' needs by deploying parts and equipment inventory closer to them and are expanding our sourcing activities outside of the U.S. In such case, our results of operations and profitability may be negatively impacted, making us less competitive and potentially causing us to lose market share.

Our Ability to Meet Customer Demand may be Limited by Our Single-Location Production Facilities, Reliance on Certain Key Suppliers and Unanticipated Significant Shifts in Customer Demand.

We manufacture many of our products at single-location production facilities. In certain instances, we heavily rely on suppliers who also may concentrate production in single locations or source unique, necessary products from only one supplier. Any significant interruptions in production at one or more of our facilities, or at a facility of one of our key suppliers, could negatively impact our ability to deliver our products to our customers, especially as we continue to experience disruptions in supply.

Further, even with all of our facilities running at full production, we could potentially be unable to fully meet demand during an unanticipated period of exceptionally high demand. Our inability to meet our customers' demand for our products could have a material adverse effect on our business, financial condition, and results of operations.

Our Results of Operations May Suffer if We Cannot Continue to License or Enforce the Intellectual Property Rights on Which Our Businesses Depend or if Third Parties Assert That We Violate Their Intellectual Property Rights.

We rely upon patent, copyright, trademark and trade secret laws and agreements to establish and maintain intellectual property rights in the products we sell. Our intellectual property rights could be challenged, invalidated, infringed, circumvented, or be insufficient to permit us to take advantage of current market trends or to otherwise provide competitive

advantages. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States.

Third parties may also claim that we are infringing upon their intellectual property rights. If we do not license infringed intellectual property or if we are required to substitute similar technology from another source, our operations could be adversely affected. Even if we believe that intellectual property claims are without merit, they can be time consuming, require significant resources and be costly to defend. Claims of intellectual property infringement also might require us to redesign affected products, pay costly damage awards, or face injunction prohibiting us from manufacturing, importing, marketing, or selling certain of our products. Even if we have agreements to indemnify us, indemnifying parties may be unable or unwilling to do so.

Our Operations Can Be Adversely Affected By Our Ability to Attract, Motivate, Develop, and Retain Our Employees, Labor Shortages and Work Stoppages, Turnover, Labor Cost Increases and Other Labor Relations Problems.

We are committed to attracting, motivating, developing, and retaining our employees to ensure we remain an employer of choice. Despite our efforts, we have experienced, and could continue to experience, higher employee turnover and absenteeism, particularly in manufacturing and distribution locations, as a result of COVID-19 related concerns and other factors. A number of factors may adversely affect the labor force available or increase labor costs, including high employment levels, related competition, and federal unemployment subsidies, such as unemployment benefits offered in response to the COVID-19 pandemic. These concerns have decreased the pool of available qualified talent for certain functions. In addition, as of December 31, 2022, approximately 23% of our workforce, including international locations, was unionized. Our Marshalltown, Iowa-based union ratified a five-year labor agreement on November 1, 2021; however, the results of future negotiations with unions are uncertain. If we are unsuccessful in meeting these challenges, our results of operations could be materially impacted.

Volatility in Capital Markets Could Necessitate Increased Cash Contributions by Us to Our Pension Plans to Maintain Required Levels of Funding.

Volatility in the capital markets may have a significant impact on the funding status of our defined benefit pension plans. If the performance of the capital markets depresses the value of our defined benefit pension plan assets or increases the liabilities, we would be required to make additional contributions to the pension plans. The amount of contributions we may be required to make to our pension plans in the future is uncertain and could be significant, which may have a material adverse effect on our results of operations.

Industry Risks

Our Financial Performance Is Affected by the Conditions and Performance of the U.S. Construction Industry.

Our business is affected by the performance of the U.S. construction industry. Our sales in the residential and commercial new construction markets correlate to the number of new homes and buildings that are built, which in turn is influenced by cyclical factors such as interest rates, inflation, availability of financing, consumer spending habits and confidence, employment rates and other macroeconomic factors over which we have no control. Our sales may not improve, or improvement may be limited or lower than expected.

Cooler than Normal Summers and Warmer than Normal Winters May Depress Our Sales.

Demand for our products and for our services is seasonal and strongly affected by the weather. Cooler than normal summers depress our sales of replacement air conditioning and refrigeration products and services. Similarly, warmer than normal winters have the same effect on our heating products and services. The effects of climate change, such as extreme weather conditions and events and water scarcity, may exacerbate fluctuations in typical weather patterns, creating financial risks to our business.

Price Volatility for Commodities and Components We Purchase or Significant Supply Interruptions Could Have an Adverse Effect on Our Cash Flow or Results of Operations.

We depend on raw materials, such as steel, copper and aluminum, and components purchased from third parties to manufacture our products. Some of these third-party suppliers are located outside of the United States. We generally

concentrate purchases for a given raw material or component with a small number of suppliers. If a supplier is unable or unwilling to meet our supply requirements, including suffering any disruptions at its facilities or in its supply chain, we could experience supply interruptions or cost increases, either of which could have an adverse effect on our results of operations. Similarly, suppliers of components that we purchase for use in our products may be affected by rising material costs and pass these increased costs on to us. Although we regularly pre-purchase a portion of our raw materials at fixed prices each year to hedge against price increases, an increase in raw materials prices not covered by our fixed price arrangements could significantly increase our cost of goods sold and negatively impact our margins if we are unable to effectively pass such price increases on to our customers. Alternatively, if we increase our prices in response to increases in the prices or quantities of raw materials or components or if we encounter significant supply interruptions, our competitive position could be adversely affected, which may result in depressed sales and profitability.

The ongoing COVID-19 pandemic has resulted in increased global supply chain constraints and disruption to the operations of certain of our suppliers and we cannot predict the duration or severity of current supply-chain issues, including increased input material costs and component shortages, delivery disruptions and delays, and inflation. Additionally, the effects of climate change, including extreme weather events, long-term changes in temperature levels, water availability, increased cost for decarbonizing process heating, supply costs impacted by increasing energy costs, or energy costs impacted by carbon prices or offsets may exacerbate supply chain constraints and disruption. Resulting supply chain constraints have required, and may continue to require, in certain instances, alternative delivery arrangements and increased costs and could have a material adverse effect on our business and operations.

In addition, we use derivatives to hedge price risk associated with forecasted purchases of certain raw materials. Our hedged prices could result in paying higher or lower prices for commodities as compared to the market prices for those commodities when purchased.

Legal, Tax and Regulatory Risks

Changes in Environmental and Climate-Related Legislation, Government Regulations, or Policies Could Have an Adverse Effect on Our Results of Operations.

The sales, gross margins, and profitability for each of our segments could be directly impacted by changes in legislation, government regulations, or policies (collectively, “LRPs”) relating to global climate change and other environmental initiatives and concerns. These LRPs, implemented under global, national, and sub-national climate objectives or policies, can include changes in environmental and energy efficiency standards and tend to target the global warming potential of refrigerants and hydrofluorocarbons, equipment energy efficiency, and combustion of fossil fuels as a heating source. Many of our products consume energy and use refrigerants and hydrofluorocarbons. LRPs that seek to reduce greenhouse gas emissions may require us to make increased capital expenditures to develop or market new products to meet new LRPs. Further, our customers and the markets we serve may impose emissions or other environmental standards through LRPs or consumer preferences that may require additional time, capital investment, or technological advancement. Our inability or delay in developing or marketing products that match customer demand while also meeting applicable LRPs may negatively impact our results.

There continues to be a lack of consistent climate legislation and regulations, which creates economic and regulatory uncertainty. Such regulatory uncertainty could adversely impact the demand for energy efficient buildings and could increase costs of compliance. Additionally, the extensive and ever-changing legislation and regulations could impose increased liability for remediation costs and civil or criminal penalties in cases of non-compliance. Because these laws are subject to frequent change, we are unable to predict the future costs resulting from environmental compliance.

Changes in U.S. Trade Policy, Including the Imposition of Tariffs and the Resulting Consequences, Could Have an Adverse Effect on Our Results of Operations.

The U.S. government has made changes in U.S. trade policy over the past several years. These changes include renegotiating and terminating certain existing bilateral or multi-lateral trade agreements, such as the U.S.-Mexico-Canada Agreement, and initiating tariffs on certain foreign goods from a variety of countries and regions, most notably China. These changes in U.S. trade policy have resulted in, and may continue to result in, one or more foreign governments adopting responsive trade policies that make it more difficult or costly for us to do business in or import our products or components from those countries. The sales, gross margins, and profitability for each of our segments could be directly impacted by changes in tariffs and trade agreements.

We cannot predict the extent to which the U.S. or other countries will impose new or additional quotas, duties, tariffs, taxes or other similar restrictions upon the import or export of our products in the future, nor can we predict future trade policy or the terms of any renegotiated trade agreements and their impact on our business. The continuing adoption or expansion of trade restrictions, the occurrence of a trade war, or other governmental action related to tariffs or trade agreements or policies has the potential to adversely impact demand for our products, our costs, our customers, our suppliers, and the U.S. economy, which in turn could have a material adverse effect on our business, operating results, and financial condition.

We May Incur Substantial Costs as a Result of Claims Which Could Have an Adverse Effect on Our Results of Operations.

The development, manufacture, sale and use of our products involve warranty, intellectual property infringement, and product liability claims, and other liabilities and risks for the installation and service of our products. Our product liability insurance policies have limits that, if exceeded, may result in substantial costs that could have an adverse effect on our results of operations. In addition, warranty claims are not covered by our product liability insurance and certain product liability claims may also not be covered by our product liability insurance.

For some of our HVACR products, we provide warranty terms ranging from one to 20 years to customers for certain components such as compressors or heat exchangers. For certain limited products, we provided lifetime warranties. Warranties of such extended lengths pose a risk to us as actual future costs may exceed our current estimates of those costs. Warranty expense is recorded on the date that revenue is recognized and requires significant assumptions about what costs will be incurred in the future. We may be required to record material adjustments to accruals and expense in the future if actual costs for these warranties are different from our assumptions.

We are Subject to Claims, Lawsuits, and Other Litigation That Could Have an Adverse Effect on Our Results of Operations.

We are involved in various claims and lawsuits incidental to our business, including those involving product liability, labor relations, alleged exposure to asbestos-containing materials and environmental matters, some of which claim significant damages. Estimates related to our claims and lawsuits, including estimates for asbestos-related claims and related insurance recoveries, involve numerous uncertainties. Given the inherent uncertainty of litigation and estimates, we cannot be certain that existing claims or litigation or any future adverse legal developments will not have a material adverse impact on our financial condition.

General Risk Factors

Global General Business, Economic and Market Conditions Could Adversely Affect Our Financial Performance and Limit Our Access to the Capital Markets.

Disruptions in U.S. or global financial and credit markets or increases in the costs of capital might have an adverse impact on our business. The tightening, unavailability or increased cost of credit adversely affects the ability of our customers to obtain financing for significant purchases and operations, resulting in a decrease in sales of our products and services and may impact the ability of our customers to make payments to us. Similarly, tightening of available credit may adversely affect our supplier base and increase the potential for one or more of our suppliers to experience financial distress or bankruptcy. Our business may also be adversely affected by future decreases in the general level of economic activity and increases in borrowing costs, which may cause our customers to cancel, decrease or delay their purchases of our products and services.

If financial markets were to deteriorate, or costs of capital were to increase significantly due to a lowering of our credit ratings, prevailing industry conditions, the volatility of the capital markets or other factors, we may be unable to obtain new financing on acceptable terms, or at all. A deterioration in our financial performance could also limit our future ability to access amounts currently available under our Credit Agreement. In addition, availability under our asset securitization agreement may be adversely impacted by credit quality and performance of our customer accounts receivable. The availability under our asset securitization agreement is based on the amount of accounts receivable that meet the eligibility criteria of the asset securitization agreement. If receivable losses increase or credit quality deteriorates, the amount of eligible receivables could decline and, in turn, lower the availability under the asset securitization.

We cannot predict the likelihood, duration, or severity of any future disruption in financial markets or any adverse economic conditions in the U.S. and other countries.

The COVID-19 Pandemic Has Disrupted Our Business Operations and Results of Operations.

Since 2020, the spread of COVID-19 and the developments surrounding the global pandemic have disrupted our business operations and affected our results of operations. In 2022, the COVID-19 pandemic continued to create supply chain disruptions and higher employee absenteeism in our factories and distribution locations. We cannot predict whether any of our manufacturing, operational, or distribution facilities will experience any future disruptions, or how long such disruptions would last.

There remains uncertainty regarding how COVID-19 will impact the economy and our results in the future. The extent to which the COVID-19 pandemic impacts us will depend on numerous evolving factors and future developments that we are not able to predict, including the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; our ability to maintain sufficient qualified personnel due to employee illness, quarantine, willingness to return to work, vaccine and/or testing mandates, face-coverings and other safety requirements, general scarcity of employees, or travel and other restrictions; current global supply chain disruptions caused by the COVID-19 pandemic; and the impact on economic activity, including financial market instability.

Our International Operations Subject Us to Risks Including Foreign Currency Fluctuations, Regulations and Other Risks.

We earn revenue, pay expenses, own assets, and incur liabilities in countries using currencies other than the U.S. dollar including the Canadian dollar, the Mexican peso, and the Euro. Our Consolidated Financial Statements are presented in U.S. dollars and we translate revenue, income, expenses, assets, and liabilities into U.S. dollars at exchange rates in effect during or at the end of each reporting period. Therefore, increases or decreases in the value of the U.S. dollar relative to other currencies may affect our net operating revenues, operating income and the value of balance sheet items denominated in foreign currencies. Because of the geographic diversity of our operations, weaknesses in some currencies might be offset by strengths in others over time. However, we cannot assure that fluctuations in foreign currency exchange rates, particularly the strengthening of the U.S. dollar against major currencies, would not materially affect our financial results.

In addition to the currency exchange risks inherent in operating in foreign countries, our international sales, and operations, including purchases of raw materials from international suppliers, are subject to risks associated with local government laws, regulations, and policies (including those related to tariffs and trade barriers, investments, taxation, exchange controls, employment regulations and changes in laws and regulations). Our international sales and operations are also sensitive to changes in foreign national priorities, including government budgets, as well as to geopolitical and economic instability. International transactions may involve increased financial and legal risks due to differing legal systems and customs in foreign countries, as well as compliance with anti-corruption laws such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. The ability to manage these risks could be difficult and may limit our operations and make the manufacture and sale of our products internationally more difficult, which could negatively affect our business and results of operations.

Conflicts, wars, natural disasters, climate change, infectious disease outbreaks or terrorist acts could also cause significant damage or disruption to our operations, employees, facilities, systems, suppliers, supply chain, distributors, resellers, or customers in the United States and internationally for extended periods of time and could also affect demand for our products.

Net sales outside of the United States comprised approximately 11% of our total net sales in 2022.

Security Breaches and Other Disruptions or Misuse of Information Systems We Rely Upon Could Affect Our Ability to Conduct Our Business Effectively.

Our information systems and those of our business partners are important to our business activities. We also outsource various information systems, including data management, to third-party service providers. Despite our security measures as well as those of our business partners and third-party service providers, the information systems we rely upon may be vulnerable to interruption or damage from computer hackings, computer viruses, worms or other destructive or disruptive software, process breakdowns, denial of service attacks, malicious social engineering or other malicious activities, or any combination thereof. Attempts have been made to attack our information systems, but we do not believe that material harm has resulted. While we have implemented controls and taken other preventative actions to strengthen these systems against future attacks, we can give no assurance that these controls and preventative actions will be effective. Any breach of data security could result in a disruption of our services or improper disclosure of personal data or confidential information, which could

harm our reputation, require us to expend resources to remedy such a security breach or defend against further attacks or subject us to liability under laws that protect personal data, resulting in increased operating costs or loss of revenue.

We May Not be Able to Successfully Integrate and Operate Businesses that We May Acquire nor Realize the Anticipated Benefits of Strategic Relationships We May Form.

From time to time, we may seek to complement or expand our businesses through strategic acquisitions, joint ventures, and strategic relationships. The success of these transactions will depend, in part, on our ability to timely identify those relationships, negotiate and close the transactions and then integrate, manage, and operate those businesses profitably. If we are unable to successfully do those things, we may not realize the anticipated benefits associated with such transactions, which could adversely affect our business and results of operations.

Any Future Determination that a Significant Impairment of the Value of Our Goodwill Intangible Asset Occurred Could Have an Adverse Effect on Our Results of Operations.

As of December 31, 2022, we had goodwill of \$186.3 million on our Consolidated Balance Sheet. Any future determination that an impairment of the value of goodwill occurred would require a write-down of the impaired portion of goodwill to fair value and would reduce our assets and stockholders' equity and could have a material adverse effect on our results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following chart lists our principal domestic and international manufacturing, distribution and office facilities as of December 31, 2022 and indicates the business segment that uses such facilities, the approximate size of such facilities and whether such facilities are owned or leased. Also included in the chart are large warehouses that hold significant inventory balances.

<u>Location</u>	<u>Segment</u>	<u>Type or Use of Facility</u>	<u>Approx. Sq. Ft. (In thousands)</u>	<u>Owned/Leased</u>
Saltillo, Mexico	Residential Heating & Cooling	Manufacturing & Distribution	1,081	Owned
Marshalltown, IA	Residential Heating & Cooling	Manufacturing & Distribution	1,000	Owned & Leased
Orangeburg, SC	Residential Heating & Cooling	Manufacturing & Distribution	900	Owned & Leased
Grenada, MS	Residential Heating & Cooling	Manufacturing & Distribution	395	Owned & Leased
Romeoville, IL	Residential Heating & Cooling	Distribution & Office	697	Leased
McDonough, GA	Residential Heating & Cooling	Distribution	254	Leased
Grove City, OH	Residential Heating & Cooling	Distribution	279	Leased
Concord, NC	Residential Heating & Cooling	Distribution & Cooling	248	Leased
Pittston, PA	Residential Heating & Cooling	Distribution	144	Leased
Harahan, LA	Residential Heating & Cooling	Distribution & Office	83	Leased
North Kansas City, MO	Residential Heating & Cooling	Distribution & Office	59	Leased
West Columbia, SC	Residential Heating & Cooling	Research & Development	63	Leased
Eastvale, CA	Residential & Commercial Heating & Cooling	Distribution	377	Leased
Carrollton, TX	Residential & Commercial Heating & Cooling	Distribution	252	Leased
Brampton, Canada	Residential & Commercial Heating & Cooling	Distribution	251	Leased
Houston, TX	Residential & Commercial Heating & Cooling	Distribution	204	Leased
Orlando, FL	Residential & Commercial Heating & Cooling	Distribution	173	Leased
Middletown, PA	Residential & Commercial Heating & Cooling	Distribution	166	Leased
Lenexa, KS	Residential & Commercial Heating & Cooling	Distribution	147	Leased
East Fife, WA	Residential & Commercial Heating & Cooling	Distribution	112	Leased
Calgary, Canada	Residential & Commercial Heating & Cooling	Distribution	145	Leased
Stuttgart, AR	Commercial Heating & Cooling	Manufacturing	750	Owned
Jessup, PA	Commercial Heating & Cooling	Distribution	130	Leased
DFW Airport, TX	Commercial Heating & Cooling	Distribution	80	Leased
Indianapolis, IN	Commercial Heating & Cooling	Distribution	69	Leased
Medley, FL	Commercial Heating & Cooling	Distribution	70	Leased
Norcross, GA	Commercial Heating & Cooling	Distribution & Office	95	Leased
Longvic, France	Refrigeration	Manufacturing	142	Owned
Longvic, France	Refrigeration	Distribution	133	Owned
Burgos, Spain	Refrigeration	Manufacturing	140	Owned
Mions, France	Refrigeration	Research & Development	129	Owned
Genas, France	Refrigeration	Manufacturing, Distribution & Offices	111	Owned
Tifton, GA	Refrigeration	Manufacturing & Distribution	738	Owned & Leased
Stone Mountain, GA	Refrigeration	Manufacturing & Business Unit Headquarters	139	Owned
Richardson, TX	Corporate and other	Corporate Headquarters	356	Owned & Leased
Carrollton, TX	Corporate and other	Research & Development	294	Owned
Chennai, India	Corporate and other	Research & Development & Office	73	Leased

In addition to the properties described above, we lease numerous facilities in the U.S. and worldwide for use as sales offices, service offices, district and regional warehouses, and Lennox Stores. We routinely evaluate our facilities to ensure adequate capacity, effective cost structure, and consistency with our business strategy. We believe that our properties are in good condition, suitable and adequate for their present requirements and that our principal manufacturing plants are generally adequate to meet our production needs.

Item 3. *Legal Proceedings*

We are involved in a number of claims and lawsuits incident to the operation of our businesses. Insurance coverages are maintained and estimated costs are recorded for such claims and lawsuits. It is management's opinion that none of these claims or lawsuits will have a material adverse effect, individually or in the aggregate, on our financial position, results of operations or cash flows. For more information, see Note 5 in the Notes to the Consolidated Financial Statements.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information for Common Stock

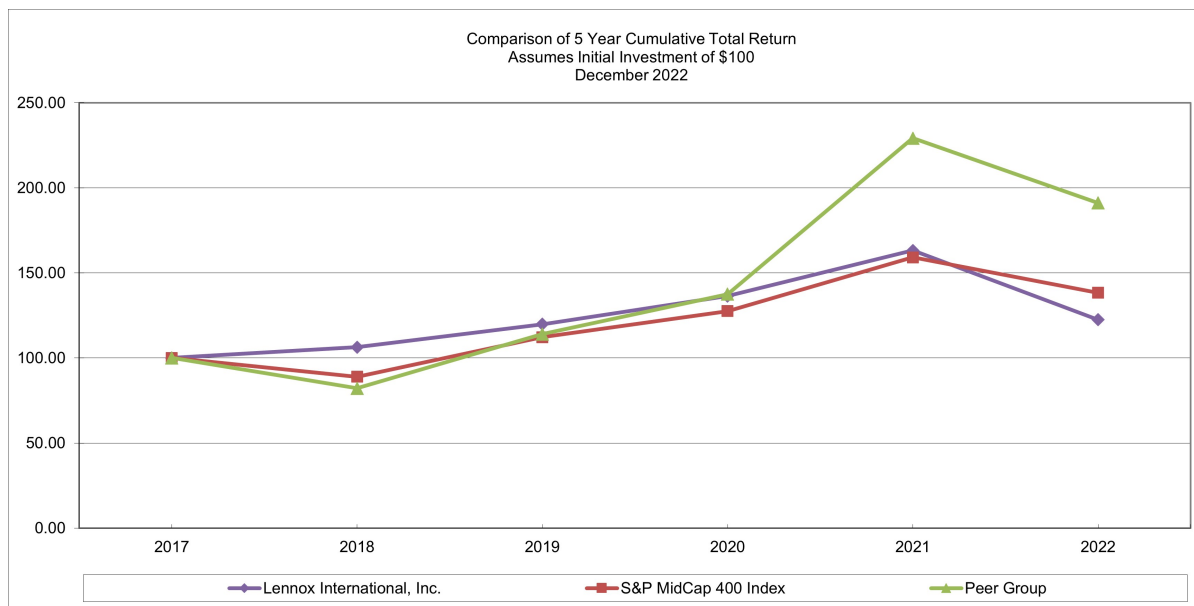
Our common stock is listed for trading on the New York Stock Exchange under the symbol "LII."

Holders of Common Stock

As of the close of business on February 3, 2023, approximately 544 holders of record held our common stock.

Comparison of Total Stockholder Return

The following graph compares the cumulative total returns of LII's common stock with the cumulative total returns of the Standards & Poor's Midcap 400 Index, a broad index of mid-size U.S. companies of which the Company is a part, and with a peer group of U.S. industrial manufacturing and service companies in the HVACR businesses. The graph assumes that \$100 was invested on December 31, 2017, with dividends reinvested. Our peer group includes AAON, Inc., Comfort Systems USA, Inc., Johnson Controls Inc., and Watsco, Inc.



This performance graph and other information furnished under this Comparison of Total Stockholder Return section shall not be deemed to be “soliciting material” or to be “filed” with the Securities and Exchange Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act.

Our Purchases of Company Equity Securities

Our Board of Directors has authorized a total of \$4 billion to repurchase shares of our common stock (collectively referred to as the “Share Repurchase Plans”), including an incremental \$1.0 billion share repurchase authorization in July 2021. The Share Repurchase Plans authorize open market repurchase transactions and do not have a stated expiration date. As of December 31, 2022, \$546 million is available to repurchase shares under the Share Repurchase Plans.

In the fourth quarter of 2022, we purchased shares of our common stock as follows:

	Total Shares Purchased ⁽¹⁾	Average Price Paid per Share (including fees)	Shares Purchased As Part of Publicly Announced Plans	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans (in millions)
October 1 through October 31	56	\$ 233.04	—	546.0
November 1 through November 30	1,482	258.34	—	546.0
December 1 through December 31	8,910	267.95	—	546.0
	<u>10,448</u>		<u>—</u>	

⁽¹⁾ These shares of common stock were surrendered to LII to satisfy employee tax-withholding obligations in connection with the exercise of long-term incentive awards.

Item 6. Selected Financial Data

Not applicable

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the other sections of this report, including the Consolidated Financial Statements and related Notes to the Consolidated Financial Statements in Item 8, “Other Financial Statement Details,” of this Annual Report on Form 10-K.

Business Overview

We operate in three reportable business segments of the heating, ventilation, air conditioning and refrigeration (“HVACR”) industry. Our reportable segments are Residential Heating & Cooling, Commercial Heating & Cooling, and Refrigeration. For more detailed information regarding our reportable segments, see Note 3 in the Notes to the Consolidated Financial Statements.

We sell our products and services through a combination of direct sales, distributors and company-owned stores. The demand for our products and services is seasonal and significantly impacted by the weather. Warmer than normal summer temperatures generate demand for replacement air conditioning and refrigeration products and services, and colder than normal winter temperatures have a similar effect on heating products and services. Conversely, cooler than normal summers and warmer than normal winters depress the demand for HVACR products and services. In addition to weather, demand for our products and services is influenced by national and regional economic and demographic factors, such as interest rates, the availability of financing, regional population and employment trends, new construction, general economic conditions and consumer spending habits and confidence. A substantial portion of the sales in each of our business segments is attributable to replacement business, with the balance comprised of new construction business.

The principal elements of cost of goods sold are components, raw materials, factory overhead, labor, estimated costs of warranty expense and freight and distribution costs. The principal raw materials used in our manufacturing processes are steel, copper and aluminum. In recent years, pricing volatility for these commodities and related components has impacted us and the HVACR industry in general. We seek to mitigate the impact of commodity price volatility through a combination of pricing actions, vendor contracts, improved production efficiency and cost reduction initiatives. We also partially mitigate volatility in the prices of these commodities by entering into futures contracts and fixed forward contracts.

Impact of COVID-19 Pandemic

A novel strain of coronavirus (“COVID-19”) has surfaced and spread around the world. The COVID-19 pandemic is creating supply chain disruptions and higher employee absenteeism in our factories and distribution locations since 2020. We cannot predict whether any of our manufacturing, operational or distribution facilities will experience any future disruptions, or how long such disruptions would last. It also remains unclear how various national, state, and local governments will react if new variants of the virus spread. If the pandemic worsens or continues longer than presently expected, COVID-19 could impact our results of operations, financial position and cash flows.

Executive Leadership Transition

On March 23, 2022, the Board of Directors appointed Alok Maskara as Chief Executive Officer (“CEO”) effective May 9, 2022. Mr. Maskara succeeded Todd Bluedorn, who announced in July 2021 his plans to step down by mid-2022 as Chairman and CEO. Todd J. Teske was appointed Chairman of the Board and served as interim CEO until Mr. Maskara assumed the role on May 9, 2022.

Financial Highlights

- Net sales increased \$524 million, or 13%, to \$4,718 million in 2022 from \$4,194 million in 2021.
- Operating income in 2022 was \$656 million compared to \$590 million in 2021.
- Net income in 2022 increased to \$497 million from \$464 million in 2021.
- Diluted earnings per share from continuing operations were \$13.88 per share in 2022 compared to \$12.39 per share in 2021.
- We generated \$302 million of cash flow from operating activities in 2022 compared to \$516 million in 2021.
- In 2022, we returned \$142 million to shareholders through dividend payments and we used \$300 million to purchase 1.3 million shares of stock under our Share Repurchase Plans.

Overview of Results

The Residential Heating & Cooling segment performed well in 2022, with a 15% increase in net sales and a \$57 million increase in segment profit compared to 2021 primarily due to higher price and sales volumes. Our Commercial Heating & Cooling segment saw an increase in net sales of 4% and a \$30 million decrease in segment profit compared to 2021 primarily

due to increased product costs. Sales in our Refrigeration segment increased 12% and segment profit increased \$30 million compared to 2021 primarily due to higher price and sales volumes.

Results of Operations

The following table provides a summary of our financial results, including information presented as a percentage of net sales (dollars in millions):

	For the Years Ended December 31,					
	2022		2021		2020	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Net sales	\$ 4,718.4	100.0 %	\$ 4,194.1	100.0 %	\$ 3,634.1	100.0 %
Cost of goods sold	3,433.7	72.8 %	3,005.7	71.7 %	2,594.0	71.4 %
Gross profit	1,284.7	27.2 %	1,188.4	28.3 %	1,040.1	28.6 %
Selling, general and administrative expenses	627.2	13.3 %	598.9	14.3 %	555.9	15.3 %
Losses (gains) and other expenses, net	4.9	0.1 %	9.2	0.2 %	7.4	0.2 %
Restructuring charges	1.5	— %	1.8	— %	10.8	0.3 %
Loss from natural disasters, net of insurance recoveries	—	— %	—	— %	3.1	0.1 %
Income from equity method investments	(5.1)	(0.1)%	(11.8)	(0.3)%	(15.6)	(0.4)%
Operating income	\$ 656.2	13.9 %	\$ 590.3	14.1 %	\$ 478.5	13.2 %
Loss from discontinued operations	—	— %	—	— %	(0.8)	— %
Net income	\$ 497.1	10.5 %	\$ 464.0	11.1 %	\$ 356.3	9.8 %

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021 - Consolidated Results

Net Sales

Net sales increased 13% in 2022 compared to 2021, driven by higher price of 10%, product mix of 2%, and 2% higher sales volume. Partially offsetting these increases was 1% due to unfavorable foreign currency.

Gross Profit

Gross profit margins for 2022 declined 110 basis points (“bps”) to 27.2% compared to 28.3% in 2021. Gross profit margin decreased 240 bps from higher commodity costs, 170 bps from higher component costs, 140 bps from other product costs including LIFO, 90 bps from factory inefficiencies, 80 bps from higher freight and distribution costs, and 60 bps from product mix. Partially offsetting these margin decreases were 650 bps from favorable price and 20 bps from lower product warranty costs.

Selling, General and Administrative Expenses

SG&A expenses increased by \$28 million in 2022 compared to 2021. As a percentage of net sales, SG&A expenses decreased 100 bps from 14.3% to 13.3% in the same periods primarily due to lower discretionary expenditures.

Losses (Gains) and Other Expenses, Net

Losses (gains) and other expenses, net for 2022 and 2021 included the following (in millions):

	For the Years Ended December 31,	
	2022	2021
Realized losses (gains) on settled future contracts	\$ 0.1	\$ (1.2)
Foreign currency exchange gains	(1.3)	(2.2)
Loss (gain) on disposal of fixed assets	(1.0)	(0.2)
Other operating income	(1.0)	(1.5)
Net change in unrealized (gains) losses on unsettled futures contracts	0.4	—
Environmental liabilities and special litigation charges	7.5	9.6
Charges incurred related to COVID-19 pandemic	0.8	2.2
Other items, net	(0.6)	2.5
(Gains) losses and other expenses, net (pre-tax)	<u>\$ 4.9</u>	<u>\$ 9.2</u>

The net change in unrealized losses on unsettled futures contracts was due to changes in commodity prices relative to the unsettled futures contract prices. For more information on our derivatives, see Note 9 in the Notes to the Consolidated Financial Statements. Foreign currency exchange gains decreased in 2022 primarily due to changes in foreign exchange rates in our primary markets. Environmental liabilities and special legal contingency charges in 2022 relate to estimated remediation costs at some of our facilities and outstanding legal settlements including asbestos. Refer to Note 5 in the Notes to the Consolidated Financial Statements for more information on litigation, including the asbestos-related litigation, and the environmental liabilities. The charges incurred related to the COVID-19 pandemic related primarily to facility cleaning costs and sanitization supplies to ensure the health and safety of our employees.

Restructuring Charges

Restructuring charges were \$1.5 million in 2022 compared to \$1.8 million in 2021. Charges in 2022 were related to ongoing cost reduction actions taken in prior years. For more information on our restructuring activities, see Note 7 in the Notes to the Consolidated Financial Statements.

Goodwill

We performed a qualitative impairment analysis and noted no indicators of goodwill impairment for the year ended December 31, 2022. We did not record any goodwill impairments in 2022 or 2021. Refer to Note 9 in the Notes to the Consolidated Financial Statements for more information on goodwill.

Asset Impairments

We did not have any impairments of assets in 2022 or 2021.

Pension Settlement

We did not have significant pension buyout activity in 2022 and 2021. Refer to Note 10 in the Notes to the Consolidated Financial Statements for more information on pensions and employee benefit plans.

Income from Equity Method Investments

Investments over which we do not exercise control but have significant influence are accounted for using the equity method of accounting. Income from equity method investments was \$5 million in 2022 compared to \$12 million in 2021. The decrease is due to lower operating results at the investees due to higher material costs.

Interest Expense, net

Net interest expense of \$39 million in 2022 increased from \$25 million in 2021 primarily due to higher borrowing costs.

Income Taxes

The income tax provision was \$119 million in 2022 compared to \$96 million in 2021, and the effective tax rate was 19.3% in 2022 compared to 17.2% in 2021. The 2022 and 2021 effective tax rates differ from the statutory rate of 21% primarily due to foreign taxes. Refer to Note 12 in the Notes to the Consolidated Financial Statements for more information on income taxes.

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021 - Results by Segment

Residential Heating & Cooling

The following table presents our Residential Heating & Cooling segment's net sales and profit for 2022 and 2021 (dollars in millions):

	For the Years Ended December 31,		Difference	% Change
	2022	2021		
Net sales	\$ 3,198.3	\$ 2,775.6	\$ 422.7	15%
Profit	\$ 596.9	\$ 540.3	\$ 56.6	10%
% of net sales	18.7 %	19.5 %		

Residential Heating & Cooling net sales increased 15% in 2022 compared to 2021 due to an increase in price of 11%, an increase in sales volume of 4%, and 1% from product mix. Partially offsetting these increases was 1% from unfavorable foreign currency.

Segment profit in 2022 increased \$57 million compared to 2021 due to \$297 million from higher price, \$33 million from higher sales volume, and \$9 million from lower product warranty costs. Partially offsetting these increases were \$85 million from higher commodity costs, \$49 million from higher component costs, \$47 million higher other product costs including LIFO, unfavorable product mix of \$34 million, \$33 million from higher freight and distribution charges, \$20 million from higher SG&A costs, \$7 million from factory inefficiencies, \$5 million from unfavorable foreign currency, and \$2 million from miscellaneous other items.

Commercial Heating & Cooling

The following table presents our Commercial Heating & Cooling segment's net sales and profit for 2022 and 2021 (dollars in millions):

	For the Years Ended December 31,		Difference	% Change
	2022	2021		
Net sales	\$ 900.7	\$ 864.8	\$ 35.9	4 %
Profit	\$ 80.9	\$ 110.9	\$ (30.0)	(27)%
% of net sales	9.0 %	12.8 %		

Commercial Heating & Cooling net sales increased 4% in 2022 compared to 2021 due to an increase in price of 7% and 7% from product mix. Partially offsetting these increases were lower sales volume of 9% and unfavorable foreign currency of 1%.

Segment profit in 2022 decreased \$30 million compared to 2021 due to \$28 million from factory inefficiencies, \$25 million from lower sales volume, \$21 million from higher component costs, \$20 million from higher other product costs including LIFO, \$13 million from higher commodity costs, \$8 million from higher SG&A costs, and \$2 million from higher freight and distribution charges. Partially offsetting these decreases were \$61 million from higher price, \$24 million from favorable product mix, and \$2 million from lower product warranty costs.

Refrigeration

The following table presents our Refrigeration segment's net sales and profit for 2022 and 2021 (dollars in millions):

	For the Years Ended December 31,		Difference	% Change
	2022	2021		
Net sales	\$ 619.4	\$ 553.7	\$ 65.7	12 %
Profit	\$ 78.8	\$ 49.1	\$ 29.7	60 %
% of net sales	12.7 %	8.9 %		

Net sales increased 12% in 2022 compared to 2021 due to a 13% increase in price, 3% increase in sales volume, and 1% from product mix. Partially offsetting these increases was unfavorable foreign currency of 5%.

Segment profit in 2022 increased \$30 million compared to 2021 due to \$70 million from higher price, \$7 million from favorable product mix, and \$7 million from higher sales volume. Partially offsetting these increases were \$17 million from higher commodity costs, \$12 million from higher component costs, \$12 million from higher SG&A, \$7 million from factory inefficiencies, \$4 million from higher freight and distribution costs, and \$2 million from higher other product costs.

In November 2022, we announced the decision to explore strategic alternatives for our European commercial HVAC and refrigeration businesses. We will continue to invest in our Heatcraft Worldwide Refrigeration business which will become part of the Commercial Heating & Cooling segment beginning in 2023. The European portfolio will be presented with Corporate and Other beginning in 2023 until disposition. As we will manage the businesses in this manner beginning in 2023, we will present the financial results of the revised segments beginning in 2023. The European portfolio realized net sales of \$234 million in 2022 and \$230 million in 2021 and generated losses of \$3 million and \$5 million for 2022 and 2021, respectively.

Corporate and Other

Corporate and other expenses decreased by \$6 million in 2022 compared to 2021 primarily due to lower incentive compensation costs.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020 - Consolidated Results

Net Sales

Net sales increased 15% in 2021 compared to 2020, driven by higher sales volumes of 11% and an improved combined price and mix of 4%. The increases in volume, price and mix were due to strong demand across all three of our business segments.

Gross Profit

Gross profit margins for 2021 decreased 30 basis points ("bps") to 28.3% compared to 28.6% in 2020. Gross profit margin decreased 180 bps from higher commodity costs, 90 bps from other product costs, 20 bps from higher freight and distribution costs, and 10 bps for lower factory efficiency. Partially offsetting these cost increases was 270 bps from favorable combined price and mix.

Selling, General and Administrative Expenses

SG&A expenses increased by \$43 million in 2021 compared to 2020. As a percentage of net sales, SG&A expenses decreased 100 bps from 15.3% to 14.3% in the same periods primarily due to lower discretionary expenditures.

Losses (Gains) and Other Expenses, Net

Losses (gains) and other expenses, net for 2021 and 2020 included the following (in millions):

	For the Years Ended December 31,	
	2021	2020
Realized (gains) losses on settled futures contracts	\$ (1.2)	\$ 0.1
Foreign currency exchange gains	(2.2)	(3.6)
Gain on disposal of fixed assets	(0.2)	(0.2)
Other operating income	(1.5)	(2.2)
Net change in unrealized gains on unsettled futures contracts	—	(0.3)
Environmental liabilities and special litigation charges	9.6	5.3
Charges incurred related to COVID-19 pandemic	2.2	8.3
Other items, net	2.5	—
Losses (gains) and other expenses, net	<u>\$ 9.2</u>	<u>\$ 7.4</u>

The charges incurred related to the COVID-19 pandemic related primarily to facility cleaning costs and sanitization supplies to ensure the health and safety of our employees. The net change in unrealized losses on unsettled futures contracts was due to changes in commodity prices relative to the unsettled futures contract prices. For more information on our derivatives, see Note 10 in the Notes to the Consolidated Financial Statements.

Foreign currency exchange gains decreased in 2021 primarily due to weakening in foreign exchange rates in our primary markets. The special legal contingency charges in 2021 relate to outstanding legal settlements. The asbestos-related litigation relates to known and estimated future asbestos matters. The environmental liabilities relate to estimated remediation costs for contamination at some of our facilities. Refer to Note 5 in the Notes to the Consolidated Financial Statements for more information on litigation, including the asbestos-related litigation, and the environmental liabilities.

Restructuring Charges

Restructuring charges were \$1.8 million in 2021 compared to \$10.8 million in 2020. Charges in 2021 were related to ongoing cost reduction actions taken in prior years. The charges in 2020 related primarily to several cost reduction actions taken in response to the economic impact of the COVID-19 pandemic on our business. These actions consisted of employee terminations for positions that were no longer needed to support the business, selective facility closures, and cancellations of certain sales and marketing activities. For more information on our restructuring activities, see Note 7 in the Notes to the Consolidated Financial Statements.

Goodwill

We performed a qualitative impairment analysis and noted no indicators of goodwill impairment for the year ended December 31, 2021. We did not record any goodwill impairments in 2021 or 2020. Refer to Note 9 in the Notes to the Consolidated Financial Statements for more information on goodwill.

Asset Impairments

We did not have any impairments of assets in 2021 or 2020.

Pension Settlement

We did not have significant pension buyout activity in 2021 and 2020. Refer to Note 10 in the Notes to the Consolidated Financial Statements for more information on pensions and employee benefit plans.

Income from Equity Method Investments

Investments over which we do not exercise control but have significant influence are accounted for using the equity method of accounting. Income from equity method investments was \$12 million in 2021 compared to \$16 million in 2020. The decrease is due to rising production costs at the joint ventures.

Interest Expense, net

Net interest expense of \$25 million in 2021 decreased from \$28 million in 2020 primarily due to lower borrowing and lower borrowing costs.

Income Taxes

The income tax provision was \$96 million in 2021 compared to \$88 million in 2020, and the effective tax rate was 17.2% in 2021 compared to 19.8% in 2020. The 2021 and 2020 effective tax rates differ from the statutory rate of 21% primarily due to state and foreign taxes. Refer to Note 12 in the Notes to the Consolidated Financial Statements for more information on income taxes.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020 - Results by Segment

Residential Heating & Cooling

The following table presents our Residential Heating & Cooling segment's net sales and profit for 2021 and 2020 (dollars in millions):

	For the Years Ended December 31,		Difference	% Change
	2021	2020		
Net sales	\$ 2,775.6	\$ 2,361.5	\$ 414.1	18%
Profit	\$ 540.3	\$ 428.5	\$ 111.8	26%
% of net sales	19.5 %	18.1 %		

Residential Heating & Cooling net sales increased 18% in 2021 compared to 2020. Sales volume increased 13%, price increased 5% and favorable foreign currency exchange rates caused an increase of 1%. Partially offsetting these increases was a 1% reduction due to unfavorable product mix.

Segment profit in 2021 increased \$112 million compared to 2020 due to \$108 million from favorable pricing, \$91 million from higher sales volume, \$9 million from favorable foreign currency exchange, \$5 million from higher factory productivity, and \$2 million from sourcing and engineering-led cost reductions. Partially offsetting these increases were \$59 million from commodity costs, \$20 million from higher warranty and other product costs, \$14 million from higher SG&A, \$5 million from unfavorable product mix, and \$5 million from lower income from equity method investments.

Commercial Heating & Cooling

The following table presents our Commercial Heating & Cooling segment's net sales and profit for 2021 and 2020 (dollars in millions):

	For the Years Ended December 31,		Difference	% Change
	2021	2020		
Net sales	\$ 864.8	\$ 800.9	\$ 63.9	8 %
Profit	\$ 110.9	\$ 136.9	\$ (26.0)	(19)%
% of net sales	12.8 %	17.1 %		

Commercial Heating & Cooling net sales increased 8% in 2021 compared to 2020. Price and mix combined increased 4%, sales volume was 3% higher, and foreign currency improved 1%.

Segment profit in 2021 decreased \$26 million compared to 2020 due to \$17 million from higher other product costs, \$14 million from factory inefficiencies, \$6 million from sourcing and engineering-led cost increases, \$6 million from higher commodity costs, \$6 million from higher freight and distribution costs, \$4 million from higher SG&A costs, and \$1 million from unfavorable foreign currency. Partially offsetting these declines was a favorable increase in combined price and mix of \$19 million and \$9 million from higher sales volume.

Refrigeration

The following table presents our Refrigeration segment's net sales and profit for 2021 and 2020 (dollars in millions):

	For the Years Ended December 31,			
	2021	2020	Difference	% Change
Net sales	\$ 553.7	\$ 471.7	\$ 82.0	17 %
Profit	\$ 49.1	\$ 32.8	\$ 16.3	50 %
% of net sales	8.9 %	7.0 %		

Net sales increased 17% in 2021 compared to 2020. Sales volume increased 14%, price increased 3%, and foreign currency improved 1%. Partially offsetting these increases was a 1% reduction due to unfavorable mix.

Segment profit in 2021 increased \$16 million compared to 2020 due to \$23 million from higher sales volume, \$13 million from higher price, \$3 million from higher factory productivity, and \$1 million from higher income from equity method investments. Partially offsetting these increases were \$10 million from higher SG&A, \$8 million from higher commodity costs, \$2 million from higher other product costs, \$2 million from unfavorable product mix, and \$2 million from higher freight and distribution costs.

In November 2022, we announced the decision to explore strategic alternatives for our European commercial HVAC and refrigeration businesses. We will continue to invest in our Heatcraft Worldwide Refrigeration business which will become part of the Commercial Heating & Cooling segment beginning in 2023 and the European portfolio will be presented with Corporate and Other beginning in 2023 until disposition. As we will manage the businesses in this manner beginning in 2023, we will present the financial results of the revised segments beginning in 2023. The European portfolio realized net sales of \$230 million in 2021 and \$214 million in 2020 and generated losses of \$5 million for both 2021 and 2020.

Corporate and Other

Corporate and other expenses increased by \$5 million in 2021 compared to 2020 primarily due to increased headcount and increases in incentive compensation costs.

Accounting for Futures Contracts

Realized gains and losses on settled futures contracts are a component of segment profit (loss). Unrealized gains and losses on unsettled futures contracts are excluded from segment profit (loss) as they are subject to changes in fair value until their settlement date. Both realized and unrealized gains and losses on futures contracts are a component of Losses (gains) and other expenses, net in the accompanying Consolidated Statements of Operations. See Note 9 of the Notes to Consolidated Financial Statements for more information on our derivatives and Note 3 of the Notes to the Consolidated Financial Statements for more information on our segments and for a reconciliation of segment profit to operating income.

Liquidity and Capital Resources

Our working capital and capital expenditure requirements are generally met through internally generated funds, bank lines of credit and an asset securitization arrangement. Working capital needs are generally greater in the first and second quarters due to the seasonal nature of our business cycle.

Statement of Cash Flows

The following table summarizes our cash flow activity for the years ended December 31, 2022, 2021 and 2020 (in millions):

	2022	2021	2020
Net cash provided by operating activities	\$ 302.3	\$ 515.5	\$ 612.4
Net cash used in investing activities	(103.0)	(106.4)	(79.7)
Net cash used in financing activities	\$ (174.1)	\$ (498.7)	\$ (441.8)

Net Cash Provided By Operating Activities - Net cash provided by operating activities activities decreased \$214 million to \$302 million in 2022 compared to \$516 million in 2021. The decrease was primarily attributable to increases in working capital including a \$249 million increase in inventory due to investments to replenish finished goods ahead of the minimum-

efficiency regulatory changes and in raw material to increase supply chain resiliency and a \$112 million increase in accounts and notes receivable due to higher sales volume. Partially offsetting the increased working capital was an increase in net income.

Net Cash Used In Investing Activities - Net cash used in investing activities decreased \$3 million from 2021 to 2022 primarily due to lower capital expenditures. Capital expenditures were \$101 million, \$107 million and \$79 million in 2022, 2021 and 2020, respectively. Capital expenditures in 2022 were primarily related to the expansion of our manufacturing capacity including investments in our Commercial factory in Mexico, equipment, and investments in systems and software to support the overall enterprise.

Net Cash Used In Financing Activities - Net cash used in financing activities was \$174 million in 2022 and \$499 million in 2021. The decrease is primarily due to a decrease in share repurchases in 2022 which was partially offset by an increase in net borrowings and repayments on debt. During 2022 we repurchased \$300 million of shares compared to \$600 million of shares in 2021. We also returned \$142 million to shareholders through dividend payments in 2022. For additional information on share repurchases, refer to Note 6 in the Notes to the Consolidated Financial Statements.

Debt Position

The following table details our lines of credit and financing arrangements as of December 31, 2022 (in millions):

	Outstanding Borrowings
<i>Current maturities of long-term debt:</i>	
Asset securitization program ⁽¹⁾	\$ 350.0
Finance lease obligations	11.2
Senior unsecured notes	350.0
Debt issuance costs	(0.6)
Total current maturities of long-term debt	\$ 710.6
<i>Long-term debt:</i>	
Finance lease obligations	28.3
Credit agreement ⁽²⁾	192.0
Senior unsecured notes	600.0
Debt issuance costs	(6.1)
Total long-term debt	814.2
Total debt	\$ 1,524.8

⁽¹⁾ The maximum securitization amount ranges from \$300.0 million to \$450.0 million, depending on the period. The maximum capacity of the Asset Securitization Program (“ASP”) is the lesser of the maximum securitization amount or 100% of the net pool balance less reserves, as defined under the ASP. Refer to Note 13 in the Notes to the Consolidated Financial Statements for more details.

⁽²⁾ The total capacity on the facility is \$750.0 million. The amount available future borrowings on our Credit Agreement is \$556 million after being reduced by the outstanding borrowings and \$2 million in outstanding standby letters of credit as of December 31, 2022.

Both our Asset Securitization Program as well as our \$350.0 million 2023 Notes will mature in 2023. We are currently evaluating our options related to these obligations including refinancing and other alternatives. We do not believe that our options or alternatives will have any material impact on our results of operations or liquidity.

Credit Agreement

In July 2021, we entered into a new Credit Agreement (the “Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto, which refinanced and replaced the Seventh Amended and Restated Credit Facility.

The Credit Agreement provides for revolving credit commitments of \$750 million with sublimits for swingline loans of up to \$65 million, letters of credit up to \$100 million and revolving loans in certain non-U.S. currencies up to the U.S. dollar equivalent of \$40 million. The Credit Agreement will expire and outstanding loans will be required to be repaid in July 2026, unless maturity is extended by the lenders pursuant to two one-year extension options that we may request under the Credit Agreement. At our request and subject to certain conditions, the revolving credit commitments under the Credit Agreement may be increased by up to a total of \$350 million to the extent that existing or new lenders agree to provide additional commitments.

The Credit Agreement is guaranteed by certain of our subsidiaries and contains customary covenants applicable to us and our subsidiaries including limitations on indebtedness, liens, dividends, stock repurchases, mergers and sales of all or substantially all of its assets. In addition, the Credit Agreement contains a financial covenant requiring us to maintain, as of the last day of each fiscal quarter for the four prior fiscal quarters, a Total Net Leverage Ratio of no more than 3.50 to 1.00 (or, at our election, on up to two occasions following a material acquisition, 4.00 to 1.00). The Credit Agreement is subject to customary events of default, including non-payment of principal or other amounts under the Credit Agreement, material inaccuracy of representations and warranties, breach of covenants, cross-default to other indebtedness in excess of \$75 million, judgements in excess of \$75 million, certain voluntary and involuntary bankruptcy events, and the occurrence of a change of control. As of December 31, 2022, we believe we were in compliance with all covenant requirements.

Financial Leverage

We periodically review our capital structure, including our primary bank facility, to ensure the appropriate levels of liquidity and leverage and to take advantage of favorable interest rate environments or other market conditions. We consider various other financing alternatives and may, from time to time, access the capital markets.

We also evaluate our debt-to-capital and debt-to-EBITDA ratios to determine, among other considerations, the appropriate targets for capital expenditures and share repurchases under our Share Repurchase Plans. Our book value of debt-to-total-capital ratio decreased to 115% at December 31, 2022 compared to 128% at December 31, 2021.

As of December 31, 2022, our senior credit ratings were Baa2 with a stable outlook, and BBB with a stable outlook, by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Rating Group ("S&P"), respectively. The security ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating. Our goal is to maintain investment grade ratings from Moody's and S&P to help ensure the capital markets remain available to us.

Liquidity

We believe our cash and cash equivalents of \$53 million, future cash generated from operations and available future borrowings are sufficient to fund our operations, planned capital expenditures, future contractual obligations, share repurchases, anticipated dividends and other needs in the foreseeable future. Included in our cash and cash equivalents as of December 31, 2022 was \$23 million of cash held in foreign locations, although that amount can fluctuate significantly depending on the timing of cash receipts and payments. Our cash and cash equivalents held in foreign locations is generally available for use in our U.S. operations and could be subject to foreign withholding taxes and U.S. state taxes.

No contributions are required to be made to our U.S. defined benefit plans in 2023. We made \$22.5 million in total contributions to pension plans in 2022.

Dividend payments were \$142 million in 2022 compared to \$127 million in 2021. On May 19, 2022, our Board of Directors approved a 15% increase in our quarterly dividend on common stock from \$0.92 to \$1.06 per share effective with the July 2022 dividend payment.

We also continued to increase shareholder value through our Share Repurchase Plans. We returned \$300 million to our investors through share repurchases in 2022. Our Board of Directors authorized an incremental \$1.0 billion of share repurchases in July 2021, and we had \$546 million of repurchases available under the Share Repurchase Plans at December 31, 2022. We expect to repurchase \$200 million of shares in 2023.

We expect capital expenditures of approximately \$250 million in 2023.

Financial Covenants related to our Debt

Our Credit Agreement is guaranteed by certain of our subsidiaries and contains a financial covenant relating to leverage. Other covenants contained in the our Credit Agreement restrict, among other things, certain mergers, asset dispositions, guarantees, debt, liens, and affiliate transactions. The financial covenant requires us to maintain a defined Consolidated Indebtedness to Adjusted EBITDA Ratio of no greater than 3.5 : 1.0.

Our Credit Agreement contains customary events of default. These events of default include nonpayment of principal or other amounts, material inaccuracy of representations and warranties, breach of covenants, default on certain other indebtedness or receivables securitizations (cross default), certain voluntary and involuntary bankruptcy events and the occurrence of a change in control. A cross default under our credit facility could occur if:

- We fail to pay any principal or interest when due on any other indebtedness or receivables securitization exceeding \$75.0 million; or
- We are in default in the performance of, or compliance with any term of any other indebtedness or receivables securitization in an aggregate principal amount exceeding \$75.0 million, or any other condition exists which would give the holders the right to declare such indebtedness due and payable prior to its stated maturity.

Each of our major debt agreements contains provisions by which a default under one agreement causes a default in the others (a cross default). If a cross default under our Credit Agreement, our senior unsecured notes, or our ASP were to occur, it could have a wider impact on our liquidity than might otherwise occur from a default of a single debt instrument or lease commitment.

If any event of default occurs and is continuing, the administrative agent, or lenders with a majority of the aggregate commitments may require the administrative agent to, terminate our right to borrow under our Credit Agreement and accelerate amounts due under our Credit Agreement (except for a bankruptcy event of default, in which case such amounts will automatically become due and payable and the lenders' commitments will automatically terminate).

In the event of a credit rating downgrade below investment grade resulting from a change of control, holders of our senior unsecured notes will have the right to require us to repurchase all or a portion of the senior unsecured notes at a repurchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest, if any. The notes are guaranteed, on a senior unsecured basis, by each of our subsidiaries that guarantee payment by us of any indebtedness under our Credit Agreement. The indenture governing the notes contains covenants that, among other things, limit our ability and the ability of the subsidiary guarantors to: create or incur certain liens; enter into certain sale and leaseback transactions; enter into certain mergers, consolidations and transfers of substantially all of our assets; and transfer certain properties. The indenture also contains a cross default provision which is triggered if we default on other debt of at least \$75 million in principal which is then accelerated, and such acceleration is not rescinded within 30 days of the notice date.

As of December 31, 2022, we believe we were in compliance with all covenant requirements. Delaware law limits the ability to pay dividends to surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. In addition, stock repurchases can only be made out of surplus and only if our capital would not be impaired.

Leasing Commitments

Refer to Note 5 in the Notes to the Consolidated Financial Statements for more details on our leasing commitments.

Guarantees related to our Debt Obligations

Our senior unsecured notes were issued by Lennox International Inc. (the "Parent") and are unconditionally guaranteed by certain of our subsidiaries (the "Guarantor Subsidiaries") and are not secured by our other subsidiaries. The Guarantor Subsidiaries are 100% owned and consolidated, all guarantees are full and unconditional, and all guarantees are joint and several.

Off Balance Sheet Arrangements

We have no off-balance sheet arrangements that we believe may have a material current or future effect on our financial condition, liquidity or results of operations.

Contractual Obligations

Contractual obligations arise in the normal course of business and include debt and related interest payments, leases, purchase obligations, pension and post-retirement benefits and warranty liabilities. For additional information regarding our contractual obligations, see Note 5 of the Notes to the Consolidated Financial Statements. See Note 10 of the Notes to the Consolidated Financial Statements for more information on our pension and post-retirement benefits obligations. See Note 13 of the Notes to the Consolidated Financial Statements for more information on our debt obligations.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and requires consideration of our creditworthiness when valuing certain liabilities. Our framework for measuring fair value is based on a three-level hierarchy for fair value measurements.

The three-level fair value hierarchy for disclosure of fair value measurements is defined as follows:

Level 1 - Quoted prices for *identical* instruments in active markets at the measurement date.

Level 2 - Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are *observable* in active markets at the measurement date and for the anticipated term of the instrument.

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable* inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Where available, the fair values were based upon quoted prices in active markets. However, if quoted prices were not available, then the fair values were based upon quoted prices for similar assets or liabilities or independently sourced market parameters, such as credit default swap spreads, yield curves, reported trades, broker/dealer quotes, interest rates and benchmark securities. For assets and liabilities without observable market activity, if any, the fair values were based upon discounted cash flow methodologies incorporating assumptions that, in our judgment, reflect the assumptions a marketplace participant would use. Valuation adjustments to reflect either party's creditworthiness and ability to pay were incorporated into our valuations, where appropriate, as of December 31, 2022 and 2021, the measurement dates. See Note 16 of the Notes to the Consolidated Financial Statements for more information on the assets and liabilities measured at fair value.

Market Risk

Commodity Price Risk

We enter into commodity futures contracts to stabilize prices expected 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. Fluctuations in metal commodity prices impact the value of the futures contracts that we hold. When metal commodity prices rise, the fair value of our futures contracts increases. Conversely, when commodity prices fall, the fair value of our futures contracts decreases. Information about our exposure to metal commodity price market risks and a sensitivity analysis related to our metal commodity hedges is presented below (in millions):

Notional amount (pounds of aluminum and copper)	56.6
Carrying amount and fair value of net asset	\$ (7.5)
Change in fair value from 10% change in forward prices	\$ 10.1

Refer to Note 9 of the Notes to the Consolidated Financial Statements for additional information regarding our commodity futures contracts.

Interest Rate Risk

Our results of operations can be affected by changes in interest rates due to variable rates of interest on our debt facilities, cash, cash equivalents and short-term investments. A 10% adverse movement in the levels of interest rates across the entire yield curve would have resulted in an increase to pre-tax interest expense of approximately \$1.7 million, \$0.4 million and \$1.3 million for the years ended December 31, 2022, 2021 and 2020, respectively.

From time to time, we may use an interest rate swap hedging strategy to eliminate the variability of cash flows in a portion of our interest payments. This strategy, when employed, allows us to fix a portion of our interest payments while also taking advantage of historically low interest rates. As of December 31, 2022 and 2021, no interest rate swaps were in effect.

Foreign Currency Exchange Rate Risk

Our results of operations are affected by changes in foreign currency exchange rates. Net sales and expenses in foreign currencies are translated into U.S. dollars for financial reporting purposes based on the average exchange rate for the period. Our primary exposure to foreign currencies are the Canadian dollar, Mexican Peso, and the Euro. During 2022, 2021 and 2020, net sales from outside the U.S. represented 11.4%, 13.1% and 13.0%, respectively, of our total net sales. For the years ended December 31, 2022, 2021, and 2020, foreign currency transaction gains and losses did not have a material impact to our results of operations. A 10% change in foreign exchange rates would have had an estimated \$3.5 million, \$2.7 million and \$0.6 million impact to net income for the years ended December 31, 2022, 2021 and 2020, respectively.

We seek to mitigate the impact of currency exchange rate movements on certain short-term transactions by periodically entering into foreign currency forward contracts. By entering into forward contracts, we lock in exchange rates that would otherwise cause losses should the U.S. dollar appreciate and gains should the U.S. dollar depreciate. Refer to Note 9 of the Notes to the Consolidated Financial Statements for additional information regarding our foreign currency forward contracts.

Critical Accounting Estimates

A critical accounting estimate is one that requires difficult, subjective or complex estimates and assessments and is fundamental to our results of operations and financial condition. The following describes our critical accounting estimate related to product warranties and product-related contingencies and how we develop our judgments, assumptions and estimates about future events and how such policies can impact our financial statements. This discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related Notes in “Item 8. Financial Statements and Supplementary Data.”

Product Warranties and Product-Related Contingencies

The estimate of our liability for future warranty costs requires us to make assumptions about the amount, timing and nature of future product-related costs. Some of the warranties we issue extend 10 years or more in duration and a relatively small adjustment to an assumption may have a significant impact on our overall liability.

From time to time, we may also incur costs to repair or replace installed products experiencing quality issues in order to satisfy our customers and protect our brand. These product-related costs may not be covered under our warranties and are not covered by insurance.

We periodically review the assumptions used to determine the liabilities for product warranties and product-related contingencies and we adjust our assumptions based upon factors such as actual failure rates and cost experience. Numerous factors could affect actual failure rates and cost experience, including the amount and timing of new product introductions, changes in manufacturing techniques or locations, components or suppliers used. Should actual costs differ from our estimates, we may be required to adjust the liabilities and to record expense in future periods. See Note 5 in the Notes to the Consolidated Financial Statements for more information on our product warranties and product-related contingencies.

Recent Accounting Pronouncements

See Note 2 in the Notes to the Consolidated Financial Statements for disclosure of recent accounting pronouncements and the potential impact on our financial statements and disclosures.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is included under the caption “Market Risk” in Item 7 above.

Item 8. Financial Statements and Supplementary Data

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Consolidated Financial Statements in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including our Chief Executive Officer and Chief Financial Officer, has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control - Integrated Framework (2013)* by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this assessment, management concluded that as of December 31, 2022, the Company's internal control over financial reporting was effective.

KPMG LLP, the independent registered public accounting firm that audited the Company's Consolidated Financial Statements, has issued an audit report including an opinion on the effectiveness of our internal control over financial reporting as of December 31, 2022, a copy of which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Lennox International Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Lennox International Inc. and subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive (loss) income, stockholders' deficit, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes and Schedule II – Valuation and Qualifying Accounts and Reserves (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of the product warranty liability

As discussed in Notes 2 and 5 to the consolidated financial statements, the Company provides a product warranty for certain of its products with the warranty period generally ranging from one to 20 years. The product warranty liability is estimated by product category based on the estimated future costs to repair or replace the products under warranty. The Company's product warranty liability was \$142.7 million as of December 31, 2022.

We identified the evaluation of the product warranty liability as a critical audit matter. Assessing the assumptions used to estimate the product warranty liability, specifically, the estimated failure rates by product category by year, and estimated cost per failure, involved subjective and complex auditor judgment.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's estimate of the future failure rates by product category and controls to estimate the cost of failures by product category for products subject to warranty. We assessed the estimated future failure rates by product category and the estimated cost per failure by product category used in the estimation of the product warranty liability by comparing them to the Company's underlying historical data. We tested a sample of the historical data used as the basis for these assumptions by comparing to the relevant underlying documentation.

/s/ KPMG LLP

We have served as the Company's auditor since 2002.

Dallas, Texas
February 21, 2023

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In millions, except shares and par values)

	As of December 31,	
	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 52.6	\$ 31.0
Short-term investments	8.5	5.5
Accounts and notes receivable, net of allowances of \$15.5 and \$10.7 in 2022 and 2021, respectively	608.5	508.3
Inventories, net	753.0	510.9
Other assets	73.9	119.7
Total current assets	1,496.5	1,175.4
Property, plant and equipment, net of accumulated depreciation of \$920.8 and \$888.8 in 2022 and 2021, respectively	548.9	515.1
Right-of-use assets from operating leases	219.9	196.1
Goodwill	186.3	186.6
Deferred income taxes	27.5	11.3
Other assets, net	88.5	87.4
Total assets	<u>\$ 2,567.6</u>	<u>\$ 2,171.9</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Current maturities of long-term debt	710.6	11.3
Current operating lease liabilities	63.3	54.8
Accounts payable	427.3	402.1
Accrued expenses	376.9	358.9
Income taxes payable	17.6	—
Total current liabilities	1,595.7	827.1
Long-term debt	814.2	1,226.5
Long-term operating lease liabilities	161.8	145.0
Pensions	40.1	83.3
Other liabilities	158.9	159.0
Total liabilities	2,770.7	2,440.9
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, \$0.01 par value, 25,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized, 87,170,197 shares issued	0.9	0.9
Additional paid-in capital	1,155.2	1,133.7
Retained earnings	3,070.6	2,719.3
Accumulated other comprehensive loss	(90.6)	(88.1)
Treasury stock, at cost, 51,700,260 shares and 50,536,125 shares for 2022 and 2021, respectively	(4,339.2)	(4,034.8)
Total stockholders' deficit	(203.1)	(269.0)
Total liabilities and stockholders' deficit	<u>\$ 2,567.6</u>	<u>\$ 2,171.9</u>

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	For the Years Ended December 31,		
	2022	2021	2020
Net sales	\$ 4,718.4	\$ 4,194.1	\$ 3,634.1
Cost of goods sold	3,433.7	3,005.7	2,594.0
Gross profit	1,284.7	1,188.4	1,040.1
Operating expenses:			
Selling, general and administrative expenses	627.2	598.9	555.9
Losses (gains) and other expenses, net	4.9	9.2	7.4
Restructuring charges	1.5	1.8	10.8
Loss from natural disasters, net of insurance recoveries	—	—	3.1
Income from equity method investments	(5.1)	(11.8)	(15.6)
Operating income	656.2	590.3	478.5
Pension settlements	(0.2)	1.2	0.6
Interest expense, net	38.7	25.0	28.3
Other expense (income), net	1.9	4.0	4.4
Income from continuing operations before income taxes	615.8	560.1	445.2
Provision for income taxes	118.7	96.1	88.1
Income from continuing operations	497.1	464.0	357.1
Discontinued operations:			
Loss from discontinued operations before income taxes	—	—	(1.5)
Income tax benefit	—	—	(0.7)
Loss from discontinued operations	—	—	(0.8)
Net income	\$ 497.1	\$ 464.0	\$ 356.3
Earnings per share – Basic:			
Income from continuing operations	\$ 13.92	\$ 12.47	\$ 9.32
Loss from discontinued operations	—	—	(0.02)
Net income	\$ 13.92	\$ 12.47	\$ 9.30
Earnings per share – Diluted:			
Income from continuing operations	\$ 13.88	\$ 12.39	\$ 9.26
Loss from discontinued operations	—	—	(0.02)
Net income	\$ 13.88	\$ 12.39	\$ 9.24
Weighted Average Number of Shares Outstanding - Basic	35.7	37.2	38.3
Weighted Average Number of Shares Outstanding - Diluted	35.8	37.5	38.6

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In millions)

	For the Years Ended December 31,		
	2022	2021	2020
Net income	\$ 497.1	\$ 464.0	\$ 356.3
Other comprehensive income (loss):			
Foreign currency translation adjustments	(10.2)	(7.3)	0.8
Net change in pension and post-retirement benefit liabilities	20.4	11.8	(8.7)
Net change in fair value of cash flow hedges	(9.9)	29.8	7.0
Reclassification of pension and post-retirement benefit losses into earnings	5.4	7.9	5.9
Pension settlements	(0.2)	1.2	0.6
Share of equity method investments other comprehensive income	0.7	—	(1.2)
Reclassification of cash flow hedge (gains) losses into earnings	(9.7)	(26.9)	3.7
Other comprehensive (income) loss before taxes	\$ (3.5)	\$ 16.5	\$ 8.1
Tax benefit (expense)	1.0	(7.4)	(1.5)
Other comprehensive (loss) income, net of tax	(2.5)	9.1	6.6
Comprehensive income	\$ 494.6	\$ 473.1	\$ 362.9

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
For the Years Ended December 31, 2022, 2021 and 2020
(In millions, except per share data)

	Common Stock Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock at Cost		Total Stockholders' Deficit
					Shares	Amount	
Balance as of December 31, 2019	0.9	1,093.5	2,148.7	(103.8)	48.6	(3,309.5)	(170.2)
Cumulative effect adjustment upon adoption of new accounting standard (ASU 2016-13)	—	0	(1.3)	0	0	0	(1.3)
Net income	—	—	356.3	—	—	—	356.3
Dividends, \$3.08 per share	—	—	(117.9)	—	—	—	(117.9)
Foreign currency translation adjustments	—	—	—	0.8	—	—	0.8
Pension and post-retirement liability changes, net of tax expense of \$1.0	—	—	—	(1.2)	—	—	(1.2)
Share of equity method investments other comprehensive income	—	—	—	(1.2)	—	—	(1.2)
Stock-based compensation expense	—	24.3	—	—	—	—	24.3
Change in cash flow hedges, net of tax expense of \$2.5	—	—	—	8.2	—	—	8.2
Treasury shares reissued for common stock	—	(4.6)	—	—	(0.3)	7.6	3.0
Treasury stock purchases	—	—	—	—	0.5	(117.9)	(117.9)
Balance as of December 31, 2020	0.9	1,113.2	2,385.8	(97.2)	48.8	(3,419.8)	(17.1)
Net income	—	—	464.0	—	—	—	464.0
Dividends, \$3.53 per share	—	—	(130.5)	—	—	—	(130.5)
Foreign currency translation adjustments	—	—	—	(7.3)	—	—	(7.3)
Pension and post-retirement liability changes, net of tax expense of \$7.0	—	—	—	13.9	—	—	13.9
Stock-based compensation expense	—	24.3	—	—	—	—	24.3
Change in cash flow hedges, net of tax expense of \$0.4	—	—	—	2.5	—	—	2.5
Treasury shares reissued for common stock	—	(3.8)	—	—	(0.2)	7.1	3.3
Treasury stock purchases	—	—	—	—	1.9	(622.1)	(622.1)
Balance as of December 31, 2021	0.9	1,133.7	2,719.3	(88.1)	50.5	(4,034.8)	(269.0)
Net income	—	—	497.1	—	—	—	497.1
Dividends, \$4.10 per share	—	—	(145.8)	—	—	—	(145.8)
Foreign currency translation adjustments	—	—	—	(10.2)	—	—	(10.2)
Pension and post-retirement liability changes, net of tax expense of \$3.0	—	—	—	22.6	—	—	22.6
Share of equity method investments other comprehensive income	—	—	—	0.7	—	—	0.7
Stock-based compensation expense	—	21.8	—	—	—	—	21.8
Change in cash flow hedges, net of tax benefit of \$4.0	—	—	—	(15.6)	—	—	(15.6)
Treasury shares reissued for common stock	—	(0.3)	—	—	(0.1)	3.9	3.6
Treasury stock purchases	—	—	—	—	1.3	(308.3)	(308.3)
Balance as of December 31, 2022	0.9	1,155.2	3,070.6	(90.6)	51.7	(4,339.2)	(203.1)

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022, 2021 and 2020
(In millions)

	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 497.1	\$ 464.0	\$ 356.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from equity method investments	(5.1)	(11.8)	(15.6)
Dividends from affiliates	1.7	9.1	12.3
Restructuring charges, net of cash paid	1.0	1.1	3.4
Provision for credit losses	6.9	4.9	8.1
Unrealized losses (gains), net on derivative contracts	1.7	(0.6)	0.3
Stock-based compensation expense	21.8	24.3	24.3
Depreciation and amortization	77.9	72.4	72.6
Deferred income taxes	(15.2)	(5.4)	7.2
Pension expense	6.0	11.3	10.5
Pension contributions	(22.5)	(1.5)	(3.3)
Other items, net	(1.1)	0.3	0.2
Changes in assets and liabilities:			
Accounts and notes receivable	(112.4)	(68.8)	26.5
Inventories	(249.3)	(71.0)	110.3
Other current assets	(7.3)	(19.2)	5.3
Accounts payable	28.2	55.2	(31.7)
Accrued expenses	13.7	64.2	35.4
Income taxes payable and receivable, net	56.4	(26.5)	(5.7)
Leases, net	1.7	0.2	2.1
Other, net	1.1	13.3	(6.1)
Net cash provided by operating activities	302.3	515.5	612.4
Cash flows from investing activities:			
Proceeds from the disposal of property, plant and equipment	1.6	0.9	1.0
Purchases of property, plant and equipment	(101.1)	(106.8)	(78.5)
Purchases of short-term investments, net	(3.5)	(0.5)	(2.2)
Net cash used in investing activities	(103.0)	(106.4)	(79.7)
Cash flows from financing activities:			
Short-term debt payments	—	—	(4.6)
Short-term debt borrowings	—	—	4.6
Asset securitization borrowings	407.0	627.0	91.0
Asset securitization payments	(307.0)	(377.0)	(376.0)
Long-term debt payments	(12.9)	(12.3)	(10.8)
Long-term debt borrowings	—	—	600.0
Borrowings from credit facility	2,537.5	1,162.5	1,576.0
Payments on credit facility	(2,352.0)	(1,156.0)	(2,081.5)
Payments of deferred financing costs	—	2.4	(7.5)
Proceeds from employee stock purchases	3.6	3.3	3.0
Repurchases of common stock	(300.0)	(600.0)	(100.0)
Repurchases of common stock to satisfy employee withholding tax obligations	(8.3)	(22.1)	(17.9)
Cash dividends paid	(142.0)	(126.5)	(118.1)
Net cash used in financing activities	(174.1)	(498.7)	(441.8)
Increase (decrease) in cash and cash equivalents	25.2	(89.6)	90.9
Effect of exchange rates on cash and cash equivalents	(3.6)	(3.3)	(4.3)
Cash and cash equivalents, beginning of year	31.0	123.9	37.3
Cash and cash equivalents, end of year	\$ 52.6	\$ 31.0	\$ 123.9
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest paid	\$ 35.4	\$ 23.8	\$ 25.3
Income taxes paid (net of refunds)	\$ 77.2	\$ 128.5	\$ 90.3
Insurance recoveries received	\$ —	\$ 6.6	\$ —

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

LENNOX INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations:

Lennox International Inc., a Delaware corporation, through its subsidiaries (referred to herein as “we,” “our,” “us,” “LII,” or the “Company”), is a leading global provider of climate control solutions. We design, manufacture, market and service a broad range of products for the heating, ventilation, air conditioning and refrigeration (“HVACR”) markets and sell our products and services through a combination of direct sales, distributors and company-owned parts and supplies stores. We operate in three reportable business segments: Residential Heating & Cooling, Commercial Heating & Cooling, and Refrigeration. See Note 3 for financial information regarding our reportable segments.

2. Summary of Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Lennox International Inc. and our majority-owned subsidiaries. All intercompany transactions, profits and balances have been eliminated.

Cash and Cash Equivalents

We consider all highly liquid temporary investments with original maturity dates of three months or less to be cash equivalents. Cash and cash equivalents consisted primarily of bank deposits.

Short term Investments

Short-term investments include all investments, exclusive of cash equivalents, with a stated maturity date of one year or less from the balance sheet date and are expected to be used in current operations.

Accounts and Notes Receivable

Accounts and notes receivable are shown in the accompanying Consolidated Balance Sheet, net of allowance for doubtful accounts. The allowance for doubtful accounts is generally established during the period in which receivables are recognized and is based on the age of the receivables and management’s judgment on our ability to collect. Management considers the historical trends of write-offs and recoveries of previously written-off accounts, the financial strength of customers and projected economic and market conditions. We determine the delinquency status of receivables predominantly based on contractual terms and we write-off uncollectible receivables after management’s review of our ability to collect, as noted above. We have no significant concentrations of credit risk within our accounts and notes receivable.

Inventories

Inventory costs include material, labor, and capitalized overhead. Inventories of \$465.5 million and \$302.2 million as of December 31, 2022 and 2021, respectively, were valued at the lower of cost or net realizable value using the last-in, first-out (“LIFO”) cost method. The remainder of inventory is valued at the lower of cost or net realizable value with cost determined primarily using either the first-in, first-out (“FIFO”) or average cost methods.

We elected to use the LIFO cost method for our domestic manufacturing companies in 1974 and continued to elect the LIFO cost method for new operations through the late 1980s. The types of inventory costs that use LIFO include raw materials, purchased components, work-in-process, repair parts and finished goods. Since the late 1990s, we have adopted the FIFO cost method for all new domestic manufacturing operations (primarily acquisitions). Our operating entities with a previous LIFO election continue to use the LIFO cost method. We use the FIFO cost method for our foreign-based manufacturing facilities. See Note 9 for more information on our inventories.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation. Expenditures that increase the utility or extend the useful lives of fixed assets are capitalized while expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements:	
Buildings and improvements	2 to 40 years
Leasehold improvements	1 to 39 years
Machinery and equipment:	
Computer hardware	3 to 5 years
Computer software	3 to 10 years
Factory machinery and equipment	1 to 15 years
Research and development equipment	3 to 5 years
Vehicles	3 to 10 years

We periodically review long-lived assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets might not be recoverable. To assess recoverability, we compare the estimated expected future undiscounted cash flows identified with each long-lived asset or related asset group to the carrying amount of such assets. If the expected future cash flows do not exceed the carrying value of the asset or assets being reviewed, an impairment loss is recognized based on the excess of the carrying amount of the impaired assets over their fair value. See Note 9 for additional information on our property, plant and equipment.

Goodwill

Goodwill represents the excess of cost over fair value of assets from acquired businesses. Goodwill is not amortized, but is reviewed for impairment annually during the third quarter and whenever events or changes in circumstances indicate the asset may be impaired. See Note 9 for additional information on our goodwill.

The provisions of the accounting standard for goodwill allow us to first assess qualitative factors to determine whether it is necessary to perform a quantitative goodwill impairment test. As part of our qualitative assessment, we monitor economic, legal, regulatory and other factors, industry trends, our market capitalization, recent and forecasted financial performance of our reporting units and the timing and nature of our restructuring activities for LII as a whole and for each reporting unit.

If a quantitative goodwill impairment test is determined to be necessary, we estimate reporting unit fair values using a combination of the discounted cash flow approach and a market approach. The discounted cash flows used to estimate fair value are based on assumptions regarding each reporting unit's estimated projected future cash flows and the estimated weighted-average cost of capital that a market participant would use in evaluating the reporting unit in a purchase transaction. The estimated weighted-average cost of capital is based on the risk-free interest rate and other factors such as equity risk premiums and the ratio of total debt to equity capital. In performing these impairment tests, we take steps to ensure that appropriate and reasonable cash flow projections and assumptions are used. We reconcile our estimated enterprise value to our market capitalization and determine the reasonableness of the cost of capital used by comparing to market data. We also perform sensitivity analyses on the key assumptions used, such as the weighted-average cost of capital and terminal growth rates. The market approach is based on objective evidence of market values.

Product Warranties

For some of our heating, ventilation and air conditioning ("HVAC") products, we provide warranty terms ranging from one to 20 years to customers for certain components such as compressors or heat exchangers. For select products, we also provide limited lifetime warranties. A liability for estimated warranty expense is recorded in cost of goods sold on the date that revenue is recognized. Our estimates of future warranty costs are determined by product category. The number of units we expect to repair or replace is determined by applying an estimated failure rate, which is generally based on historical experience, to the number of units that were sold and are still under warranty. In most cases, the estimated units to be repaired under warranty are multiplied by the estimated cost of replacement parts to determine the estimated future warranty cost. We do not discount product warranty liabilities as the amounts are not fixed and the timing of future cash payments is neither fixed nor reliably determinable. We also provide for specifically-identified warranty obligations. Estimated future warranty costs are subject to adjustment depending on changes in actual failure rate and cost experience. Subsequent costs incurred for warranty claims serve to reduce the accrued product warranty liability. See Note 5 for more information on our estimated future warranty costs.

Pensions and Post-retirement Benefits

We provide pension and post-retirement medical benefits to eligible domestic and foreign employees and we recognize pension and post-retirement benefit costs over the estimated service life or average life expectancy of those employees. We also recognize the funded status of our benefit plans, as measured at year-end by the difference between plan assets at fair value and the benefit obligation, in the Consolidated Balance Sheet. Changes in the funded status are recognized in the year in which the changes occur through Accumulated other comprehensive loss (“AOCL”). Actuarial gains or losses are amortized into net period benefit cost over the estimated service life of covered employees or average life expectancy of participants depending on the plan.

The benefit plan assets and liabilities reflect assumptions about the long-range performance of our benefit plans. Should actual results differ from management’s estimates, revisions to the benefit plan assets and liabilities would be required. See Note 10 for information regarding those estimates and additional disclosures on pension and post-retirement medical benefits.

Self-Insurance

Self-insurance expense and liabilities were actuarially determined based primarily on our historical claims information, industry factors, and trends. The self-insurance liabilities as of December 31, 2022 represent the best estimate of the future payments to be made on reported and unreported losses for 2022 and prior years. The amounts and timing of payments for claims reserved may vary depending on various factors, including the development and ultimate settlement of reported and unreported claims. To the extent actuarial assumptions change and claims experience rates differ from historical rates, our liabilities may change. See Note 5 for additional information on our self-insured risks and liabilities.

Derivatives

We use futures contracts, forward contracts and fixed forward contracts to mitigate our exposure to volatility in metal commodity prices and foreign exchange rates. We hedge only exposures in the ordinary course of business and do not hold or trade derivatives for profit. All derivatives are recognized in the Consolidated Balance Sheet at fair value and the classification of each derivative instrument is based upon whether the maturity of the instrument is less than or greater than 12 months. See Note 9 for more information on our derivatives.

Leases

We lease certain real and personal property under non-cancelable leases including real estate, IT equipment, fleet vehicles and manufacturing and distribution equipment. At inception of the lease, we determine a lease exists if the contract conveys the right to control an identified asset for a period of time in exchange for consideration. Control is considered to exist when the lessee has the right to obtain substantially all the economic benefits from the use of an identified asset as well as the right to direct the use of the asset. If a contract is considered to be a lease, we recognize a lease liability based on the present value of the future minimum lease payments and a right-of-use asset. For contracts that are 12 months or less, we do not recognize a right-of-use asset or liability. We do not separate non-lease components from the lease components to which they relate and account for the combined lease and non-lease components as a single lease component.

Income Taxes

We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Unrecognized tax benefits are accounted for as required by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 740. See Note 12 for more information related to income taxes.

Revenue Recognition

Our revenue recognition practices for the sale of goods depend upon the shipping terms for each transaction. Shipping terms are primarily FOB Shipping Point and, therefore, revenue is recognized for these transactions when products are shipped to customers and title and control passes. Certain customers in our smaller operations, primarily outside of North America, have shipping terms where risks and rewards of ownership do not transfer until the product is delivered to the customer. For these transactions, revenue is recognized on the date that the product is received and accepted by such customers. We experience

returns for miscellaneous reasons and record a reserve for these returns at the time we recognize revenue based on historical experience. Our historical rates of return are insignificant as a percentage of sales. We also recognize revenue net of sales taxes. We have elected to recognize the revenue and cost for freight and shipping when control over the sale of goods passes to our customers. See Note 8 for more information on our revenue recognition practices.

Cost of Goods Sold

The principal elements of cost of goods sold are components, raw materials, factory overhead, labor, estimated costs of warranty expense, and freight and distribution costs.

Selling, General and Administrative Expenses

SG&A expenses include payroll and benefit costs, advertising, commissions, research and development, information technology costs, and other selling, general and administrative related costs such as insurance, travel, non-production depreciation, and rent.

Stock-Based Compensation

We recognize compensation expense for stock-based arrangements over the required employee service periods. We measure stock-based compensation costs based on the estimated grant-date fair value of the stock-based awards that are expected to ultimately vest and we adjust expected vesting rates to actual rates as additional information becomes known. For stock-based arrangements with performance conditions, we periodically adjust performance achievement rates based on our best estimates of those rates at the end of the performance period. See Note 15 for more information.

Translation of Foreign Currencies

All assets and liabilities of foreign subsidiaries and joint ventures are translated into U.S. dollars using rates of exchange in effect at the balance sheet date. Revenue and expenses are translated at weighted average exchange rates during the year. Unrealized translation gains and losses are included in AOCL in the accompanying Consolidated Balance Sheets. Transaction gains and losses are included in Losses (gains) and other expenses, net in the accompanying Consolidated Statements of Operations.

Use of Estimates

The preparation of financial statements requires us to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenue and expenses. Such estimates include the valuation of accounts receivable, inventories, goodwill, intangible assets and other long-lived assets, contingencies, product warranties, and assumptions used in the calculation of income taxes, pension and post-retirement medical benefits, and stock-based compensation among others. These estimates and assumptions are based on our best estimates and judgment.

We evaluate these estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. We believe these estimates and assumptions to be reasonable under the circumstances and will adjust such estimates and assumptions when facts and circumstances dictate. Volatile equity, foreign currency and commodity markets and uncertain future economic conditions combine to increase the uncertainty inherent in such estimates and assumptions. Future events and their effects cannot be determined with precision and actual results could differ significantly from these estimates. Changes in these estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Impact of COVID-19 Pandemic

A novel strain of coronavirus ("COVID-19") has surfaced and spread around the world. The COVID-19 pandemic is creating supply chain disruptions and higher employee absenteeism in our factories and distribution locations since 2020. We cannot predict whether any of our manufacturing, operational or distribution facilities will experience any future disruptions, or how long such disruptions would last. It also remains unclear how various national, state, and local governments will react if new variants of the virus spread. If the pandemic worsens or continues longer than presently expected, COVID-19 could impact our results of operations, financial position and cash flows.

3. Reportable Business Segments:

Description of Segments

We operate in three reportable business segments of the HVACR industry. Our segments are organized primarily by the nature of the products and services we provide. The following table describes each segment:

Segment	Products or Services	Markets Served	Geographic Areas
<i>Residential Heating & Cooling</i>	Furnaces, air conditioners, heat pumps, packaged heating and cooling systems, indoor air quality equipment, comfort control products, replacement parts and supplies	Residential Replacement; Residential New Construction	United States Canada
<i>Commercial Heating & Cooling</i>	Unitary heating and air conditioning equipment, applied systems, controls, installation and service of commercial heating and cooling equipment, variable refrigerant flow commercial products	Light Commercial	United States Canada
<i>Refrigeration⁽¹⁾</i>	Condensing units, unit coolers, fluid coolers, air-cooled condensers, air handlers, process chillers, controls, and compressorized racks	Light Commercial; Food Preservation; Non-Food/Industrial	United States Canada Europe

⁽¹⁾In November 2022, we announced the decision to explore strategic alternatives for our European commercial HVAC and refrigeration businesses. We will continue to invest in our Heatcraft Worldwide Refrigeration business which will become part of the Commercial Heating & Cooling segment beginning in 2023 and the European portfolio will be presented with Corporate and Other beginning in 2023 until disposition. As we will manage the businesses in this manner beginning in 2023, we will present the financial results of the revised segments beginning in 2023.

Segment Data

We use segment profit or loss as the primary measure of profitability to evaluate operating performance and to allocate capital resources. We define segment profit or loss as a segment's income or loss from continuing operations before income taxes included in the accompanying Consolidated Statements of Operations, excluding certain items. The reconciliation below details the items excluded.

Our corporate costs include those costs related to corporate functions such as legal, internal audit, treasury, human resources, tax compliance and senior executive staff. Corporate costs also include the long-term, share-based incentive awards provided to employees throughout our business. We recorded these share-based awards as Corporate costs because they are determined at the discretion of the Board of Directors and based on the historical practice of doing so for internal reporting purposes.

Any intercompany sales and associated profit (and any other intercompany items) are eliminated from segment results. There were no significant intercompany eliminations included in the results presented in the table below.

Net sales and segment profit (loss) by segment, along with a reconciliation of segment profit (loss) to Operating income, are shown below (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Net Sales ⁽¹⁾			
Residential Heating & Cooling	\$ 3,198.3	\$ 2,775.6	\$ 2,361.5
Commercial Heating & Cooling	900.7	864.8	800.9
Refrigeration	619.4	553.7	471.7
	<u>\$ 4,718.4</u>	<u>\$ 4,194.1</u>	<u>\$ 3,634.1</u>
Segment profit (loss) ⁽²⁾			
Residential Heating & Cooling	\$ 596.9	\$ 540.3	\$ 428.5
Commercial Heating & Cooling	80.9	110.9	136.9
Refrigeration	78.8	49.1	32.8
Corporate and other	(90.8)	(96.4)	(91.5)
Total segment profit	<u>665.8</u>	<u>603.9</u>	<u>506.7</u>
Reconciliation to Operating income:			
Special product quality adjustments	—	(2.5)	1.0
Loss from natural disasters, net of insurance recoveries	—	—	3.1
Items in Losses (gains) and other expenses, net that are excluded from segment profit (loss) ⁽²⁾	8.1	14.3	13.3
Restructuring charges	1.5	1.8	10.8
Operating income	<u>\$ 656.2</u>	<u>\$ 590.3</u>	<u>\$ 478.5</u>

⁽¹⁾ On a consolidated basis, no revenue from transactions with a single customer were 10% or greater of our consolidated net sales for any of the periods presented.

⁽²⁾ We define segment profit (loss) as a segment's operating income included in the accompanying Consolidated Statements of Operations, excluding:

- The following items in (Gains) losses and other expenses, net:
 - Net change in unrealized (gains) losses on unsettled futures contracts,
 - Environmental liabilities and special litigation charges,
 - Charges incurred related to COVID-19 pandemic, and
 - Other items, net,
- Special product quality adjustments
- Loss from natural disasters, net of insurance recoveries
- Restructuring charges, and

Total assets by segment are shown below (in millions):

	As of December 31,		
	2022	2021	2020
Total Assets:			
Residential Heating & Cooling	\$ 1,456.4	\$ 1,149.7	\$ 1,034.6
Commercial Heating & Cooling	456.4	366.2	366.5
Refrigeration	443.6	426.6	387.9
Corporate and other	211.2	229.4	243.5
Total assets	<u>\$ 2,567.6</u>	<u>\$ 2,171.9</u>	<u>\$ 2,032.5</u>

The assets in the Corporate and other segment primarily consist of cash, short-term investments and deferred tax assets. Assets recorded in the operating segments represent those assets directly associated with those segments.

Total capital expenditures by segment are shown below (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Capital Expenditures:			
Residential Heating & Cooling	\$ 42.4	\$ 70.0	\$ 44.0
Commercial Heating & Cooling	21.5	4.3	5.9
Refrigeration	11.2	11.5	9.2
Corporate and other	26.0	21.0	19.4
Total capital expenditures	<u>\$ 101.1</u>	<u>\$ 106.8</u>	<u>\$ 78.5</u>

Depreciation and amortization expenses by segment are shown below (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Depreciation and Amortization:			
Residential Heating & Cooling	\$ 31.5	\$ 27.6	\$ 28.5
Commercial Heating & Cooling	12.9	13.2	13.5
Refrigeration	9.1	7.8	7.8
Corporate and other	24.4	23.8	22.8
Total depreciation and amortization	<u>\$ 77.9</u>	<u>\$ 72.4</u>	<u>\$ 72.6</u>

The equity method investments are shown below (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Income from Equity Method Investments:			
Residential Heating & Cooling	\$ 0.9	\$ 6.9	\$ 11.4
Commercial Heating & Cooling	0.2	1.2	2.3
Refrigeration	4.0	3.7	1.9
Total income from equity method investments	<u>\$ 5.1</u>	<u>\$ 11.8</u>	<u>\$ 15.6</u>

Geographic Information

Property, plant and equipment, net for each major geographic area in which we operate, based on the domicile of our operations, are shown below (in millions):

	As of December 31,		
	2022	2021	2020
Property, Plant and Equipment, net:			
United States	\$ 408.8	\$ 381.0	\$ 352.9
Mexico	110.9	102.7	79.2
Canada	2.1	2.1	2.2
Other international	27.1	29.3	30.0
Total Property, plant and equipment, net	<u>\$ 548.9</u>	<u>\$ 515.1</u>	<u>\$ 464.3</u>

4. 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 our stock-based compensation plans.

The computations of basic and diluted earnings per share for Income from continuing operations were as follows (in millions, except per share data):

	For the Years Ended December 31,		
	2022	2021	2020
Net income	\$ 497.1	\$ 464.0	\$ 356.3
Add: Loss from discontinued operations	—	—	0.8
Income from continuing operations	<u>\$ 497.1</u>	<u>\$ 464.0</u>	<u>\$ 357.1</u>
Weighted-average shares outstanding – basic	35.7	37.2	38.3
Add: Potential effect of diluted securities attributable to stock-based payments	0.1	0.3	0.3
Weighted-average shares outstanding – diluted	<u>35.8</u>	<u>37.5</u>	<u>38.6</u>
Earnings per share - Basic:			
Income from continuing operations	\$ 13.92	\$ 12.47	\$ 9.32
Loss from discontinued operations	—	—	(0.02)
Net income	<u>\$ 13.92</u>	<u>\$ 12.47</u>	<u>\$ 9.30</u>
Earnings per share - Diluted:			
Income from continuing operations	\$ 13.88	\$ 12.39	\$ 9.26
Loss from discontinued operations	—	—	(0.02)
Net income	<u>\$ 13.88</u>	<u>\$ 12.39</u>	<u>\$ 9.24</u>

There were 0.3 million securities in 2022 that were outstanding but not included in the diluted earnings per share calculation as the assumed exercise of such rights would have been anti-dilutive.

5. Commitments and Contingencies:

Leases

We lease certain real and personal property under non-cancelable leases. Approximately 81% of our right-of-use assets and lease liabilities relate to our leases of real estate with the remaining amounts relating to our leases of IT equipment, fleet vehicles and manufacturing and distribution equipment.

The components of lease expense were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Finance lease cost:			
Amortization of right-of-use assets	\$ 13.2	\$ 11.9	\$ 10.3
Interest on lease liabilities	0.7	0.5	0.7
Operating lease cost	67.7	62.2	62.7
Short-term lease cost	5.0	3.8	4.0
Variable lease cost	24.5	21.6	20.3
Total lease cost	\$ 111.1	\$ 100.0	\$ 98.0

Other information

Cash paid for amounts included in the measurement lease liabilities:

Operating cash flows from operating leases	\$ 66.0	\$ 61.8	\$ 61.6
Financing cash flows from finance leases	\$ 13.6	\$ 12.3	\$ 10.8
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 14.4	\$ 14.6	\$ 15.4
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 98.8	\$ 61.8	\$ 67.6

	As of December 31,	
	2022	2021
Finance lease right-of-use assets ⁽¹⁾	\$ 33.3	\$ 34.5
Operating lease right-of-use assets	\$ 219.9	\$ 196.1
Finance lease liability, current ⁽²⁾	\$ 11.2	\$ 11.3
Finance lease liability, non-current ⁽³⁾	\$ 28.3	\$ 29.0
Operating lease liability, current	\$ 63.3	\$ 54.8
Operating lease liability, non-current	\$ 161.8	\$ 145.0
Weighted-average remaining lease term - finance leases	3.6 years	3.9 years
Weighted-average remaining lease term - operating leases	5.1 years	4.5 years
Weighted-average discount rate - finance leases	1.92 %	1.14 %
Weighted-average discount rate - operating leases	3.44 %	2.62 %

(1) Recorded in Property, plant and equipments in Consolidated Balance Sheet

(2) Recorded in Current maturities of long-term debt in Consolidated Balance Sheet

(3) Recorded in Long-term debt in Consolidated Balance Sheet

Future annual minimum lease payments and finance lease commitments as of December 31, 2022 were as follows (in millions):

	Operating Leases	Finance Leases
2023	\$ 70.0	\$ 11.6
2024	53.2	8.4
2025	36.9	5.8
2026	29.0	2.5
2027	18.9	0.3
Thereafter	40.1	11.7
Total minimum lease payments	\$ 248.1	\$ 40.3
Less imputed interest	(23.0)	(0.8)
Present value of minimum payments	<u>\$ 225.1</u>	<u>\$ 39.5</u>

On March 1, 2019, we entered into an agreement with a financial institution to renew the lease of our corporate headquarters in Richardson, Texas for a term of five years through March 1, 2024 (the “Lake Park Renewal”). The leased property consists of an office building of approximately 192,000 square feet, land and related improvements. During the lease term, we are obligated to pay base rent in quarterly installments, payable in arrears. At the end of the lease term, we must do one of the following: (i) purchase the property for \$41.2 million; (ii) vacate the property and return it in good condition; (iii) arrange for the sale of the leased property to a third party; or (iv) renew the lease under mutually agreeable terms. If we elect to sell the property to a third party and the sales proceeds are less than the lease balance of \$41.2 million, we must pay any such deficit to the financial institution. Any such deficit payment cannot exceed 87% of the lease balance. The headquarters lease is classified as an operating lease and its future annual minimum lease payments are included in the table above.

Our obligations under the Lake Park Renewal are secured by a pledge of our interest in the leased property. The Lake Park Renewal contains customary lease covenants and events of default as well as events of default if (i) indebtedness of \$75 million or more is not paid when due, (ii) there is a change of control or (iii) we fail to comply with certain covenants incorporated from our existing Credit Agreement. We believe we were in compliance with these financial covenants as of December 31, 2022.

Environmental

Environmental laws and regulations in the locations we operate can potentially impose obligations to remediate hazardous substances at our properties, properties formerly owned or operated by us, and facilities to which we have sent or send waste for treatment or disposal. We are aware of contamination at some facilities; however, we do not believe that any future remediation related to those facilities will be material to our results of operations. Total environmental accruals are included Accrued expenses and Other liabilities on the accompanying Consolidated Balance Sheets. Future environmental costs are estimates and may be subject to change due to changes in environmental remediation regulations, technology or site-specific requirements.

Product Warranties and Product Related Contingencies

We incur the risk of liability for claims related to the installation and service of heating and air conditioning products, and we maintain liabilities for those claims that we self-insure. We are involved in various claims and lawsuits related to our products. Our product liability insurance policies have limits that, if exceeded, may result in substantial costs that could have an adverse effect on our results of operations. In addition, warranty claims and certain product liability claims are not covered by our product liability insurance.

Total product warranty liabilities are included in the following captions on the accompanying Consolidated Balance Sheets (in millions):

	As of December 31,	
	2022	2021
Accrued expenses	\$ 41.3	\$ 37.2
Other liabilities	101.4	97.0
Total product warranty liabilities	\$ 142.7	\$ 134.2

The changes in product warranty liabilities related to continuing operations for the years ended December 31, 2022 and 2021 were as follows (in millions):

Total warranty liability as of December 31, 2020	\$	119.8
Payments made in 2021		(31.6)
Changes resulting from issuance of new warranties		43.6
Changes in estimates associated with pre-existing liabilities		2.7
Changes in foreign currency translation rates and other		(0.3)
Total warranty liability as of December 31, 2021	\$	134.2
Payments made in 2022		(36.3)
Changes resulting from issuance of new warranties		50.5
Changes in estimates associated with pre-existing liabilities		(4.7)
Changes in foreign currency translation rates and other		(1.0)
Total warranty liability as of December 31, 2022	\$	142.7

We have incurred, and will likely continue to incur, product costs not covered by insurance or our suppliers' warranties, which are not included in the table above. Also, to satisfy our customers and protect our brands, we have repaired or replaced installed products experiencing quality-related issues, and will likely continue such repairs and replacements.

Self-Insurance

We use a combination of third-party insurance and self-insurance plans to provide protection against claims relating to workers' compensation/employers' liability, general liability, product liability, auto liability, auto physical damage and other exposures. We use large deductible insurance plans, written through third-party insurance providers, for workers' compensation/employers' liability, general liability, product liability and auto liability. We also carry umbrella or excess liability insurance for all third-party and self-insurance plans, except for directors' and officers' liability, property damage and certain other insurance programs. For directors' and officers' liability, property damage and certain other exposures, we use third-party insurance plans that may include per occurrence and annual aggregate limits. We believe the deductibles and liability limits for all of our insurance policies are appropriate for our business and are adequate for companies of our size in our industry.

We maintain safety and manufacturing programs that are designed to remove risk, improve the effectiveness of our business processes and reduce the likelihood and significance of our various retained and insured risks. In recent years, our actual claims experience has collectively trended favorably and, as a result, both self-insurance expense and the related liability have decreased.

Total self-insurance liabilities were included in the following captions on the accompanying Consolidated Balance Sheets (in millions):

	As of December 31,	
	2022	2021
Accrued expenses	\$ 3.0	\$ 3.2
Other liabilities	14.6	15.7
Total self-insurance liabilities	\$ 17.6	\$ 18.9

Litigation

We are involved in a number of claims and lawsuits incident to the operation of our businesses. Insurance coverages are maintained and estimated costs are recorded for such claims and lawsuits, including costs to settle claims and lawsuits, based on experience involving similar matters and specific facts known.

It is management's opinion that none of these claims or lawsuits or any threatened litigation will have a material adverse effect, individually or in the aggregate, on our financial condition, results of operations or cash flows. Claims and lawsuits, however, involve uncertainties and it is possible that their eventual outcome could adversely affect our results of operations in a future period.

6. Stock Repurchases:

Our Board of Directors have authorized a total of \$4 billion to repurchase shares of our common stock (collectively referred to as the "Share Repurchase Plans"), including a \$1.0 billion share repurchase authorization in July 2021. The Share Repurchase Plans allow us to repurchase shares from time to time in open market transactions and in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The Share Repurchase Plans do not require the repurchase of a specific number of shares and may be terminated at any time. As of December 31, 2022, \$546 million of shares is available to repurchase shares under the Share Repurchase Plans.

We entered into multiple Fixed Dollar Accelerated Share Repurchase Transactions (the "ASR Agreements") to effect an accelerated stock buybacks of the Company's common stock in 2022. Under the ASR Agreements, we paid banks \$300.0 million and the banks delivered to us common stock representing approximately 86% of the shares expected to be purchased under the ASR Agreement. After the ASR Agreements were completed, the banks delivered the remaining shares under the arrangement. The banks delivered a total of 1.3 million shares of common stock repurchased under this ASR Agreement.

We also repurchased less than 0.1 million shares for \$8.3 million, 0.1 million shares for \$22.1 million, and 0.1 million shares for \$17.9 million for the years ended December 31, 2022, 2021, and 2020, respectively, from employees who tendered their shares to satisfy minimum tax withholding obligation upon the vesting of stock-based compensation awards.

7. Restructuring Charges:

We record restructuring charges associated with management-approved restructuring plans to reorganize or to remove duplicative headcount and infrastructure within our businesses. Restructuring charges include severance costs to eliminate a specified number of employees, infrastructure charges to vacate facilities and consolidate operations, contract cancellation costs and other related activities. The timing of associated cash payments is dependent upon the type of restructuring charge and can extend over a multi-year period. Restructuring charges are not included in our calculation of segment profit (loss), as more fully explained in Note 3.

We recorded \$1.5 million of restructuring charges in 2022, \$1.8 million 2021, and \$10.8 million in 2020 from actions initiated in prior years including the economic impact of COVID-19. There is not expected to be a material amount of costs expected to be incurred from existing restructuring actions in future periods.

Restructuring accruals are included in Accrued expenses in the accompanying Consolidated Balance Sheets.

8. Revenue Recognition:

The following table disaggregates our revenue by business segment by geography to provide information as to the major sources of revenue. See Note 3 for additional description of our reportable business segments and the products and services being sold in each segment.

For the Year Ended December 31, 2022				
Primary Geographic Markets	Residential Heating & Cooling	Commercial Heating & Cooling	Refrigeration	Consolidated
United States	\$ 2,957.1	\$ 837.7	\$ 385.7	\$ 4,180.5
Canada	241.2	62.4	—	303.6
International	—	0.6	233.7	234.3
Total	\$ 3,198.3	\$ 900.7	\$ 619.4	\$ 4,718.4

For the Year Ended December 31, 2021				
Primary Geographic Markets	Residential Heating & Cooling	Commercial Heating & Cooling	Refrigeration	Consolidated
United States	\$ 2,532.4	\$ 790.1	\$ 324.0	\$ 3,646.5
Canada	243.2	73.1	—	316.3
International	—	1.6	229.7	231.3
Total	\$ 2,775.6	\$ 864.8	\$ 553.7	\$ 4,194.1

For the Year Ended December 31, 2020

Primary Geographic Markets	Residential Heating & Cooling	Commercial Heating & Cooling	Refrigeration	Consolidated
United States	\$ 2,181.8	\$ 721.1	\$ 257.9	\$ 3,160.8
Canada	179.7	77.6	—	257.3
International	—	2.2	213.8	216.0
Total	\$ 2,361.5	\$ 800.9	\$ 471.7	\$ 3,634.1

Our revenue recognition practices for the sale of goods depend upon the shipping terms for each transaction. Shipping terms are primarily FOB Shipping Point and, therefore, revenue is recognized for these transactions when products are shipped to customers and title and control passes. Certain customers in our smaller operations, primarily outside of North America, have shipping terms where risks and rewards of ownership do not transfer until the product is delivered to the customer. For these transactions, revenue is recognized on the date that the product is received and accepted by such customers. We experience returns for miscellaneous reasons and record a reserve for these returns at the time we recognize revenue based on historical experience. Our historical rates of return are insignificant as a percentage of sales. We also recognize revenue net of sales taxes. We have elected to recognize the revenue and cost for freight and shipping when control over the sale of goods passes to our customers.

For our businesses that provide services, revenue is recognized at the time services are completed. Our Commercial Heating & Cooling segment also provides sales, installation, maintenance and repair services under fixed-price contracts. Revenue for services is recognized as the services are performed under the contract based on the relative fair value of the services provided. We allocate a portion of the revenue for extended labor warranty obligations and recognize the revenue over the term of the extended warranty. Revenue from extended warranties is insignificant. See Note 5 for more information on product warranties.

Residential Heating & Cooling - We manufacture and market a broad range of furnaces, air conditioners, heat pumps, packaged heating and cooling systems, equipment and accessories to improve indoor air quality, comfort control products, replacement parts and supplies and related products for both the residential replacement and new construction markets in North America. These products are sold under various brand names and are sold either through direct sales to a network of independent installing dealers, including through our network of Lennox stores or to independent distributors. For the years ended December 31, 2022, 2021 and 2020, direct sales represented 70%, 73% and 75% of revenues, respectively, and sales to independent distributors represented the remainder. Given the nature of our business, customer product orders are fulfilled at a point in time and not over a period of time.

Commercial Heating & Cooling - In North America, we manufacture and sell unitary heating and cooling equipment used in light commercial applications, such as low-rise office buildings, restaurants, retail centers, churches and schools. These products are distributed primarily through commercial contractors and directly to national account customers in the planned replacement, emergency replacement and new construction markets. Revenue for the products sold is recognized at a point in time when control transfers to the customer, which is generally at time of shipment. Lennox National Account Services provides installation, service and preventive maintenance for HVAC national account customers in the United States and Canada. Revenue related to service contracts is recognized as the services are performed under the contract based on the relative fair value of the services provided. For the years ended December 31, 2022, 2021 and 2020, equipment sales represented 82%, 82% and 85% of revenues, respectively, and the remainder of our revenue was generated from our service business.

Refrigeration - We manufacture and market equipment for the global commercial refrigeration markets under the Heatcraft Worldwide Refrigeration name. Our products are used in the food retail, food service, cold storage as well as non-food refrigeration markets. We sell these products to distributors, installing contractors, engineering design firms, original equipment manufacturers and end-users. In Europe, we also manufacture and sell unitary heating and cooling products and applied systems. Substantially all segment revenue was related to these types of equipment and systems and is recognized at a point in time when control transfers to the customer, which is generally at time of shipment. Approximately 1% of segment revenue relates to services for start-up and commissioning activities.

Variable Consideration - We engage in cooperative advertising, customer rebate, and other miscellaneous programs that result in payments or credits being issued to our customers. We record these customer discounts and incentives as a reduction of sales when the sales are recorded. For certain cooperative advertising programs, we also receive an identifiable benefit

(goods or services) in exchange for the consideration given, and, accordingly, record a ratable portion of the expenditure to SG&A expenses. All other advertising, promotions and marketing costs are expensed as incurred.

Other Judgments and Assumptions - We apply the practical expedient in ASC 606-10-50-14 and do not disclose information about remaining performance obligations that have original expected durations of one year or less. Applying the practical expedient in ASC 340-40-25-4, we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that we otherwise would have recognized is one year or less. These costs are included in SG&A expenses. ASC 606-10-32-18 allows us to not adjust the amount of consideration to be received in a contract for any significant financing component if we expect to receive payment within twelve months of transfer of control of goods or services. We have elected this expedient as we expect all consideration to be received in one year or less at contract inception. We have also elected not to provide the remaining performance obligations disclosures related to service contracts in accordance with the practical expedient in ASC 606-10-55-18. We recognize revenue in the amount to which the entity has a right to invoice and have adopted this election to not provide the remaining performance obligations related to service contracts.

Contract Assets - We do not have material amounts of contract assets since revenue is recognized as control of goods is transferred or as services are performed. There are a small number of installation services that may occur over a period of time, but that period of time is generally very short in duration and right of payment does not exist until the installation is completed. Any contract assets that may arise are recorded in Other assets in our Consolidated Balance Sheets.

Contract Liabilities - Our contract liabilities consist of advance payments and deferred revenue. Our contract liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. We classify advance payments and deferred revenue as current or noncurrent based on the timing of when we expect to recognize revenue. Generally all contract liabilities are expected to be recognized within one year and are included in Accrued expenses in our Consolidated Balance Sheet. The noncurrent portion of deferred revenue is included in Other liabilities in our Consolidated Balance Sheets.

Net contract assets (liabilities) consisted of the following:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Contract liabilities - current	(9.6)	(10.2)
Contract liabilities - noncurrent	(6.4)	(5.5)
Total	<u>\$ (16.0)</u>	<u>\$ (15.7)</u>

For the years ended December 31, 2022, 2021, and 2020 we recognized revenue of \$10.1 million, \$3.6 million and \$7.2 million related to our contract liabilities at January 1, 2022, 2021 and 2020, respectively. Impairment losses recognized in our receivables and contract assets were de minimis in 2022, 2021 and 2020.

9. Other Financial Statement Details:

Inventories

The components of inventories are as follows (in millions):

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2021</u>
Finished goods	\$ 534.6	\$ 310.8
Work in process	8.9	12.4
Raw materials and parts	328.7	262.1
Total	872.2	585.3
Excess of current cost over last-in, first-out cost	(119.2)	(74.4)
Total inventories, net	<u>\$ 753.0</u>	<u>\$ 510.9</u>

The Company recorded a pre-tax gain of \$0.7 million in 2020 from LIFO inventory liquidations. There were no pre-tax gains or losses in 2022 or 2021 from LIFO inventory liquidations. Reserves for obsolete and slow-moving inventories were \$34.9 million and \$26.5 million at December 31, 2022 and December 31, 2021, respectively.

Goodwill

The changes in the carrying amount of goodwill in 2022 and 2021, in total and by segment, are summarized in the table below (in millions):

Segment:	Balance at December 31, 2020 (1)	Changes in foreign currency translation rates	Balance at December 31, 2021	Changes in foreign currency translation rates	Balance at December 31, 2022
Residential Heating & Cooling	\$ 26.1	\$ —	\$ 26.1	\$ —	\$ 26.1
Commercial Heating & Cooling	61.1	—	61.1	—	61.1
Refrigeration	99.7	(0.3)	99.4	(0.3)	99.1
	<u>\$ 186.9</u>	<u>\$ (0.3)</u>	<u>\$ 186.6</u>	<u>\$ (0.3)</u>	<u>\$ 186.3</u>

(1) The goodwill balances in the table above are presented net of accumulated impairment charges of \$32.7 million, all of which relate to impairments in periods prior to 2020.

A qualitative review of impairment indicators was performed in 2022 for the Residential Heating & Cooling, the Commercial Heating & Cooling, and the Refrigeration segments. We did not record any goodwill impairments in 2022, 2021, or 2020.

Property, Plant and Equipment

Components of Property, plant and equipment, net were as follows (in millions):

	As of December 31,	
	2022	2021
Land	\$ 24.1	\$ 24.0
Buildings and improvements	321.6	285.9
Machinery and equipment	964.7	946.5
Finance leases	66.5	63.5
Construction in progress and equipment not yet in service	92.8	84.0
Total	<u>1,469.7</u>	<u>1,403.9</u>
Less accumulated depreciation	<u>(920.8)</u>	<u>(888.8)</u>
Property, plant and equipment, net	<u>\$ 548.9</u>	<u>\$ 515.1</u>

No impairment charges were recorded in 2022 or 2021.

Accrued Expenses

The significant components of Accrued expenses are presented below (in millions):

	As of December 31,	
	2022	2021
Accrued rebates and promotions	123.3	102.9
Accrued compensation and benefits	\$ 90.7	\$ 114.9
Accrued warranties	41.3	37.2
Other	33.8	32.0
Accrued sales, use, property and VAT taxes	26.8	26.9
Accrued Freight	19.0	12.0
Accrued asbestos reserves	14.3	13.1
Deferred income	9.6	10.2
Derivative contracts	9.0	1.0
Accrued interest	6.1	5.5
Self insurance reserves	3.0	3.2
Total Accrued expenses	\$ 376.9	\$ 358.9

Derivatives

Objectives and Strategies for Using Derivative Instruments

Commodity Price Risk. We utilize a cash flow hedging program to mitigate our exposure to volatility in the prices of metal commodities used in our production processes. Our hedging program includes the use of futures contracts to lock in prices, and as a result, we are subject to derivative losses should the metal commodity prices decrease and gains should the prices increase. We utilize a dollar cost averaging strategy so that a higher percentage of commodity price exposures are hedged near-term with lower percentages hedged at future dates. This strategy allows for protection against near-term price volatility while allowing us to adjust to market price movements over time.

Interest Rate Risk. A portion of our debt bears interest at variable interest rates, and as a result, we are subject to variability in the cash paid for interest. To mitigate a portion of that risk, we may choose to engage in an interest rate swap hedging strategy to eliminate the variability of interest payment cash flows. We are not currently hedged against interest rate risk.

Foreign Currency Risk. Foreign currency exchange rate movements create a degree of risk by affecting the U.S. dollar value of assets and liabilities arising in foreign currencies. We seek to mitigate the impact of currency exchange rate movements on certain short-term transactions by periodically entering into foreign currency forward contracts.

Cash Flow Hedges

We have commodity futures contracts and foreign exchange forward contracts designated as cash flows hedges that are scheduled to mature through May 2024 and January 2024, respectively. We currently have cash flow hedge contracts with a notional amount of 54.5 million pounds of aluminum and copper. Unrealized gains or losses from our cash flow hedges are included in AOCL and are expected to be reclassified into earnings within the next 17 months based on the prices of the commodities and foreign currencies at the settlement dates.

We recorded the following amounts related to our cash flow hedges in AOCL (in millions):

	As of December 31,	
	2022	2021
Unrealized losses (gains), net on unsettled contracts	\$ 6.3	\$ (13.4)
Income tax (benefit) expense	(1.4)	2.7
Unrealized losses (gains) included in AOCL, net of tax ⁽¹⁾	\$ 4.9	\$ (10.7)

⁽¹⁾ Assuming commodity and foreign currency prices remain constant, we expect to reclassify \$5.0 million of derivative losses into earnings within the next 12 months.

Expenses included in our Consolidated Statements of Operations

Below is information about expenses included in Selling, general and administrative expenses in our Consolidated Statements of Operations (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Research and development	\$ 80.3	\$ 76.1	\$ 66.8
Advertising, promotions and marketing ⁽¹⁾	32.4	26.9	26.5
Cooperative advertising expenditures	28.1	27.6	22.2

⁽¹⁾ Cooperative advertising expenditures were not included in these amounts.

Interest Expense, net

The components of Interest expense, net in our Consolidated Statements of Operations were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Interest expense, net of capitalized interest	\$ 39.8	\$ 26.0	\$ 29.7
Less: Interest income	1.1	1.0	1.4
Interest expense, net	<u>\$ 38.7</u>	<u>\$ 25.0</u>	<u>\$ 28.3</u>

Losses (Gains) and Other Expenses, net

Losses (gains) and other expenses, net in our Consolidated Statements of Operations were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Realized losses (gains) on settled future contracts	\$ 0.1	\$ (1.2)	\$ 0.1
Foreign currency exchange gains	(1.3)	(2.2)	(3.6)
Loss (gain) on disposal of fixed assets	(1.0)	(0.2)	(0.2)
Other operating income	(1.0)	(1.5)	(2.2)
Net change in unrealized (gains) losses on unsettled futures contracts	0.4	—	(0.3)
Environmental liabilities and special litigation charges	7.5	9.6	5.3
Charges incurred related to COVID-19 pandemic	0.8	2.2	8.3
Other items, net	(0.6)	2.5	—
(Gains) losses and other expenses, net (pre-tax)	<u>\$ 4.9</u>	<u>\$ 9.2</u>	<u>\$ 7.4</u>

10. Employee Benefit Plans:

Many of our defined benefit pension and profit sharing plans have been frozen and replaced with defined contribution plans. We have a liability for the benefits earned under these inactive plans prior to the date the benefits were frozen. We also have several active defined benefit plans that provide benefits based on years of service. Our defined contribution plans generally include both company and employee contributions which are based on predetermined percentages of compensation earned by the employee.

In addition to freezing the benefits of our defined benefit pension plans, we have also eliminated nearly all of our post-retirement medical benefits.

Defined Contribution Plans

We recorded the following contributions to the defined contribution plans (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Contributions to defined contribution plans	\$ 22.7	\$ 19.9	\$ 17.8

Pension and Post-retirement Benefit Plans

Benefit Obligations, Fair Value of Plan Assets, Funded Status, and Balance Sheet Position

The following tables set forth amounts recognized in our financial statements and the plans' funded status for our pension and post-retirement benefit plans (dollars in millions):

	Pension Benefits	
	2022	2021
Accumulated benefit obligation	\$ 171.6	\$ 266.1
Changes in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 269.2	\$ 276.2
Service cost	3.8	6.1
Interest cost	6.2	5.1
Actuarial (gain) loss	(74.6)	(11.2)
Effect of exchange rates	(3.4)	(0.7)
Settlements	(21.7)	(2.1)
Benefits paid	(5.2)	(4.2)
Benefit obligation at end of year	\$ 174.3	\$ 269.2
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ 184.3	\$ 179.7
Actual return on plan assets	(45.4)	9.5
Employer contributions	22.5	1.5
Effect of exchange rates	(3.4)	(0.1)
Plan settlements	(21.7)	(2.1)
Benefits paid	(5.2)	(4.2)
Fair value of plan assets at end of year	131.1	184.3
Funded status / net amount recognized	\$ (43.2)	\$ (84.9)
Net amount recognized consists of:		
Non-current assets	\$ 2.7	\$ 6.5
Current liability	(5.8)	(8.1)
Non-current liability	(40.1)	(83.3)
Net amount recognized	\$ (43.2)	\$ (84.9)

Plans with Benefit Obligations in Excess of Plan Assets

	For the Years Ended December 31,	
	2022	2021
Pension plans with a benefit obligation in excess of plan assets:		
Projected benefit obligation	\$ 152.1	\$ 234.8
Accumulated benefit obligation	149.6	231.4
Fair value of plan assets	106.2	143.7

Net Periodic Benefit Cost

Our U.S.-based pension plans comprised approximately 84% of the projected benefit obligation and 81% of plan assets as of December 31, 2022.

	Pension Benefits		
	2022	2021	2020
Components of net periodic benefit cost as of December 31:			
Service cost	\$ 3.8	\$ 6.1	\$ 5.5
Interest cost	6.2	5.1	6.6
Expected return on plan assets	(9.1)	(8.6)	(8.2)
Amortization of prior service costs	0.1	0.2	0.2
Recognized actuarial loss	5.3	7.7	5.8
Settlements	(0.2)	1.2	0.6
Other	(0.1)	(0.4)	—
Net periodic benefit cost	<u>\$ 6.0</u>	<u>\$ 11.3</u>	<u>\$ 10.5</u>

Amounts recognized in AOCL and Other Comprehensive Income

The following table sets forth amounts recognized in AOCL and Other comprehensive income (loss) in our financial statements for 2022 and 2021 (in millions):

	Pension Benefits	
	2022	2021
Amounts recognized in AOCL:		
Prior service costs	\$ (0.4)	\$ (0.5)
Actuarial loss	(57.7)	(83.1)
Subtotal	(58.1)	(83.6)
Deferred taxes	15.8	18.6
Net amount recognized	<u>\$ (42.3)</u>	<u>\$ (65.0)</u>
Changes recognized in other comprehensive loss:		
Current year actuarial gain	(19.4)	(12.2)
Effect of exchange rates	(0.9)	—
Amortization of prior service costs	(0.1)	(0.2)
Amortization of actuarial loss, including settlements and other	(5.1)	(8.5)
Total recognized in other comprehensive income (loss)	<u>\$ (25.5)</u>	<u>\$ (20.9)</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ (19.5)</u>	<u>\$ (9.6)</u>

The estimated prior service costs and actuarial losses for pension benefits that will be amortized from AOCL in 2023 are \$0.1 million and \$1.2 million, respectively.

Assumptions

The following tables set forth the weighted-average assumptions used to determine Benefit obligations and Net periodic benefit cost for the U.S.-based plans in 2022 and 2021:

	Pension Benefits	
	2022	2021
Weighted-average assumptions used to determine benefit obligations as of December 31:		
Discount rate	5.50 %	2.69 %
Rate of compensation increase	4.02 %	4.1 %

	Pension Benefits		
	2022	2021	2020
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:			
Discount rate - service cost	2.53 %	1.85 %	2.89 %
Discount rate - interest cost	2.48 %	2.16 %	2.99 %
Expected long-term return on plan assets	6.50 %	6.50 %	6.50 %
Rate of compensation increase	4.13 %	4.13 %	4.23 %

The change in the discount rate for 2022 was the primary driver in the actuarial gain in the projected benefit obligation during the year.

The following tables set forth the weighted-average assumptions used to determine Benefit obligations and Net periodic benefit cost for the non-U.S.-based plans in 2022 and 2021:

	Pension Benefits	
	2022	2021
Weighted-average assumptions used to determine benefit obligations as of December 31:		
Discount rate	4.72 %	1.99 %
Rate of compensation increase	3.11 %	3.14 %

	Pension Benefits		
	2022	2021	2020
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:			
Discount rate - service cost	0.86 %	0.42 %	0.73 %
Discount rate - interest cost	2.07 %	1.51 %	2.3 %
Expected long-term return on plan assets	2.75 %	2.10 %	3.31 %
Rate of compensation increase	3.14 %	3.17 %	3.20 %

To develop the expected long-term rate of return on assets assumption for the U.S. plans, we considered the historical returns for each asset category, as well as the target asset allocation of the pension portfolio and the effect of periodic balancing. These results were adjusted for the payment of reasonable expenses of the plan from plan assets. This resulted in the selection of the 6.50% long-term rate of return on assets assumption. A similar process was followed for the non-U.S.-based plans.

To select a discount rate for the purpose of valuing the plan obligations for the U.S. plans, we performed an analysis in which the projected cash flows from defined benefit and retiree healthcare plans was matched with a yield curve based on the appropriate universe of high-quality corporate bonds that were available. We used the results of the yield curve analysis to select the discount rate for each plan. The analysis was completed separately for each U.S. pension and OPEB plan. A similar process was followed for the non-U.S.-based plans with sufficient corporate bond information. In other countries, the discount rate was selected based on the approximate duration of plan obligations.

Assumed health care cost trend rates have an effect on the amounts reported for our healthcare plan. The following table sets forth the healthcare trend rate assumptions used:

	2022	2021
Assumed health care cost trend rates as of December 31:		
Health care cost trend rate assumed for next year	6.50 %	6.00 %
Rate to which the cost rate is assumed to decline (the ultimate trend rate)	5.00 %	5.00 %
Year that the rate reaches the ultimate trend rate	2029	2025

Expected future benefit payments are shown in the table below (in millions):

For the Years Ended December 31,

	2023	2024	2025	2026	2027	2028-2032
Pension benefits	\$ 11.1	\$ 11.9	\$ 7.6	\$ 8.8	\$ 22.9	\$ 56.4

Composition of Pension Plan Assets

We believe asset returns can be optimized at an acceptable level of risk by adequately diversifying the plan assets between equity and fixed income. The targeted allocation for fixed income and cash investments is 50% and the targeted allocation for equity investments is 50%. Our targeted exposure to International equity including emerging markets is 15% while our exposure to domestic equity is 35%. Our U.S. pension plan represents 81%, our Canadian pension plan 9%, and our United Kingdom (“U.K.”) pension plan 10% of the total fair value of our plan assets as of December 31, 2022.

Our U.S. pension plans’ weighted-average asset allocations as of December 31, 2022 and 2021, by asset category, were as follows:

Asset Category:	Plan Assets as of December 31,	
	2022	2021
U.S. equity	31.3 %	36.1 %
International equity	18.7 %	15.5 %
Fixed income	49.2 %	48.2 %
Money market/cash	0.8 %	0.2 %
Total	100.0 %	100.0 %

Our U.S. pension plans’ assets were invested according to the following targets:

Asset Category:	Target
U.S. equity	35.0 %
International equity	15.0 %
Fixed income	50.0 %

Our Canadian pension plans were invested in fixed income securities and equities. Our U.K. pension plan was invested in fixed income securities, including corporate and government bonds.

The fair values of our pension plan assets, by asset category, were as follows (in millions):

Fair Value Measurements as of December 31, 2022				
Asset Category:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 0.9	\$ —	\$ —	\$ 0.9
Commingled pools / Collective Trusts:				
U.S. equity ⁽¹⁾	—	33.3	—	33.3
International equity ⁽²⁾	—	19.8	—	19.8
Fixed income ⁽³⁾	—	52.5	—	52.5
Balanced pension trust: ⁽⁴⁾				
International equity	—	3.3	—	3.3
Fixed income	—	8.3	—	8.3
Pension fund:				
Fixed income ⁽⁶⁾	—	13.0	—	13.0
Total	\$ 0.9	\$ 130.2	\$ —	\$ 131.1

Fair Value Measurements as of December 31, 2021				
Asset Category:	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 0.4	\$ —	\$ —	\$ 0.4
Commingled pools / Collective Trusts:				
U.S. equity ⁽¹⁾	—	51.8	—	51.8
International equity ⁽²⁾	—	22.2	—	22.2
Fixed income ⁽³⁾	—	69.3	—	69.3
Balanced pension trust: ⁽⁴⁾				
International equity	—	4.4	—	4.4
Fixed income	—	12.6	—	12.6
Pension fund:				
Fixed income ⁽⁵⁾	—	23.6	—	23.6
Total	\$ 0.4	\$ 183.9	\$ —	\$ 184.3

Additional information about assets measured at Net Asset Value (“NAV”) per share (in millions):

Asset Category:	As of December 31, 2022		
	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
Commingled pools / Collective Trusts:			
U.S. equity ⁽¹⁾	\$ 33.3	Daily	5 days
International equity ⁽²⁾	19.8	Daily	5 days
Fixed income ⁽³⁾	52.5	Daily	5 days
Balanced pension trust: ⁽⁴⁾			
International equity	3.3	Daily	3-5 days
Fixed income	8.3	Daily	3-5 days
Pension fund:			
Fixed income ⁽⁵⁾	13.0	Daily	1 - 3 days
Total	\$ 130.2		

Asset Category:	As of December 31, 2021		
	Fair Value	Redemption Frequency (if currently eligible)	Redemption Notice Period
Commingled pools / Collective Trusts:			
U.S. equity ⁽¹⁾	\$ 51.8	Daily	5 days
International equity ⁽²⁾	22.2	Daily	5 days
Fixed income ⁽³⁾	69.3	Daily	5-15 days
Balanced pension trust: ⁽⁴⁾			
International equity	4.4	Daily	3-5 days
Fixed income	12.6	Daily	3-5 days
Pension fund:			
Fixed income ⁽⁵⁾	23.6	Daily	1 - 3 days
Total	\$ 183.9		

⁽¹⁾ This category includes investments primarily in U.S. equity securities that include large, mid and small capitalization companies.

⁽²⁾ This category includes investments primarily in international equity securities that include large, mid and small capitalization companies in large developed markets as well as emerging markets equities.

⁽³⁾ This category includes investments in U.S. investment grade and high yield fixed income securities, international fixed income securities and emerging markets fixed income securities.

⁽⁴⁾ The investment objectives of the plan are to provide long-term capital growth and income by investing primarily in a well-diversified, balanced portfolio of Canadian common stocks, bonds and money market securities. The plan also holds a portion of its assets in international equities, a portion of which may be invested in U.S. securities.

⁽⁵⁾ This category includes investments in U.K. government index-linked securities (index-linked gilts) that have maturity periods of 5 years or longer with a derivatives overlay and investment grade corporate bonds denominated in sterling. The plan also holds a portion of its assets in international instruments, a portion of which may be invested in U.S. securities.

The majority of our commingled pool/collective trusts, mutual funds, balanced pension trusts and pension funds are managed by professional investment advisors. The NAVs per share are furnished in monthly and/or quarterly statements received from the investment advisors and reflect valuations based upon their pricing policies. We assessed the fair value classification of these investments as Level 2 for commingled pool/collective trusts, balanced pension trusts and pension funds based on an examination of their pricing policies and the related controls and procedures. The fair values we report are based on the pool, trust or fund’s NAV per share. The NAVs per share are calculated periodically (daily or no less than one time per month) as the aggregate value of each pool or trust’s underlying assets divided by the number of units owned. See Note 16 for information about our fair value hierarchies and valuation techniques.

11. Joint Ventures and Other Equity Investments:

We participate in two joint ventures, the largest located in the U.S. and the other in Mexico, that are engaged in the manufacture and sale of compressors, unit coolers and condensing units. We exert significant influence over these affiliates based upon our respective 25% and 50% ownership, but do not control them due to venture partner participation. Accordingly, these joint ventures have been accounted for under the equity method and their financial position and results of operations are not consolidated.

The combined balance of equity method investments included in Other assets, net totaled (in millions):

	As of December 31,	
	2022	2021
Equity method investments	\$ 44.4	\$ 37.7

We purchase compressors from our U.S. joint venture for use in certain of our products. The amounts of purchases included in Cost of goods sold in the Consolidated Statements of Operations were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Purchases of compressors from joint venture	\$ 156.2	\$ 141.7	\$ 123.1

12. Income Taxes:

Our Provision for income taxes from continuing operations consisted of the following (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Current:			
Federal	\$ 104.0	\$ 72.0	\$ 61.7
State	21.6	17.0	14.1
Foreign	7.8	13.4	4.8
Total current	133.4	102.4	80.6
Deferred:			
Federal	(13.9)	(2.6)	(0.7)
State	(3.1)	(1.5)	1.1
Foreign	2.3	(2.2)	7.1
Total deferred	(14.7)	(6.3)	7.5
Total provision for income taxes	\$ 118.7	\$ 96.1	\$ 88.1

Income from continuing operations before income taxes was comprised of the following (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Domestic	\$ 340.2	\$ 307.8	\$ 268.4
Foreign	275.6	252.3	176.8
Total	\$ 615.8	\$ 560.1	\$ 445.2

The difference between the income tax provision from continuing operations computed at the statutory federal income tax rate and the financial statement Provision for income taxes is summarized as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Provision at the U.S. statutory rate of 21%	\$ 129.3	\$ 117.6	\$ 93.5
Increase (reduction) in tax expense resulting from:			
State income tax, net of federal income tax benefit	14.6	12.1	10.8
Tax credits, net of unrecognized tax benefits	(8.0)	(9.3)	(7.8)
Change in unrecognized tax benefits	0.2	0.2	0.2
Change in valuation allowance	—	—	7.8
Foreign taxes at rates other than U.S. statutory rate	(47.4)	(43.6)	(33.6)
Deemed inclusions	10.0	7.7	9.2
Global intangible low-taxed income	23.9	18.8	10.3
Change in rates from the Tax Act & other law changes	0.1	0.1	0.7
Excess tax benefits from stock-based compensation	(0.6)	(5.7)	(4.2)
Miscellaneous other	(3.4)	(1.8)	1.2
Total provision for income taxes	\$ 118.7	\$ 96.1	\$ 88.1

Deferred income taxes reflect the tax consequences on future years of temporary differences between the tax basis of assets and liabilities and their financial reporting basis and depending on the classification of the asset or liability generating the deferred tax. The deferred tax provision for the periods shown represents the effect of changes in the amounts of temporary differences during those periods.

Deferred tax assets (liabilities) were comprised of the following (in millions):

	As of December 31,	
	2022	2021
Gross deferred tax assets:		
Warranties	\$ 34.9	\$ 32.9
Loss carryforwards (foreign, U.S. and state)	29.6	28.5
Post-retirement and pension benefits	10.2	15.6
Inventory reserves	9.3	7.1
Receivables allowance	6.0	4.5
Compensation liabilities	5.9	9.5
Legal reserves	10.5	12.1
Tax credits, net of federal effect	11.9	11.5
Research and development capitalization	17.9	—
Other	7.1	9.6
Total deferred tax assets	143.3	131.3
Valuation allowance	(37.9)	(37.3)
Total deferred tax assets, net of valuation allowance	105.4	94.0
Gross deferred tax liabilities:		
Depreciation	(58.9)	(58.7)
Intangibles	(15.6)	(15.5)
Insurance liabilities	(1.4)	(1.4)
Other	(2.0)	(7.1)
Total deferred tax liabilities	(77.9)	(82.7)
Net deferred tax assets	\$ 27.5	\$ 11.3

As of December 31, 2022 and 2021, we had \$21.5 million and \$20.3 million in tax-effected foreign net operating loss carryforwards, respectively. The deferred tax asset valuation allowance relates primarily to loss carryforwards. The remainder of the valuation allowance relates to state tax credits.

In assessing whether a deferred tax asset will be realized, we consider whether it is more likely than not that some portion or all of the deferred tax asset will not be realized. We consider the reversal of existing taxable temporary differences, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, we believe it is more likely than not we will realize the benefits of these deductible differences, net of the existing valuation allowances, as of December 31, 2022.

No provision was made for income taxes which may become payable upon distribution of our foreign subsidiaries' earnings. An actual repatriation in the future from our non-U.S. subsidiaries could still be subject to foreign withholding taxes and U.S. state taxes, but we expect any amounts to be immaterial.

We are currently in the Bridge program for our U.S. federal income taxes under the Internal Revenue Service's Compliance Assurance Program for 2022 and 2021. As a result, our returns for those years will not be examined. However, we are subject to examination by numerous other taxing authorities in the U.S. and in foreign jurisdictions. We have no material uncertain tax provisions recorded as of December 31, 2022. We are generally no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by taxing authorities for years prior to 2015.

13. Lines of Credit and Financing Arrangements:

The following tables summarize our outstanding debt obligations and their classification in the accompanying Consolidated Balance Sheets (in millions):

	As of December 31,	
	2022	2021
Current maturities of long-term debt:		
Asset securitization program	\$ 350.0	\$ —
Finance lease obligations	11.2	11.3
Senior unsecured notes	350.0	—
Debt issuance costs	(0.6)	—
Total current maturities of long-term debt	\$ 710.6	\$ 11.3
Long-Term Debt:		
Asset securitization program	\$ —	\$ 250.0
Finance lease obligations	28.3	29.0
Credit agreement	192.0	6.5
Senior unsecured notes	600.0	950.0
Debt issuance costs	(6.1)	(9.0)
Total long-term debt	\$ 814.2	\$ 1,226.5
Total debt	\$ 1,524.8	\$ 1,237.8

As of December 31, 2022, the aggregate amounts of required principal payments on total debt excluding finance lease obligations (see Note 5) were as follows (in millions):

2023	\$ 700.0
2024	—
2025	300.0
2026	192.0
2027	300.0
Thereafter	—

Short-Term Debt

Foreign Obligations

Through several of our foreign subsidiaries, we have facilities available to assist in financing seasonal borrowing needs for our foreign locations. As of December 31, 2022 or 2021, we did not have any outstanding short-term foreign obligations. Proceeds and repayments from these facilities were \$0.0 million, \$0.0 million and \$4.6 million during the years ended December 31, 2022, 2021 and 2020, respectively.

Long-Term Debt

Asset Securitization Program

Under the Asset Securitization Program (“ASP”), we are eligible to sell beneficial interests in a portion of our trade accounts receivable to a financial institution for cash. The ASP contains a provision whereby we retain the right to repurchase all of the outstanding beneficial interests transferred. As a result of the repurchase right, the transfer of the receivables under the ASP is not accounted for as a sale. Accordingly, the cash received from the transfer of the beneficial interests in our trade accounts receivable is reflected as secured borrowings in the accompanying Consolidated Balance Sheet and proceeds received are included in Cash flows from financing activities in the accompanying Consolidated Statements of Cash Flows. Our continued involvement with the transferred assets includes servicing, collection and administration of the transferred beneficial interests. The accounts receivable securitized under the ASP are high-quality domestic customer accounts that have not aged significantly. The receivables represented by the retained interest that we service are exposed to the risk of loss for any uncollectible amounts in the pool of receivables transferred under the ASP.

We renewed the ASP in November 2021, extending its term to November 2023 and increasing the maximum securitization amount to a range from \$300.0 million to \$450.0 million, depending on the period. The maximum capacity under the ASP is the lesser of the maximum securitization amount or 100% of the net pool balance less allowances, as defined by the ASP. Eligibility for securitization is limited based on the amount and quality of the qualifying accounts receivable and is calculated monthly. The eligible amounts available and beneficial interests sold were as follows (in millions):

	As of December 31,	
	2022	2021
Eligible amount available under the ASP on qualified accounts receivable	\$ 350.0	\$ 335.6
Less: Beneficial interest transferred	(350.0)	(250.0)
Remaining amount available	\$ —	\$ 85.6

We pay certain discount fees to use the ASP and to have the facility available to us. These fees relate to both the used and unused portions of the securitization. The used fee is based on the beneficial interest sold and calculated on either the average LIBOR rate or floating commercial paper rate determined by the purchaser of the beneficial interest, plus a program fee of 0.70%. The average rates as of December 31, 2022 and 2021 were 5.17% and 0.82%, respectively. The unused fee is based on 101% of the maximum available amount less the beneficial interest transferred and is calculated at rate ranging between 0.25% and 0.35%, depending on available borrowings, throughout the term of the agreement. We recorded these fees in Interest expense, net in the accompanying Consolidated Statements of Operations.

The ASP contains certain restrictive covenants relating to the quality of our accounts receivable and cross-default provisions with our Credit Agreement (as defined below), senior unsecured notes and any other indebtedness we may have over \$75.0 million. The administrative agent under the ASP is also a participant in our Credit Agreement. The participating financial institutions have investment grade credit ratings. As of December 31, 2022, we believe we were in compliance with all covenant requirements.

Credit Agreement

In July 2021, we entered into a new Credit Agreement (the “Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto, which refinanced and replaced the Seventh Amended and Restated Credit Facility.

The Credit Agreement consists of a \$750.0 million unsecured revolving credit facility that matures in July 2026. We had outstanding borrowings of \$192.0 million as well as \$2.0 million committed to standby letters of credit as of December 31, 2022. Subject to covenant limitations, \$556.0 million was available for future borrowings. The revolving credit facility includes

a subfacility for swingline loans of up to \$65.0 million. The Credit Agreement will expire and outstanding loans will be required to be repaid in July 2026, unless maturity is extended by the lenders pursuant to two one-year extension options that we may request under the Credit Agreement.

Below is a summary of the weighted average interest rate for both December 31, 2022 and 2021:

	As of December 31,	
	2022	2021
Weighted average borrowing rate	5.57 %	1.38 %

The Credit Agreement is guaranteed by certain of our subsidiaries and contains customary covenants applicable to us and its subsidiaries including limitations on indebtedness, liens, dividends, stock repurchases, mergers and sales of all or substantially all of its assets. In addition, the Credit Agreement contains a financial covenant requiring us to maintain, as of the last day of each fiscal quarter for the four prior fiscal quarters, a Total Net Leverage Ratio of no more than 3.50 to 1.00 (or, at our election, on up to two occasions following a material acquisition, 4.00 to 1.00).

The Credit Agreement contains customary events of default. These events of default include nonpayment of principal or interest, breach of covenants or other restrictions or requirements, default on certain other indebtedness or receivables securitizations (cross default), and bankruptcy. A cross default under our Credit Agreement could occur if:

- We fail to pay any principal or interest when due on any other indebtedness or receivables securitization exceeding \$75.0 million; or
- We are in default in the performance of, or compliance with any term of any other indebtedness or receivables securitization in an aggregate principal amount exceeding \$75.0 million or any other condition exists which would give the holders the right to declare such indebtedness due and payable prior to its stated maturity.

Each of our major debt agreements contains provisions by which a default under one agreement causes a default in the others (a "cross default"). If a cross default under the Credit Agreement, our senior unsecured notes, our lease of our corporate headquarters in Richardson, Texas (recorded as an operating lease), or our ASP were to occur, it could have a wider impact on our liquidity than might otherwise occur from a default of a single debt instrument or lease commitment.

If any event of default occurs and is continuing, the administrative agent, or lenders with a majority of the aggregate commitments may require the administrative agent to, terminate our right to borrow under our Credit Agreement and accelerate amounts due under our Credit Agreement (except for a bankruptcy event of default, in which case such amounts will automatically become due and payable and the lenders' commitments will automatically terminate). As of December 31, 2022, we believe we were in compliance with all covenant requirements.

Senior Unsecured Notes

We issued two series of senior unsecured notes on July 30, 2020 for \$300.0 million each, which will mature on August 1, 2025 (the "2025 Notes") and August 1, 2027 (the "2027 Notes") with interest being paid semi-annually on February and August at 1.35% and 1.70% respectively, per annum. We also issued \$350.0 million of senior unsecured notes in November 2016 (the "2023 Notes," and together with the 2025 Notes and the 2027 Notes, the "Notes") which will mature on November 15, 2023 with interest being paid semi-annually on May 15 and November 15 at 3.00% per annum.

All the Notes are guaranteed, on a senior unsecured basis, by certain of our subsidiaries that guarantee indebtedness under our Credit Agreement. The indenture governing the Notes contains covenants that, among other things, limit our ability and the ability of the subsidiary guarantors to: create or incur certain liens; enter into certain sale and leaseback transactions; and enter into certain mergers, consolidations and transfers of substantially all of our assets. The indenture also contains a cross default provision which is triggered if we default on other debt of at least \$75 million in principal which is then accelerated, and such acceleration is not rescinded within 30 days of the notice date. As of December 31, 2022, we believe we were in compliance with all covenant requirements.

14. Comprehensive Income:

The following table provides information on items not reclassified in their entirety from AOCL to Net Income in the accompanying Consolidated Statements of Operations (in millions):

AOCL Component	For the Years Ended December 31,		Affected Line Item(s) in the Consolidated Statements of Operations
	2022	2021	
Gains/(Losses) on cash flow hedges:			
Derivative contracts	\$ 9.7	\$ 26.9	Cost of goods sold and Losses (gains) and other expenses, net.
Income tax expense	(2.2)	(6.2)	Provision for income taxes
Net of tax	\$ 7.5	\$ 20.7	
Defined Benefit Plan Items:			
Pension and post-retirement benefits costs	\$ (5.4)	\$ (7.9)	Cost of goods sold; Selling, general, administrative expenses and Other (income) expense, net
Pension settlements	0.2	(1.2)	Pension settlements
Income tax benefit	1.3	2.2	Provision for income taxes
Net of tax	\$ (3.9)	\$ (6.9)	
Total reclassifications from AOCL	\$ 3.6	\$ 13.8	

The following tables provide information on changes in AOCL, by component (net of tax), for the years ended December 31, 2022 and 2021 (in millions):

	Gains (Loss) on Cash Flow Hedges	Share of equity method investments other comprehensive income	Defined Benefit Plan Items	Foreign Currency Translation Adjustments	Total AOCL
Balance as of December 31, 2021	\$ 10.7	\$ (1.2)	\$ (68.8)	\$ (28.8)	\$ (88.1)
Other comprehensive (loss) income before reclassifications	(8.1)	0.7	18.7	(10.2)	1.1
Amounts reclassified from AOCL	(7.5)	—	3.9	—	(3.6)
Net other comprehensive (loss) income	(15.6)	0.7	22.6	(10.2)	(2.5)
Balance as of December 31, 2022	\$ (4.9)	\$ (0.5)	\$ (46.2)	\$ (39.0)	\$ (90.6)

	Gains (Losses) on Cash Flow Hedges	Share of equity method investments other comprehensive income	Defined Benefit Plan Items	Foreign Currency Translation Adjustments	Total AOCL
Balance as of December 31, 2020	\$ 8.2	\$ (1.2)	\$ (82.7)	\$ (21.5)	\$ (97.2)
Other comprehensive income (loss) before reclassifications	23.2	—	7.0	(7.3)	22.9
Amounts reclassified from AOCL	(20.7)	—	6.9	—	(13.8)
Other comprehensive income (loss) before reclassifications	2.5	—	13.9	(7.3)	9.1
Balance as of December 31, 2021	\$ 10.7	\$ (1.2)	\$ (68.8)	\$ (28.8)	\$ (88.1)

15. Stock-Based Compensation:

Stock-based compensation expense related to continuing operations was included in Selling, general and administrative expenses in the accompanying Consolidated Statements of Operations as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Compensation expense ⁽¹⁾	\$ 21.8	\$ 24.3	\$ 24.3

⁽¹⁾ Stock-based compensation expense was recorded in our Corporate and other business segment.

Incentive Plan

Under the Lennox International Inc. 2019 Equity and Incentive Compensation Plan, we are authorized to issue awards for 1.7 million shares of common stock. The plan provides for various long-term incentive awards, including performance share units, restricted stock units and stock appreciation rights. A description of these long-term incentive awards and related activity within each award category is provided below. As of December 31, 2022, there were 1.5 million shares available for future issuance.

Performance Share Units

Performance share units are granted to certain employees at the discretion of the Board of Directors with a three-year performance period beginning January 1st of each year. Upon meeting the performance and vesting criteria, performance share units are converted to an equal number of shares of our common stock. Performance share units vest if, at the end of the three-year performance period, at least the threshold performance level has been attained. To the extent that the payout level attained is less than 100%, the difference between 100% and the units earned and distributed will be forfeited. Eligible participants may also earn additional units of our common stock, which would increase the potential payout up to 200% of the units granted, depending on LII's performance over the three-year performance period.

Performance share units are classified as equity awards. Compensation expense is recognized on an earnings curve over the period and is based on the expected number of units to be earned and the fair value of the stock at the date of grant. The fair value of units is calculated as the average of the high and low market price of the stock on the date of grant discounted by the expected dividend rate over the service period. The number of units expected to be earned will be adjusted in future periods as necessary to reflect changes in the estimated number of award to be issued and, upon vesting, the actual number of units awarded. Our practice is to issue new shares of common stock or utilize treasury stock to satisfy performance share unit distributions.

The following table provides information on our performance share units:

	For the Years Ended December 31,		
	2022	2021	2020
Compensation expense for performance share units (in millions)	\$ 6.9	\$ 10.8	\$ 8.9
Weighted-average fair value of grants, per share	\$ 237.68	\$ 314.27	\$ 265.96
Payout ratio for shares paid	126 %	100 %	133 %

A summary of the status of our undistributed performance share units as of December 31, 2022, and changes during the year then ended, is presented below (in thousands, except per share data):

	Shares	Weighted- Average Grant Date Fair Value per Share
Undistributed performance share units as of December 31, 2021	149.2	\$ 246.84
Granted	51.5	\$ 237.68
Adjustment to shares paid based on payout ratio	7.4	245.06
Distributed	(54.4)	\$ 204.64
Forfeited	(29.0)	\$ 262.82
Undistributed performance share units as of December 31, 2022 ⁽¹⁾	124.7	\$ 257.55

⁽¹⁾ Undistributed performance share units include approximately 93.9 thousand units with a weighted-average grant date fair value of \$261.65 per share that had not yet vested and 30.8 thousand units that have vested but were not yet distributed.

As of December 31, 2022, we had \$18.8 million of total unrecognized compensation cost related to non-vested performance share units that is expected to be recognized over a weighted-average period of 2.4 years. Our weighted-average estimated forfeiture rate for these performance share units was 10.9% as of December 31, 2022.

The total fair value of performance share units distributed and the resulting tax deductions to realized tax benefits were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Fair value of performance share units distributed	\$ 6.1	\$ 10.8	\$ 15.1
Realized tax benefits from tax deductions	\$ 1.5	\$ 2.7	\$ 0.7

Restricted Stock Units

Restricted stock units are issued to attract and retain key employees. Generally, at the end of a three-year retention period, the units will vest and be distributed in shares of our common stock to the participant. Our practice is to issue new shares of common stock or utilize treasury stock to satisfy restricted stock unit vestings. Restricted stock units are classified as equity awards. The fair value of units granted is the average of the high and low market price of the stock on the date of grant discounted by the expected dividend rate over the service period. Units are amortized to compensation expense ratably over the service period.

The following table provides information on our restricted stock units (in millions, except per share data):

	For the Years Ended December 31,		
	2022	2021	2020
Compensation expense for restricted stock units	\$ 11.0	\$ 8.7	\$ 10.4
Weighted-average fair value of grants, per share	\$ 240.87	\$ 315.70	\$ 265.96

A summary of our non-vested restricted stock units as of December 31, 2022 and changes during the year then ended is presented below (in thousands, except per share data):

	Shares	Weighted- Average Grant Date Fair Value per Share
Non-vested restricted stock units as of December 31, 2021	135.1	\$ 277.85
Granted	58.8	\$ 240.87
Vested	(37.3)	\$ 250.45
Forfeited	(25.6)	\$ 268.59
Non-vested restricted stock units as of December 31, 2022 ⁽¹⁾	131.0	\$ 270.86

⁽¹⁾ As of December 31, 2022, we had \$24.7 million of total unrecognized compensation cost related to non-vested restricted stock units that is expected to be recognized over a weighted-average period of 2.4 years. Our estimated forfeiture rate for restricted stock units was 13.3% as of December 31, 2022.

The total fair value of restricted stock units vested and the resulting tax deductions to realized tax benefits were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Fair value of restricted stock units vested	\$ 9.7	\$ 11.0	\$ 15.0
Realized tax benefits from tax deductions	2.4	2.7	2.7

Stock Appreciation Rights

Stock appreciation rights are issued to certain key employees. Each recipient is given the “right” to receive compensation, paid in shares of our common stock, equal to the future appreciation of our common stock price. Stock appreciation rights generally vest in one-third increments beginning on the first anniversary date after the grant date and expire after seven years. Our practice is to issue new shares of common stock or utilize treasury stock to satisfy the exercise of stock appreciation rights.

The following table provides information on our stock appreciation rights (in millions, except per share data):

	For the Years Ended December 31,		
	2022	2021	2020
Compensation expense for stock appreciation rights	\$ 3.9	\$ 4.8	\$ 5.0
Weighted-average fair value of grants, per share	\$ 64.54	\$ 70.50	\$ 55.21

Compensation expense for stock appreciation rights is based on the fair value on the date of grant, estimated using the Black-Scholes-Merton valuation model, and is recognized over the service period. We used historical stock price data to estimate the expected volatility. We determined that the recipients of stock appreciation rights can be combined into one employee group that has similar historical exercise behavior and we used our historical pattern of award exercises to estimate the expected life of the awards for the employee group. The risk-free interest rate was based on the zero-coupon U.S. Treasury yield curve with a maturity equal to the expected life of the awards at the time of grant.

The fair value of the stock appreciation rights granted in 2022, 2021 and 2020 were estimated on the date of grant using the following assumptions:

	2022	2021	2020
Expected dividend yield	2.01 %	1.69 %	1.64 %
Risk-free interest rate	3.88 %	0.88 %	0.27 %
Expected volatility	29.90 %	29.80 %	29.70 %
Expected life (in years)	4.18	4.35	3.95

A summary of our stock appreciation rights as of December 31, 2022, and changes during the year then ended, is presented below (in thousands, except per share data):

	Shares	Weighted-Average Exercise Price per Share
Outstanding stock appreciation rights as of December 31, 2021	478.3	\$ 241.61
Granted	98.1	\$ 259.56
Exercised	(42.7)	\$ 170.48
Forfeited	(45.8)	\$ 280.78
Outstanding stock appreciation rights as of December 31, 2022	487.9	\$ 247.77
Exercisable stock appreciation rights as of December 31, 2022	324.6	\$ 231.24

The following table summarizes information about stock appreciation rights outstanding as of December 31, 2022 (in millions, except per share data and years; shares in thousands):

Range of Exercise Prices	Stock Appreciation Rights Outstanding			Stock Appreciation Rights Exercisable		
	Shares	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value	Shares ⁽¹⁾	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
\$124.97 to \$214.63	175.7	2.12	\$ 7.7	175.7	2.12	\$ 7.7
\$257.08 to \$278.00	147.9	4.42	\$ —	126.9	4.33	\$ —
\$259.56 to \$328.65	164.3	6.59	\$ —	22.1	6.00	\$ —

⁽¹⁾ Share amounts are rounded but the balance accurately reflects the actual amount of exercisable stock appreciation rights as of December 31, 2022.

As of December 31, 2022, we had \$10.6 million of unrecognized compensation cost related to non-vested stock appreciation rights that is expected to be recognized over a weighted-average period of 2.8 years. Our estimated forfeiture rate for stock appreciation rights was 12.6% as of December 31, 2022.

The total intrinsic value of stock appreciation rights exercised and the resulting tax deductions to realize tax benefits were as follows (in millions):

	For the Years Ended December 31,		
	2022	2021	2020
Intrinsic value of stock appreciation rights exercised	\$ 3.5	\$ 31.2	\$ 26.7
Realized tax benefits from tax deductions	\$ 0.9	\$ 7.7	\$ 6.7

Employee Stock Purchase Plan

On May 24, 2022, the Company commenced a new Employee Stock Purchase Plan to succeed the prior agreement from 2012. Under the 2022 Employee Stock Purchase Plan (“ESPP”), all employees who meet certain service requirements are eligible to purchase our common stock through payroll deductions at the end of three month offering periods. The purchase price for such shares is 95% of the fair market value of the stock on the last day of the offering period. A maximum of 1.0 million shares is authorized for purchase until issuance of all shares available under the plan, unless terminated earlier at the discretion of the Board of Directors. Employees purchased approximately 16,100 shares under the ESPP during the year ended December 31, 2022. Approximately 0.8 million shares remain available for purchase under the ESPP as of December 31, 2022.

16. Fair Value Measurements:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and requires consideration of our creditworthiness when valuing certain liabilities. Our framework for measuring fair value is based on the following three-level hierarchy for fair value measurements:

Level 1 - Quoted prices for *identical* instruments in active markets at the measurement date.

Level 2 - Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are *observable* in active markets at the measurement date and for the anticipated term of the instrument.

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable* inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Where available, the fair values were based upon quoted prices in active markets. However, if quoted prices were not available, then the fair values were based upon quoted prices for similar assets or liabilities or independently sourced market parameters, such as credit default swap spreads, yield curves, reported trades, broker/dealer quotes, interest rates and benchmark securities. For assets and liabilities without observable market activity, if any, the fair values were based upon discounted cash flow methodologies incorporating assumptions that, in our judgment, reflect the assumptions a marketplace participant would use. Valuation adjustments to reflect either party’s creditworthiness and ability to pay were incorporated into our valuations, where appropriate, as of December 31, 2022 and 2021, the measurement dates.

The methodologies used to determine the fair value of our financial assets and liabilities as of December 31, 2022 were the same as those used as of December 31, 2021.

Fair values are estimates and are not necessarily indicative of amounts for which we could settle such instruments currently nor indicative of our intent or ability to dispose of or liquidate them.

Assets and Liabilities Carried at Fair Value on a Recurring Basis

Derivatives, classified as Level 2, were primarily valued using estimated future cash flows based on observed prices from exchange-traded derivatives. We also considered the counterparty’s creditworthiness, or our own creditworthiness, as appropriate. Adjustments were recorded to reflect the risk of credit default, but they were insignificant to the overall value of the derivatives. Refer to Note 9 for more information related to our derivative instruments. Refer to Note 10 for more information related to the fair value assumptions related to our pension assets and liabilities.

Other Fair Value Disclosures

The carrying amounts of Cash and cash equivalents, Short-term investments, Accounts and notes receivable, net, Accounts payable, Other current liabilities, and Short-term debt approximate fair value due to the short maturities of these instruments. The carrying amount of our Credit Agreement in Long-term debt also approximates fair value due to its variable-rate characteristics.

The fair value of our senior unsecured notes in Long-term debt was based on the amount of future cash flows using current market rates for debt instruments of similar maturities and credit risk. The following table presents the fair value for our senior unsecured notes in Long-term debt (in millions):

	As of December 31,	
	2022	2021
Quoted Prices in Active Markets for Similar Instruments (Level 2):		
Senior unsecured notes	\$ 878.0	\$ 959.2

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our current management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2022, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control Over Financial Reporting

See “Management’s Report on Internal Control Over Financial Reporting” included in Item 8 “Financial Statements and Supplementary Data.”

Attestation Report of the Independent Registered Public Accounting Firm

See “Report of Independent Registered Public Accounting Firm” included in Item 8 “Financial Statements and Supplementary Data.”

Changes in Internal Control Over Financial Reporting

There were no changes during the year ended December 31, 2022 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Incorporated herein by reference from the Company’s definitive proxy statement, which will be filed no later than 120 days after December 31, 2022. Also, refer to Part I, Item 1 “Business - Information about our Executive Officers ” of this Annual Report on Form 10-K, which identifies our executive officers and is incorporated herein by reference.

Item 11. *Executive Compensation*

Incorporated herein by reference from the Company’s definitive proxy statement, which will be filed no later than 120 days after December 31, 2022.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Incorporated herein by reference from the Company’s definitive proxy statement, which will be filed no later than 120 days after December 31, 2022. Also, refer to Note 15 in the Notes to the Consolidated Financial Statements for additional information about our equity compensation plans.

Item 13. *Certain Relationships and Related Transactions and Director Independence*

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2022.

Item 14. *Principal Accounting Fees and Services*

Our independent registered public accounting firm is KPMG LLP, Dallas, TX, Auditor Firm ID: 185.

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2022.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

Financial Statements

The following financial statements are included in Part II, Item 8 of the Annual Report on Form 10-K:

- Report of Independent Registered Public Accounting Firm (KPMG LLP, Dallas, TX, Auditor Firm ID: 185)
- Consolidated Balance Sheets as of December 31, 2022 and 2021
- Consolidated Statements of Operations for the Years Ended December 31, 2022, 2021 and 2020
- Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2022, 2021 and 2020
- Consolidated Statements of Stockholders' Deficit for the Years Ended December 31, 2022, 2021 and 2020
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2022, 2021 and 2020
- Notes to the Consolidated Financial Statements for the Years Ended December 31, 2022, 2021 and 2020

Financial Statement Schedules

The financial statement schedule included in this Annual Report on Form 10-K is Schedule II - Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 2022, 2021 and 2020 (see Schedule II immediately following the signature page of this Annual Report on Form 10-K).

Financial statement schedules not included in this Annual Report on Form 10-K have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.

Exhibits

A list of the exhibits required to be filed or furnished as part of this Annual Report on Form 10-K is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

INDEX TO EXHIBITS

- 3.1 [Restated Certificate of Incorporation of Lennox International Inc. \(“LII”\)\(filed herewith\).](#)
- 3.2 [Amended and Restated Bylaws of LII \(filed herewith\).](#)
- 4.1 [Indenture, dated as of May 3, 2010, between LII and U.S. Bank National Association, as trustee \(filed as Exhibit 4.3 to LII’s Post-Effective Amendment No. 1 to Registration Statement on S-3 \(Registration No. 333-155796\) filed on May 3, 2010 and incorporated herein by reference\).](#)
- 4.2 [Sixth Supplemental Indenture, dated as of November 3, 2016, among LII, each other existing Guarantor under the Indenture, dated as of May 3, 2010, as subsequently supplemented, and U.S. Bank National Association, as trustee \(filed as Exhibit 4.2 to LII’s Current Report on Form 8-K filed on November 3, 2016 and incorporated herein by reference\).](#)
- 4.3 [Form of 3.000% Notes due 2023 \(filed as Exhibit A in Exhibit 4.2 to LII’s Current Report on Form 8-K filed on November 3, 2016 and incorporated herein by reference\).](#)
- 4.4 [Ninth Supplemental Indenture, dated as of July 30, 2020, among LII, each existing Guarantor under the Indenture, dated as of May 3, 2010, as subsequently supplemented, and U.S. Bank National Association, as trustee \(filed as Exhibit 4.2 to LII’s Current Report on Form 8-K filed on July 30, 2020 and incorporated herein by reference\).](#)
- 4.5 [Form of 1.350% Notes due 2025 \(filed as Exhibit A in Exhibit 4.2 to LII’s Current Report on Form 8-K filed on July 30, 2020 and incorporated herein by reference\).](#)
- 4.6 [Form of 1.700% Notes due 2027 \(filed as Exhibit B in Exhibit 4.2 to LII’s Current Report on Form 8-K filed on July 30, 2020 and incorporated herein by reference\).](#)
- 4.7 [Tenth Supplemental Indenture, dated as of July 14, 2021, among LII, each existing Guarantor under the Indenture, dated as of May 3, 2010, as subsequently supplemented, and U.S. Bank National Association, as trustee \(filed herewith\).](#)
- 4.8 [Description of Securities \(filed herewith\).](#)
- 10.1 [Credit Agreement, dated as of July 14, 2021, among Lennox International Inc., a Delaware corporation, the Banks party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent \(filed as Exhibit 10.1 to LII’s Current Report on Form 8-K filed on July 15, 2021 and incorporated herein by reference\).](#)
- 10.2 [Guaranty Agreement, dated as of July 14, 2021, among the guarantors party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent \(filed as Exhibit 10.2 to LII’s Current Report on Form 8-K filed on July 15, 2021 and incorporated herein by reference\).](#)
- 10.3 [Amendment No. 11 to Amended and Restated Receivables Purchase Agreement, dated as of November 12, 2021, among LPAC Corp., as the Seller, Lennox Industries Inc., as the Master Servicer, Lennox International Inc., Victory Receivables Corporation, as a Purchaser, MUFG Bank, Ltd., formerly known as The Bank of Tokyo-Mitsubishi UFJ, Ltd., as administrative agent for the Investors, the purchaser agent for the MUFG Purchaser Group and a MUFG Liquidity Bank, Wells Fargo Bank, N.A., as the purchaser agent for the WFB Purchaser Group and a WFB Liquidity Bank, and PNC Bank, N.A., as the purchaser agent for the PNC Purchaser Group and a PNC Liquidity Bank, including attachments \(filed as Exhibit 10.1 to LII’s Current Report on Form 8-K filed on November 12, 2021 and incorporated herein by reference\).](#)
- 10.4* [Lennox International Inc. 2019 Equity and Incentive Compensation Plan \(filed as Exhibit 10.1 to LII’s Current Report on Form 8-K filed on May 24, 2019 and incorporated herein by reference\).](#)
- 10.5* [Form of Long-Term Incentive Award Agreement for U.S. Employees - Vice President and Above \(for use under the 2019 Incentive Plan\) \(filed as Exhibit 10.18 to LII’s Annual Report on Form 10-K filed on February 18, 2020 and incorporated herein by reference\).](#)
- 10.6* [Form of Long-Term Incentive Award Agreement for Non-U.S. Employees - Vice President and Above \(for use under the 2019 Incentive Plan\) \(filed as Exhibit 10.3 to LII’s Quarterly Report on Form 10-Q filed on October 25, 2021 and incorporated herein by reference\).](#)
- 10.7* [Form of Restricted Stock Unit Award Agreement for Non-Employee Directors \(for use under the 2019 Incentive Plan\) \(filed as Exhibit 10.19 to LII’s Annual Report on Form 10-K filed on February 18, 2020 and incorporated herein by reference\).](#)
- 10.8* [Form of Short-Term Incentive Program for Lennox International Inc. and its Subsidiaries \(filed as Exhibit 10.20 to LII’s Annual Report on Form 10-K filed on February 18, 2020 and incorporated herein by reference\).](#)
- 10.9* [Lennox International Inc. Profit Sharing Restoration Plan, as amended and restated as of January 1, 2009 \(filed as Exhibit 10.3 to LII’s Current Report on Form 8-K filed on December 17, 2008 and incorporated herein by reference\).](#)
- 10.10* [Lennox International Inc. Supplemental Retirement Plan, as amended and restated as of January 1, 2009 \(filed as Exhibit 10.2 to LII’s Current Report on Form 8-K filed on December 17, 2008 and incorporated herein by reference\).](#)

10.11*	Amendment Number One to the Lennox International Inc. Supplemental Retirement Plan, as amended and restated as of January 1, 2009, dated December 28, 2018 (filed as Exhibit 10.23 to LII's Annual Report on Form 10-K filed on February 19, 2019 and incorporated herein by reference).
10.12*	Lennox International Inc. Supplemental Restoration Retirement Plan, effective as of January 1, 2019, dated December 28, 2018 (filed as Exhibit 10.24 to LII's Annual Report on Form 10-K filed on February 19, 2019 and incorporated herein by reference).
10.13*	Form of Indemnification Agreement entered into between LII and certain executive officers and directors of LII (filed as Exhibit 10.15 to LII's Registration Statement on Form S-1 (Registration No. 333-75725) filed on April 6, 1999 and incorporated herein by reference).
10.14*	Form of Employment Agreement entered into between LII and certain executive officers of LII (filed as Exhibit 10.30 to LII's Annual Report on Form 10-K filed on February 27, 2007 and incorporated herein by reference).
10.15*	Form of Amendment to Employment Agreement entered into between LII and certain executive officers of LII (filed as Exhibit 10.2 to LII's Current Report on Form 8-K filed on December 12, 2007 and incorporated herein by reference).
10.16*	Lennox International Inc. Directors' Retirement Plan (as Amended and Restated as of January 1, 2010) (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on December 16, 2009 and incorporated herein by reference).
10.17*	Retention Agreement, dated July 12, 2021, between Lennox International Inc. and Douglas L. Young (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on July 14, 2021 and incorporated herein by reference).
10.18*	Form of Award Agreement, dated December 10, 2021, between Lennox International Inc. and certain named executive officers (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on December 14, 2021 and incorporated herein by reference).
10.19*	Lennox International Inc. Change in Control Severance Plan (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on December 12, 2022 and incorporated herein by reference).
21.1	Subsidiaries of LII (filed herewith).
22.1	List of Guarantor Subsidiaries (filed herewith).
23.1	Consent of KPMG LLP (filed herewith).
31.1	Certification of the principal executive officer (filed herewith).
31.2	Certification of the principal financial officer (filed herewith).
32.1	Certification of the principal executive officer and the principal financial officer pursuant to 18 U.S.C. Section 1350 (furnished herewith).
101	SCH Inline XBRL Taxonomy Extension Schema Document
101	CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
101	LAB Inline XBRL Taxonomy Extension Label Linkbase Document
101	PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
101	DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary

None.

SIGNATURES

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

LENNOX INTERNATIONAL INC.

By: /s/ Alok Maskara
Alok Maskara
Chief Executive Officer

February 21, 2023

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ ALOK MASKARA</u> Alok Maskara	Chief Executive Officer (Principal Executive Officer)	February 21, 2023
<u>/s/ JOSEPH W. REITMEIER</u> Joseph W. Reitmeier	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 21, 2023
<u>/s/ CHRIS A. KOSEL</u> Chris A. Kosel	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	February 21, 2023
<u>/s/ TODD J. TESKE</u> Todd J. Teske	Chairman of the Board of Directors	February 21, 2023
<u>/s/ SHERRY L. BUCK</u> Sherry L. Buck	Director	February 21, 2023
<u>/s/ JANET K. COOPER</u> Janet K. Cooper	Director	February 21, 2023
<u>/s/ JOHN W. NORRIS, III</u> John W. Norris, III	Director	February 21, 2023
<u>/s/ KAREN H. QUINTOS</u> Karen. H. Quintos	Director	February 21, 2023
<u>/s/ KIM K.W. RUCKER</u> Kim K.W. Rucker	Director	February 21, 2023
<u>/s/ GREGORY T. SWIENTON</u> Gregory T. Swienton	Director	February 21, 2023
<u>/s/ SHANE D. WALL</u> Shane D. Wall	Director	February 21, 2023

LENNOX INTERNATIONAL INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Years Ended December 31, 2022, 2021 and 2020

(In millions)

	Balance at beginning of year	Additions charged to cost and expenses	Write-offs	Recoveries	Other	Balance at end of year
2020						
Allowance for doubtful accounts	\$ 6.1	\$ 8.1	\$ (4.2)	\$ 1.2	\$ (1.6)	\$ 9.6
2021						
Allowance for doubtful accounts	\$ 9.6	\$ 0.3	\$ (0.4)	\$ 1.2	\$ —	\$ 10.7
2022						
Allowance for doubtful accounts	\$ 10.7	\$ 6.9	\$ (0.4)	\$ —	\$ (1.7)	\$ 15.5

**RESTATED CERTIFICATE OF INCORPORATION
OF
LENNOX INTERNATIONAL INC.**

Lennox International Inc., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the corporation is Lennox International Inc. The Certificate of Incorporation of the corporation was filed with the Secretary of State of the State of Delaware on August 13, 1991.
2. Pursuant to Sections 242 and 245 of the General Corporation Law of Delaware, this Restated Certificate of Incorporation restates and integrates and amends the provisions of the Restated Certificate of Incorporation of the corporation.
3. The text of the Restated Certificate of Incorporation is hereby restated and amended to read in its entirety as follows:

FIRST: The name of the corporation (the "Corporation") is Lennox International Inc.

SECOND: The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle 19801. The name of its registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware ("DGCL").

FOURTH:

(a) The total number of shares of stock that the Corporation shall have authority to issue is Two Hundred Twenty-Five Million (225,000,000) consisting of Two Hundred Million (200,000,000) shares of Common Stock, par value one cent (\$.01) per share, and Twenty-Five Million (25,000,000) shares of Preferred Stock, par value one cent (\$.01) per share.

(b) The designations, voting powers, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions of the above classes of stock are as follows:

(1) Subject to the limitations hereinafter contained and to the requirements of the laws of the State of Delaware, authority is hereby vested in the Board of Directors of the corporation to issue from time to time said Twenty-Five Million (25,000,000) shares of Preferred Stock in one or more series, with such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated in the resolution or resolutions providing for the issuance of such stock adopted by the Board of Directors. Without limiting the generality of the foregoing, in the resolution or resolutions providing for the issuance of such shares of each particular series of Preferred Stock, subject to the limitations hereinafter contained

and to the requirements of the laws of the State of Delaware, the Board of Directors is also expressly authorized:

- (i) to fix the distinctive serial designation of the shares of any such series;
- (ii) to fix the consideration for which the shares of any such series are to be issued;
- (iii) to fix the rate or amount per annum, if any, at which the holders of the shares of any such series shall be entitled to receive dividends, the dates on which such dividends shall be payable, whether the dividends shall be cumulative or noncumulative, and if cumulative, to fix the date or dates from which such dividends shall be cumulative;
- (iv) to fix the price or prices at which, the times during which, and the other terms, if any, upon which the shares of any such series may be redeemed;
- (v) to fix the rights, if any, which the holders of shares of any such series have in the event of dissolution or upon distribution of the assets of the Corporation;
- (vi) to determine whether the shares of any such series shall be made convertible into or exchangeable for other securities of the Corporation, including shares of the Common Stock of the Corporation or shares of any other series of the Preferred Stock of the Corporation, now or hereafter authorized, or any new class of preferred stock of the Corporation hereafter authorized, the price or prices or the rate or rates at which conversion or exchange may be made, and the terms and conditions upon which any such conversion right or exchange right shall be exercised;
- (vii) to determine whether a sinking fund shall be provided for the purchase or redemption of shares of any series and, if so, to fix the terms and amount or amounts of such sinking fund;
- (viii) to determine whether the shares of any such series shall have voting rights, and, if so, to fix the voting rights of the shares of such series; and
- (ix) to fix such other preferences and rights, privileges and restrictions applicable to any such series as may be permitted by law.

(2) Subject to the prior rights of the holders of any shares of Preferred Stock, the holders of the Common Stock shall be entitled to receive, to the extent permitted by law, such dividends as may be declared from time to time by the Board of Directors.

(3) In the event of any voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the Corporation, after the holders of the Preferred Stock then outstanding, if any, shall have received the full preferential amounts to which such holders may be entitled upon such voluntary or involuntary liquidation, dissolution, distribution of assets or winding up, the

holders of Common Stock shall be entitled, to the exclusion of such holders of the Preferred Stock then outstanding, to receive all the remaining assets of the Corporation of whatever kind available for distribution to stockholders, ratably in proportion to the number of shares of Common Stock held by them respectively. A consolidation, merger or reorganization of the Corporation with any other corporation or corporations, or a sale of all or substantially all of the assets of the Corporation, shall not be considered a dissolution, liquidation or winding up of the Corporation within the meaning of the immediately preceding sentence.

(4) Except as may otherwise be required by law, the Bylaws of the corporation or this Certificate of Incorporation, each holder of Common Stock shall be entitled to one vote for each share of Common Stock held of record in the name of such stockholder on all matters voted upon by the stockholders, including the election of directors.

FIFTH: The Corporation is to have perpetual existence.

SIXTH:

(a) Except as may be otherwise provided by law or in this Certificate of Incorporation, the business and affairs of the Corporation shall be managed under the direction of the Board of Directors. The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation and for the purpose of creating, defining, limiting and regulating the powers of the Corporation and its directors and stockholders:

(1) The number of directors of the Corporation shall be fixed from time to time by, or in the manner provided in, the Bylaws of the Corporation.

(2) Elections of directors need not be by written ballot except to the extent provided in the Bylaws of the Corporation.

(3) In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors of the Corporation is expressly authorized:

(i) to adopt, amend or repeal the Bylaws of the Corporation, subject to this Certificate of Incorporation and the power of the stockholders, at the time entitled to vote, to alter, amend or repeal Bylaws made by the Board of Directors;

(ii) to authorize and issue obligations of the Corporation, secured or unsecured, and to include therein such provisions as to redemption, conversion or other terms thereof as the Board of Directors in its sole discretion may determine, and to authorize the mortgaging or pledging, as security therefor, of any property of the Corporation, real or personal, including after-acquired property;

(iii) to determine whether any, and if any, what part, of the net profits of the Corporation or of its surplus shall be declared in dividends and paid to the stockholders, and to direct and determine the use and disposition of such net profits or such surplus; and

(iv) from time to time, without the vote or assent of the stockholders, to issue additional shares of authorized Common Stock.

In addition to the powers and authorities herein or by law expressly conferred upon it, the Board of Directors may exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the laws of the State of Delaware, of this Certificate of Incorporation and of the Bylaws of the Corporation.

(b) The Board of Directors shall be divided into three classes, designated Class I, Class II and Class III, as nearly equal in number as the then total number of directors constituting the whole Board permits. If the number of directors is changed, any increase or decrease shall be apportioned by the Board of Directors among the three classes so that the number in each class shall be as nearly equal as possible. The term of office of each class shall expire at the third annual meeting of stockholders for election of directors following the election of such class, except that the initial term of office of the Class I directors shall expire at the annual meeting of stockholders in 1996, the initial term of office of the Class II directors shall expire at the annual meeting of stockholders in 1997 and the initial term of office of the Class III directors shall expire at the annual meeting of stockholders in 1998. At each annual meeting of the stockholders of the Corporation, the successors of the class of directors whose term expires at such meeting shall be elected to hold office for a term expiring as of the third succeeding annual meeting.

(c) A director may be removed from office only for cause and by the affirmative vote of the holders of not less than eighty percent (80%) of all the outstanding shares of stock of the Corporation entitled to vote generally in the election of directors at a special meeting of stockholders called expressly for that purpose.

SEVENTH: All preemptive rights of shareholders are hereby denied, so that no shares of capital stock of the Corporation of any class whether now or hereafter authorized and no other security of the Corporation shall carry with it and no holder or owner of any share or shares of capital stock of the Corporation of any class whether now or hereafter authorized or of any other security of the Corporation shall have any preferential or preemptive right to acquire additional shares of capital stock of the Corporation of any class whether now or hereafter authorized or of any other security of the Corporation.

All cumulative voting rights are hereby denied, so that none of the capital stock of the Corporation of any class whether now or hereafter authorized or of any other security of the Corporation shall carry with it and no holder or owner of any share or shares of capital stock of the Corporation of any class whether now or hereafter authorized or of any other security of the Corporation shall have any right to cumulative voting in the election of directors or for any other purpose.

EIGHTH: A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL as the same exists or may hereafter be amended. Any repeal or modification of this ARTICLE EIGHTH shall not adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to such repeal or modification.

NINTH: Except as otherwise provided in this Certificate of Incorporation, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by consent in writing by such stockholders. A special meeting of stockholders may be called only by the Board of Directors pursuant to a resolution adopted by the affirmative vote of a majority of the entire Board of Directors or by the Chairman of the Board of Directors, a Vice Chairman of the Board of Directors or the President. The stockholders of the Corporation shall have the power to adopt, amend or repeal the Bylaws of the Corporation at any annual or special meeting by the affirmative vote of holders of not less than eighty percent (80%) of the combined voting power of the outstanding shares of stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class.

TENTH: Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of Section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of the Corporation, as the case may be, and also on the Corporation.

ELEVENTH:

(a) The affirmative vote of the holders of not less than eighty percent (80%) of the voting power of the Corporation shall be required for the approval or authorization of any "Business Combination" (as hereinafter defined); provided, however, that the eighty percent (80%) voting requirement shall not be applicable, and the provisions of Delaware law and of this Certificate of Incorporation relating to the percentage of stockholder approval, if any, shall apply to any such Business Combination if:

(1) The Continuing Directors (as hereinafter defined) of the Corporation by a two-thirds vote have expressly approved the Business Combination either in advance of or subsequent to the acquisition of outstanding shares of Common Stock of the Corporation that caused the Related Person (as hereinafter defined) involved in the Business Combination to become a Related Person; or

(2) If (A) the aggregate amount of the cash and the fair market value of the property, securities or other consideration to be received in the Business Combination by holders of the Common Stock of the Corporation, other than the Related Person involved in the Business Combination, is not less than the "Highest Per Share Price" (as hereinafter defined) (with appropriate adjustments for recapitalizations, reclassifications, stock splits, reverse stock splits and stock

dividends) paid by the Related Person in acquiring any of its holdings of the Corporation's Common Stock, all as determined by two-thirds of the Continuing Directors; and (B) if necessary, a proxy statement complying with the requirements of the Securities Exchange Act of 1934, as amended, shall have been mailed at least thirty (30) days prior to any vote on the Business Combination, to all stockholders of the Corporation for the purpose of soliciting stockholder approval of the Business Combination. The proxy statement shall contain at the front thereof, in a prominent place, the position of the Continuing Directors as to the advisability (or inadvisability) of the Business Combination and, if deemed appropriate by two-thirds of the Continuing Directors, the opinion of an investment banking firm selected by two-thirds of the Continuing Directors as to the fairness of the terms of the Business combination, from the point of view of the holders of the outstanding shares of capital stock of the Corporation other than the Related Person involved in the Business Combination.

(b) For purposes of this ARTICLE ELEVENTH:

(1) The term "Business Combination" shall mean (A) any merger, consolidation or share exchange of the Corporation or any of its subsidiaries into or with a Related Person, in each case irrespective of which corporation or company is the surviving entity; (B) any sale, lease, exchange, mortgage, pledge, transfer or other disposition to or with a Related Person (in a single transaction or a series of related transactions) of all or a Substantial Part (as hereinafter defined) of the assets of the Corporation (including without limitation any securities of a subsidiary of the Corporation) or a Substantial Part of the assets of any of its subsidiaries; (C) any sale, lease, exchange, mortgage, pledge, transfer or other disposition to or with the Corporation or to or with any of its subsidiaries (in a single transaction or series of related transactions) of all or a Substantial Part of the assets of a Related Person; (D) the issuance or transfer of any securities of the Corporation or any of its subsidiaries by the Corporation or any of its subsidiaries to a Related Person (other than an issuance or transfer of securities which is effected on a pro rata basis to all stockholders of the Corporation); (E) any reclassification of securities (including any reverse stock split), recapitalization, or any other transaction involving the Corporation or any of its subsidiaries, that would have the effect of increasing the voting power of a Related Person; (F) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of a Related Person; (G) the acquisition by or on behalf of a Related Person of shares constituting a majority of the voting power of the Corporation; and (H) the entering into of any agreement, contract or other arrangement providing for any of the transactions described in this definition of Business combination.

(2) The term "Related Person" shall mean any individual, corporation, partnership or other person or entity, other than the Corporation or any of its subsidiaries or any benefit plan or trust (or any trustee thereof), which, as of the record date for the determination of stockholders entitled to notice of and to vote on any Business Combination, or immediately prior to the consummation of such transaction, together with its "Affiliates" and "Associates" (each as defined in Rule 12b-2 of the Regulations under the Securities Exchange Act of 1934 as in effect at the date of the adoption of this ARTICLE ELEVENTH by the stockholders of the Corporation (collectively and as so in effect, the "Exchange Act")), are "Beneficial Owners" (as defined in Rule 13d-3 of the Exchange Act) in the aggregate of 10% or more of the outstanding shares of Common Stock of the Corporation, and any Affiliate or Associate of any such individual,

corporation, partnership or other person or entity. Notwithstanding the definition of “Beneficial Owners” in this subparagraph 2, any Common Stock of the Corporation that any Related Person has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise, shall be deemed beneficially owned by the Related Person.

(3) The term “Substantial Part” shall mean more than 10% of the fair market value, as determined by two-thirds of the continuing Directors, of the total consolidated assets, or assets representing more than 10% of the earning power, of the Corporation and its subsidiaries taken as a whole, as of the end of its most recent fiscal year ending prior to the time the determination is being made.

(4) In the event of a Business Combination in which the Corporation is the surviving corporation, the term “other consideration to be received” shall include, without limitation, Common Stock or other capital stock of the Corporation retained by stockholders of the Corporation other than Related Persons or parties to such Business Combination.

(5) The term “Continuing Directors” shall mean a director who either (i) was a member of the Board of Directors of the Corporation immediately prior to the time that the Related Person involved in a Business Combination became a Related Person, or (ii) was designated (before his or her initial election as a director) as a Continuing Director by two-thirds of the then Continuing Directors.

(6) A Related Person shall be deemed to have acquired a share of the Common Stock of the Corporation at the time when such Related Person became the Beneficial Owner thereof. With respect to the shares owned by Affiliates, Associates or other person whose ownership is attributed to a Related Person under the foregoing definition of Related Person, the price paid for said shares shall be deemed to be the higher of (i) the price paid upon the acquisition thereof by the Affiliate, Associate or other person, or (ii) the market price of the shares in question at the time when the Related Person became the Beneficial Owner thereof.

(7) The term “Highest Per Share Price” shall mean the highest price determined by two-thirds of the Continuing Directors to have been paid at any time by the Related Person for any share or shares of Common Stock. In determining the Highest Per Share Price, all purchases by the Related Person shall be taken into account regardless of whether the shares were purchased before or after the Related Person became a Related Person. The Highest Per Share Price shall include any brokerage commission, transfer taxes and soliciting dealers’ fees paid by the Related Person with respect to the shares of Common Stock of the Corporation acquired by the Related Person.

TWELFTH: To the extent not prohibited by law, the Corporation by action of its Board of Directors may purchase shares of any class of stock issued by it from any holder or holders thereof.

THIRTEENTH: The Corporation by action of its Board of Directors may create and issue, from time to time, whether or not in connection with the issuance and sale of any shares of stock or other securities of the Corporation, rights, warrants and options entitling the holders thereof to purchase from the Corporation shares of any class or classes of its capital stock or other securities or property of the Corporation, or shares or other securities or property of any successor in interest of the Corporation, at such times,

in such amounts, to such persons, for such consideration, if any, and upon such other terms and conditions as the Board of Directors may deem advisable.

FOURTEENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation; provided, however, that notwithstanding anything contained in the Certificate of Incorporation to the contrary, the affirmative vote of holders of not less than eighty percent (80%) of the combined voting power of the outstanding shares of stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend, adopt any provision inconsistent with or repeal ARTICLE SIXTH, ARTICLE SEVENTH, ARTICLE EIGHTH, ARTICLE NINTH, ARTICLE ELEVENTH or this ARTICLE FOURTEENTH; provided, further, that such eighty percent (80%) vote shall not be required for any such alteration, amendment, adoption of any provision inconsistent with or repeal of ARTICLE ELEVENTH which is recommended to stockholders by two-thirds of the Continuing Directors and such alteration, amendment, adoption of inconsistent provision or repeal shall require the vote, if any, required under the applicable provisions of the DGCL and this Certificate of Incorporation.

FIFTEENTH: No sale, assignment, transfer or other disposition of shares of Common Stock of the Corporation by any stockholder, whether voluntary or by operation of law or by gift or otherwise, shall be effective unless and until there is compliance with the following terms and conditions of this ARTICLE FIFTEENTH:

(a) Any stockholder who desires to sell all or any part of such stockholder's shares of Common Stock of the Corporation pursuant to a bona fide offer to purchase such shares from a third party, including, without limitation, another stockholder of the Corporation, shall, as a condition precedent to such stockholder's right to do so, by notice in writing delivered to the Chairman of the Board of the Corporation at the Corporation's principal executive offices, inform the Corporation of such stockholder's intention to sell all or any part of such stockholder's shares of Common Stock and the identity of the third party to whom, and the terms pursuant to which, such shares are proposed to be sold, and shall by such notice offer the shares that such stockholder desires to sell for sale to the Corporation at the price per share at which, and the terms pursuant to which, such stockholder proposes to sell such shares to such third party. The Corporation shall have a period of fifteen (15) days after such notice is received by it within which to indicate its election to exercise its right to purchase, at such price and on such terms, all or any portion of such shares. The Corporation may elect by notice in writing to such stockholder given within such fifteen (15)-day period to purchase all or any portion of such shares, and the shares selected by the Corporation for purchase must be sold at such price and on such terms and transferred to the Corporation by such stockholder. Delivery of such shares and payment therefor shall be made at the principal executive offices of the Corporation within ten (10) days after notice of the election to purchase is given by the Corporation to such stockholder. Any of such shares offered by such stockholder to the Corporation and not selected for purchase by the Corporation may then be sold by such stockholder to such third party at a price and upon terms no more favorable than those set forth in the notice of offer delivered to the Corporation; provided, however, that any such sale must be completed within forty-five (45) days after the date such notice of offer was received by the Corporation; and provided further that such third party shall receive and hold such shares subject to all the terms and conditions of this ARTICLE FIFTEENTH. If such sale to such third party is not completed within such forty-five (45)-day period, such stockholder shall continue to hold such shares subject to all the terms and conditions of this ARTICLE FIFTEENTH and may not consummate a sale

without again complying with the provisions of this paragraph (a). Notwithstanding the foregoing provisions of this paragraph (a), if the purchase price (or any portion thereof) of the shares proposed to be sold by such stockholder to such third party consists of a consideration other than cash, then the purchase price payable by the Corporation under this paragraph (a) for any shares proposed to be sold for such noncash consideration which are selected for purchase by the Corporation shall be a cash purchase price per share in an amount equal to the Applicable Market Value (as defined in paragraph (d) of this ARTICLE FIFTEENTH) of the Common Stock as of the date the notice of offer relating to such shares was received by the Corporation.

(b) The terms and conditions of this ARTICLE FIFTEENTH shall not apply to any disposition by any stockholder of all or any part of such stockholder's shares of Common Stock of the Corporation by will or pursuant to the laws of descent and distribution, or by gift, to or for the benefit of such stockholder's spouse, father, mother or adopted or natural lineal descendants (and if such transfer is in trust, the trustee, upon termination of the trust, may transfer such shares to such beneficial owner); provided, however, that the transferee of such shares shall receive and hold such shares subject to all the terms and conditions of this ARTICLE FIFTEENTH.

(c) Dispositions by stockholders of shares of Common Stock of the Corporation other than as provided for under paragraphs (a) and (b) of this ARTICLE FIFTEENTH, whether voluntary or by operation of law or by gift or otherwise, shall be subject to a right of first refusal in favor of the corporation, which right of first refusal shall entitle the Corporation to purchase, in accordance with the procedures specified in paragraph (a) of this ARTICLE FIFTEENTH (including without limitation the delivery to the Corporation of a notice of offer), all or any portion of the shares that are the subject of such disposition; provided, however, that the purchase price payable by the Corporation for any shares selected for purchase by the Corporation pursuant to the exercise by it of such right of first refusal shall be a cash purchase price per share in an amount equal to the Applicable Market Value of the Common Stock as of the date the notice of offer relating to such shares was received by the Corporation. The transferee of any such shares not so selected for purchase by the Corporation shall receive and hold such shares subject to all the terms and conditions of this ARTICLE FIFTEENTH.

(d) As used in this ARTICLE FIFTEENTH, the term "Applicable Market Value" shall mean the fair market value of a share of Common Stock of the Corporation as most recently fixed and determined (prior to the date of the event giving rise to the use and application of such term) by independent consultants to the Corporation selected and appointed by the Board of Directors of the Corporation for the purpose of ascertaining Applicable Market Value. Such independent consultants shall fix and determine the fair market value of a share of Common Stock of the Corporation on a quarterly basis following the end of each calendar quarter. In ascertaining such value, such consultants shall consider the latest available financial statements and financial information of the Corporation, projections and internal information relating to the Corporation prepared by its management and furnished to such consultants for the purpose of their analysis, publicly available information concerning other companies and the trading markets for certain other companies' securities and all other information such consultants believe relevant to their inquiry. The value of a share of Common Stock shall be discounted to reflect, as and to the extent deemed appropriate by the independent consultants, the minority nature of any individual's shareholding and the lack of a public market for the Common Stock and consequent illiquidity.

(e) The restrictions on transfer set forth in this ARTICLE FIFTEENTH shall terminate and be of no further force or effect in the event the Common Stock of the

Corporation becomes publicly traded on an established securities market. Nothing contained in this ARTICLE FIFTEENTH shall be deemed to limit the scope or effect of any other restrictions on transfer which may be imposed on shares of Common Stock of the Corporation pursuant to the terms of any employee benefit plan, arrangement or program of the Corporation or any of its subsidiaries or any agreement between the Corporation and an employee of the Corporation or any of its subsidiaries.

4. This Restated Certificate of Incorporation shall become effective at the close of business, Dallas, Texas time, on the day on which it shall be filed in the office of the Secretary of State of the State of Delaware.

AMENDED AND RESTATED BYLAWS**OF****LENNOX INTERNATIONAL INC.
(A DELAWARE CORPORATION)****as of
December 13, 2013****ARTICLE I.****OFFICES**

Section 1. Registered Office. The registered office of Lennox International Inc. (the "Corporation") in the State of Delaware shall be at 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle, and the registered agent in charge thereof shall be Corporation Service Company.

Section 2. Other Offices. The Corporation may also have an office or offices, and keep the books and records of the Corporation, except as may otherwise be required by law, at such other place or places, either within or without the State of Delaware, as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II.**MEETINGS OF STOCKHOLDERS**

Section 1. Place of Meeting. All meetings of the stockholders shall be held at the principal executive offices of the Corporation or at such other places, either within or without the State of Delaware, as may from time to time be fixed by the Board of Directors, the Chairman of the Board, or the President. Notwithstanding the foregoing, the Board of Directors may, in its sole discretion, determine that a meeting of stockholders will not be held at any place, but may instead be held by means of remote communications, subject to such guidelines and procedures as the Board of Directors may adopt from time to time. The Board of Directors may cancel or reschedule to an earlier or later date any previously scheduled annual or special meeting of stockholders.

Section 2. Annual Meetings. The annual meetings of stockholders for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held on such date and at such time and place as may from time to time be established by the Board of Directors, the Chairman of the Board, or the President.

Section 3. Special Meetings. Except as otherwise required by law, special meetings of the stockholders for any purpose or purposes may be called only by (i) the Board of Directors, (ii) the Chairman of the Board, or (iii) the President. Only such business as is specified in the notice of any special meeting of the stockholders shall come before such meeting.

Section 4. Notice of Meetings. Except as otherwise provided in this Section 4 or by law, written notice of each meeting of the stockholders, whether annual or special, shall be given, either by personal delivery or by mail, not less than ten (10) nor more than sixty (60) days before the date of the meeting, or may be sent by electronic transmission as provided in Section 232 of the General Corporation Law of the State of Delaware (the "DGCL"), to each stockholder of

record entitled to notice of the meeting, unless the meeting is called for the purpose of acting on an agreement of merger or consolidation involving the Corporation or for the purpose of authorizing the sale, lease or exchange of all or substantially all of the property and assets of the Corporation, in which case the notice of the meeting shall be given at least twenty (20) days prior to the date of the meeting. If mailed, such notice shall be deemed given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the Corporation and, if sent electronically, it shall be deemed effective as provided in Section 232 of the DGCL. Each such notice shall state the place, date and hour of the meeting, the record date for determining the stockholders entitled to vote at the meeting (if such date is different from the record date for determining the stockholders entitled to notice of the meeting), the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Notice of any meeting of stockholders shall not be required to be given to any stockholder who shall waive notice thereof as provided in Article X of these Bylaws. Notice of adjournment of a meeting of stockholders need not be given if the time and place to which it is adjourned are announced at such meeting, unless the adjournment is for more than thirty (30) days or, after adjournment, a new record date is fixed for the adjourned meeting.

Whenever notice is required to be given by these Bylaws or by law to any stockholder the giving of such notice to such person shall not be required if (i) notice of two consecutive annual meetings of the stockholders, and all notices of meetings to such person during the period between such two consecutive annual meetings, or (ii) all, and at least two, payments (if sent by first class mail) of dividends or interest on securities during a twelve-month period, have been mailed addressed to such person at such person's address as shown on the records of the Corporation and have been returned undeliverable. Any action or meeting which shall be taken or held without notice to such person shall have the same force and effect as if such notice had been duly given. If any such person shall deliver to the Corporation a written notice setting forth such person's then current address, the requirement that notice be given to such person shall be reinstated.

Section 5. Quorum. Except as otherwise provided by law or the Certificate of Incorporation or these Bylaws, the holders of a majority of the outstanding shares of each class of stock entitled to be voted, present in person or represented by proxy, shall constitute a quorum for the transaction of business at any meeting of the stockholders. For purposes of the foregoing, two or more classes or series of stock shall be considered a single class if the holders thereof are entitled to vote together as a single class at the meeting. The stockholders present or represented at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders such that less than a quorum remains present at the meeting.

Section 6. Adjournments. In the absence of a quorum, the holders of a majority of the outstanding shares of stock entitled to vote at the meeting, present in person or represented by proxy, may adjourn the meeting from time to time. If it appears that such quorum is not present or represented at any meeting, the chairman of the meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented, subject to giving notice of the adjourned meeting if required by Section 4 above. At any such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally called.

Section 7. Order of Business. At each meeting of the stockholders, the Chairman of the Board, or in the absence of the Chairman of the Board, the President, shall act as chairman. The order of business at each such meeting shall be as determined by the chairman of the meeting. The chairman of the meeting shall have the right and authority to prescribe such rules,

regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the Corporation, restrictions on entry to such meeting after the time prescribed for the commencement thereof and the opening and closing of the voting polls.

Section 8. List of Stockholders. It shall be the duty of the Secretary or other officer of the Corporation who has charge of the stock ledger of the Corporation to prepare and make, at least ten (10) days before each meeting of stockholders, a complete list of the stockholders entitled to vote thereat, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in such stockholder's name. Such list shall be produced and kept available at the times and places required by law.

Section 9. Voting.

(a) Except as otherwise provided by law or in the Certificate of Incorporation, each stockholder of record shall be entitled at each meeting of the stockholders to one vote for each share of stock which has voting power upon the matter in question, registered in such stockholder's name on the books of the Corporation:

(i) on the date fixed pursuant to Section 6 of Article VII of these Bylaws as the record date for the determination of stockholders entitled to notice of and to vote at such meeting; or

(ii) if no such record date shall have been so fixed, then at the close of business on the day next preceding the date on which notice of such meeting is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

Each stockholder entitled to vote at any meeting of stockholders may authorize another person or persons to act for such stockholder by a proxy signed by such stockholder or such stockholder's attorney-in-fact or by any other means which constitutes a valid grant of a proxy under the DGCL. Any such proxy relating to a meeting of stockholders shall be delivered to the secretary of such meeting at or prior to the time designated for holding such meeting but, in any event, not later than the time designated in the order of business for so delivering such proxies. No such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date than the original proxy with the Secretary of the Corporation.

Unless required by law or determined by the chairman of the meeting to be advisable, the vote on any matter, including the election of directors, need not be by written ballot. In the case of a vote by written ballot, each ballot shall be signed by the stockholder voting, or by such stockholder's proxy, and shall state the number of shares voted.

(b) At each meeting of the stockholders, all matters, other than the election of directors, submitted to the stockholders at any meeting (except as otherwise required by the rules and regulations of the New York Stock Exchange, the Certificate of Incorporation, these Bylaws or law) shall be decided by the affirmative vote of a majority of the shares of stock present in person or represented by proxy at the meeting and entitled to vote thereon.

(c) Except as provided in these Bylaws, each director shall be elected by the affirmative vote of the majority of the votes cast with respect to that director's election at any meeting for the election of directors at which a quorum is present, provided that if at the close of the notice periods set forth in Section 3 of Article III, the chairman of the meeting of stockholders (as described therein) determines that the number of persons properly nominated to serve as directors of the Corporation exceeds the number of directors to be elected (a "Contested Election"), the directors shall be elected by a plurality of the votes of the shares represented at the meeting and entitled to vote on the election of directors. For purposes of these Bylaws, a majority of votes cast shall mean that the number of shares voted "for" a director's election exceeds the number of votes cast "against" that director's election.

The Governance Committee of the Board of Directors has established procedures under which a director who does not receive a majority of the votes cast in a non-Contested Election shall offer to tender his or her resignation to the Board of Directors. The Governance Committee will make a recommendation to the Board of Directors as to whether to accept or reject the tendered resignation, or whether other action should be taken. The Board of Directors will act on the tendered resignation, taking into account the Governance Committee's recommendation, and publicly disclose (by a press release, a filing with the Securities and Exchange Commission or other broadly disseminated means of communication) its decision regarding the tendered resignation and the rationale behind the decision within 90 days from the date of the certification of the election results. The Governance Committee in making its recommendation and the Board of Directors in making its decision may each consider any factors or other information that they consider appropriate and relevant. The director who tenders his or her resignation will not participate in the recommendation of the Governance Committee or the decision of the Board of Directors with respect to his or her resignation.

If a director's resignation is accepted by the Board of Directors pursuant to these Bylaws, or if a nominee for director is not elected and the nominee is not an incumbent director, then the Board of Directors may fill the resulting vacancy pursuant to the provisions of Article III, Section 13 or may decrease the size of the Board of Directors pursuant to the provisions of Article III, Section 2.

Section 10. Inspectors. Except as otherwise provided by law, either the Board of Directors or, in the absence of a designation of inspectors by the Board of Directors, the chairman of any meeting of stockholders shall appoint one or more inspectors to act at any meeting of stockholders and to make a written report thereof. Such inspectors shall perform such duties as shall be specified by the DGCL, the Board of Directors or the chairman of the meeting and take any oath and sign any document required by the DGCL. Inspectors need not be stockholders. No director or nominee for the office of director shall be appointed such an inspector. The Board of Directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the chairman of the meeting will appoint one or more inspectors to act at the meeting.

Section 11. Action Without a Meeting. Except as otherwise provided in the Certificate of Incorporation, any action required by law to be taken at any annual or special meeting of the stockholders, or any action which may be taken at any annual or special meeting of the stockholders, may not be effected by consent in writing in lieu of a meeting by such stockholders.

Section 12. Notice of Stockholder Proposals.

(a) Business to be Conducted at Annual Meeting. At a meeting of the stockholders, only such business shall be conducted, and only such proposals shall be acted

upon, as shall have been properly brought before the meeting. To be properly brought before a meeting, business or a proposal must (i) be specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors or the persons calling the meeting as herein provided, (ii) otherwise be properly brought before the meeting by or at the direction of the Board of Directors or (iii) otherwise (1) be properly requested to be brought before the meeting by a stockholder of record entitled to vote in the election of directors generally, and (2) constitute a proper subject to be brought before such meeting. For the avoidance of doubt, clause (iii) will be the exclusive means for a stockholder to submit business before an annual meeting or special meeting of stockholders (other than proposals properly made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934 (such act, and the Rules and Regulations promulgated thereunder, the “Exchange Act”) and included in the notice of meeting given by or at the direction of the Board of Directors).

(b) Timely Notice. For business or a proposal to be properly brought before a meeting of stockholders, any stockholder who intends to bring any matter (other than the election of directors) before a meeting of stockholders and is entitled to vote on such matter must deliver written notice of such stockholder’s intent to bring such matter before the meeting of stockholders, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation. Such notice must be received by the Secretary: (i) with respect to an annual meeting of stockholders, not less than sixty (60) days nor more than ninety (90) days in advance of such meeting; and (ii) with respect to any special meeting of stockholders, not later than the close of business on the tenth day following the date on which notice of such meeting is first given to stockholders; provided, however, that in the event that less than seventy (70) days notice or prior public disclosure of the date of the annual meeting of stockholders is given or made to the stockholders, to be timely, notice of a proposal delivered by the stockholder must be received by the Secretary not later than the close of business on the tenth day following the day on which notice of the date of the annual meeting of stockholders was mailed or such public disclosure was made to the stockholders.

(c) Required Form for Stockholder Proposal. A stockholder’s notice to the Secretary shall set forth as to each matter the stockholder (the “Proposing Person”) proposes to bring before the meeting of stockholders:

(i) a brief description and the text (including the text of any resolutions proposed for consideration) of the business or proposal desired to be brought before the meeting, the reasons for conducting such business at the meeting and the detailed reasons why the implementation of such business or proposal would be in the best interest of the Corporation and all its stockholders;

(ii) the name and address, as they appear on the Corporation’s books, of the Proposing Person;

(iii) the class or series of stock and number of shares of such class or series of stock which are, directly or indirectly, owned of record or beneficially owned (within the meaning of Rule 13d-3 under the Exchange Act) by such Proposing Person except that such Proposing Person shall in all events be deemed to beneficially own any shares or any class or series of the Corporation’s securities as to which such Proposing Person has a right to acquire beneficial ownership immediately or only after passage of time;

(iv) a representation (1) that the Proposing Person is a holder of record of stock of the Corporation entitled to vote at the annual meeting and intends to appear at the annual meeting to bring such business before the annual meeting and (2) as to whether the Proposing Person intends to deliver a proxy statement and form of proxy to holders of at least the percentage of shares of the Corporation entitled to vote and required to approve the proposal;

(v) a description of any (1) option, warrant, convertible security, stock appreciation right or similar right or interest (including any derivative securities, as defined under Rule 16a-1 under the Exchange Act), whether or not presently exercisable, with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of stock of the Corporation or with a value derived in whole or in part from the value of any class or series of stock of the Corporation, whether or not such instrument or right is subject to settlement in whole or in part in the underlying class or series of stock of the Corporation or otherwise, directly or indirectly held of record or owned beneficially by such Proposing Person and (2) each other direct or indirect right or interest that may enable such Proposing Person to profit or share in any profit derived from, or to manage the risk or benefit from, any increase or decrease in the value of the Corporation's stock, in each case regardless of whether (x) such right or interest conveys any voting rights in such security to such Proposing Person, (y) such right or interest is required to be, or is capable of being, settled through delivery of such security, or (z) such Proposing Person may have entered into other transactions that hedge the economic effect of any such right or interest (any such right or interest referred to in this clause (v) being a "Derivative Interest");

(vi) any proxy, contract, arrangement, understanding or relationship pursuant to which the Proposing Person has a right to vote any shares of the Corporation or which has the effect of increasing or decreasing the voting power of such Proposing Person;

(vii) any rights directly or indirectly held of record or beneficially by the Proposing Person to dividends on the shares of the Corporation that are separated or separable from the underlying shares of the Corporation;

(viii) any performance-related fees (other than an asset-based fee) to which the Proposing Person may be entitled as a result of any increase or decrease in the value of shares of the Corporation or Derivative Interests;

(ix) any other information relating to such Proposing Person that would be required to be disclosed in a proxy statement or other filing required pursuant to Section 14(a) of the Exchange Act to be made in connection with a general solicitation of proxies or consents by such Proposing Person in support of the business proposed to be brought before the meeting, and

(x) any material interest of the Proposing Person in such business, including a description in reasonable detail of all agreements, understandings and arrangements between the Proposing Person and any other person or entity related in any way to the proposal.

The Proposing Person shall also provide the information described in clauses (i) through (x) above for any person or entity Acting in Concert (as defined below) with the Proposing Person. "Acting in Concert" means a situation where the Proposing Person or another entity or person knowingly acts (whether or not pursuant to an express agreement, arrangement or understanding) in concert with, or towards a common goal relating to the management, governance or control of the Corporation or any of its securities in parallel with the Proposing Person or other person or entity where: (1) each person or entity is conscious of the other person's or entity's conduct or intent and this awareness is an element of the decision-making process and (2) at least one additional factor suggests that such persons or entities intend to act in concert or in parallel, which such additional factors may include, without limitation, exchanging information, attending meetings, conducting discussions, or making or soliciting invitations to act in concert or in parallel.

No business shall be conducted at a meeting of stockholders except in accordance with the procedures set forth in this Section 12. The Board of Directors may reject any

stockholder proposal submitted for consideration at a meeting of stockholders which is not made in accordance with the terms of this Section 12 or which is not a proper subject for stockholder action in accordance with provisions of applicable law. Alternatively, if the Board of Directors fails to consider the validity of any such stockholder proposal, the chairman of a meeting shall, if the facts warrant, determine and declare to the meeting that (i) the business proposed to be brought before the meeting is not a proper subject therefor and/or (ii) such business was not properly brought before the meeting in accordance with the provisions hereof. The Board of Directors or, as the case may be, the chairman of the meeting shall have absolute authority to decide questions of compliance with the foregoing procedures and the Board of Directors' or, as the case may be, the chairman's ruling thereon shall be final and conclusive. This provision shall not prevent the consideration and approval or disapproval at the annual meeting of stockholders of reports of officers, directors and committees of the Board of Directors, but, in connection with such reports, no new business shall be acted upon at such meeting unless stated, filed and received as herein provided.

If the Proposing Person does not appear at the meeting to represent its proposal, such proposal will be disregarded (even if proxies have been solicited, obtained or delivered). The Proposing Person shall update and supplement the information contained in the notice so that the information is true and correct at all times up to the date of the meeting (including any date as to which the meeting is recessed, adjourned or postponed) and shall deliver such update and supplement to the Secretary of the Corporation at the principal executive offices of the Corporation as promptly as possible.

ARTICLE III.

BOARD OF DIRECTORS

Section 1. General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law or by the Certificate of Incorporation of the Corporation directed or required to be exercised or done by the stockholders.

Section 2. Number, Qualifications and Election. The exact number of directors which shall constitute the whole Board of Directors shall be fixed from time to time by resolution of the Board of Directors; provided, however, that the number so fixed shall not be less than three nor more than fifteen; and provided further that no decrease in the number of directors constituting the Board of Directors shall have the effect of shortening the term of any incumbent director.

Each director shall be at least twenty-one (21) years of age. Directors need not be stockholders of the Corporation.

The Board of Directors is specifically authorized to divide the Board of Directors into three classes, as authorized by the DGCL and the Certificate of Incorporation, designated Class I, Class II and Class III, as nearly equal in number as the then total number of directors constituting the whole Board permits. The term of office of each class shall expire at the third annual meeting of stockholders for election of directors following the election of such class, except that the initial term of office of the Class I directors shall expire at the annual meeting of stockholders in 1996, the initial term of office of the Class II directors shall expire at the annual meeting of stockholders in 1997 and the initial term of office of the Class III directors shall expire at the annual meeting of stockholders in 1998. At each annual meeting of stockholders, directors of the class whose term then expires shall be elected for a full term of three (3) years to succeed the

directors of such class so that the term of office of the directors of one class shall expire in each year.

The stockholders of the Corporation are expressly prohibited from cumulating their votes in any election of directors of the Corporation. Each director shall hold office until his or her successor is elected and qualified or until his or her earlier resignation or removal.

Section 3. Notification of Nominations. Except for directors elected pursuant to the provisions of Section 13 of this Article III, only individuals nominated for election to the Board of Directors pursuant to and in accordance with the provisions of this Section 3 may be elected to and may serve upon the Board of Directors of the Corporation. Nominations for the election of directors may be made by the Board of Directors or by any stockholder entitled to vote in the election of directors generally. Subject to the foregoing, only a stockholder of record entitled to vote in the election of directors (the "Nominating Person") may nominate one or more persons for election as directors at a meeting of stockholders and only if written notice of the Nominating Person's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation and has been received by the Secretary: (i) with respect to an election to be held at an annual meeting of stockholders, not less than sixty (60) days nor more than ninety (90) days in advance of such meeting; and (ii) with respect to an election to be held at a special meeting of stockholders for the election of directors, not later than the close of business on the tenth day following the date on which notice of such meeting is first given to stockholders; provided, however, that in the event that less than seventy (70) days' notice or prior public disclosure of the date of the meeting of stockholders is given or made to stockholders, to be timely, notice of a nomination delivered by such stockholder must be received by the Secretary not later than the close of business on the tenth day following the day on which notice of the date of the meeting of stockholders was mailed or such public disclosure was made to the stockholders.

Each such notice shall set forth:

- (a) the name, age, business address and residence address, and the principal occupation or employment of the Nominating Person and any nominee proposed in such notice;
- (b) the name and address of the Nominating Person as the same appears in the Corporation's stock ledger;
- (c) a representation that the Nominating Person is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, and the number of shares of stock of the Corporation which are beneficially owned by the Nominating Person and by any such nominee, person or persons (including any shares as to which the Nominating Person and nominee has a right to acquire beneficial ownership, whether exercisable immediately or only after passage of time);
- (d) a description of all arrangements or understandings between the Nominating Person and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder;
- (e) all the information required by Article II, Section 12 of these Bylaws as if the Nominating Person and nominee was a Proposing Person, including any information related to a person or entity Acting in Concert (except that "Nominating Person" and "nominee" shall be substituted for "Proposing Person" in all applicable places in such Section and any references to "business" or "proposal" in such Section 12 will be deemed to be a reference to the "nomination" contemplated by this Article III, Section 3) and

(f) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission soliciting proxies for the election of such nominee, had the Corporation been subject to such proxy rules and had the nominee been nominated, or intended to be nominated, by the Board of Directors.

At the request of the Board of Directors, any person nominated for election as a director shall furnish to the Secretary the information required by this Section 3 to be set forth in a Nominating Person's notice of nomination which pertains to the nominee, as well as any other information reasonably requested related to the nominee's qualifications and eligibility.

To be effective, each notice of intent to make a nomination given hereunder shall be accompanied by the written consent of each nominee to serve as a director of the Corporation if elected. In addition, any nominee must provide a written representation and agreement (in the form provided by the Secretary upon written request) that the proposed nominee (1) is not and will not become a party to (x) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how the proposed nominee, if elected as a director of the Corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the Corporation or (y) any Voting Commitment that could limit or interfere with the proposed nominee's ability to comply, if elected as a director of the Corporation, with the proposed nominee's fiduciary duties under applicable law, (2) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed therein, and (3) if elected as a director of the Corporation, the proposed nominee would be in compliance and will comply, with all applicable corporate governance, ethics, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the Corporation.

The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not properly brought before the meeting in accordance with the provisions hereof and, if (s)he should so determine, (s)he shall declare to the meeting that such nomination was not properly brought before the meeting and shall not be considered. The chairman of a meeting of stockholders shall have absolute authority to decide questions of compliance with the foregoing procedures and such chairman's ruling thereon shall be final and conclusive.

If the Nominating Person does not appear at the meeting to represent its proposal, such proposal will be disregarded (even if proxies have been solicited, obtained or delivered). The Nominating Person shall update and supplement the information contained in the notice so that the information is true and correct at all times up to the date of the meeting (including any date as to which the meeting is recessed, adjourned or postponed) and shall deliver such update and supplement to the Secretary of the Corporation at the principal executive offices of the Corporation as promptly as possible.

Section 4. Quorum and Manner of Acting. Except as otherwise provided by law or these Bylaws, (i) a majority of the entire Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors and (ii) the vote of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors unless the Certificate of Incorporation or these Bylaws require a vote of a greater number. In the absence of a quorum, a majority of the directors present may adjourn the meeting to another time and place. At any adjourned meeting at which a quorum is present, any business that might have been transacted at the meeting as originally called may be transacted.

Section 5. Place of Meeting. The Board of Directors may hold its meetings at such place or places within or without the State of Delaware as the Board of Directors may from time to time determine or as shall be specified or fixed in the respective notices or waivers of notice thereof.

Section 6. Annual Meetings. The first meeting of each newly elected Board of Directors shall be held for the purpose of organization and the transaction of any other business, without notice, immediately following the annual meeting of stockholders, and at the same place, unless such time or place shall be changed by the Board of Directors.

Section 7. Regular Meetings. Regular meetings of the Board of Directors shall be held at such times and places as the Board of Directors shall from time to time by resolution determine. If any day fixed for a regular meeting shall be a legal holiday under the laws of the place where the meeting is to be held, the meeting that would otherwise be held on that day shall be held at the same hour on the next succeeding business day.

Section 8. Special Meetings. Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board or the President or by any two or more directors.

Section 9. Notice of Meetings. Notice of annual and regular meetings of the Board of Directors or of any adjourned meeting thereof need not be given. Notice of each special meeting of the Board of Directors shall be mailed to each director, addressed to such director at such director's residence or usual place of business, not later than the third day before the day on which the meeting is to be held or shall be sent to such director at such place by facsimile transmission, telegram or telex or be given personally or by telephone, not later than the day before the meeting is to be held, or may be sent by electronic transmission (which shall be deemed effective as set forth in Section 232 of the DGCL), but notice need not be given to any director who shall waive notice thereof as provided in Article X of these Bylaws. Every such notice shall state the time and place but need not state the purpose of the meeting.

Section 10. Participation in Meetings by Means of Communication Equipment. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any one or more members of the Board of Directors or any committee thereof may participate in any meeting of the Board of Directors or of any such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

Section 11. Action Without a Meeting. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or of any such committee consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board of Directors or of such committee.

Section 12. Resignations; Removal. Any director of the Corporation may at any time resign by giving written notice to the Board of Directors, the Chairman of the Board, the President or the Secretary of the Corporation, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary, or as determined by the Board of Directors. If no such specification is made, it shall be deemed effective as determined by the Board of Directors. When one (1) or more directors shall resign from the Board of Directors, effective at a future date, a majority of the directors then in office including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold

office for the unexpired portion of the term of the director whose place shall be vacated and until his successor shall have been duly elected and qualified. Unless otherwise provided in the Certificate of Incorporation, a director may be removed from office only for cause and by the affirmative vote of the holders of not less than eighty percent (80%) of all the outstanding shares of stock of the Corporation entitled to vote generally in the election of directors at a special meeting of stockholders called expressly for that purpose.

Section 13. Vacancies. Unless otherwise provided in the Certificate of Incorporation or these Bylaws, vacancies on the Board of Directors and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, even though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next annual election of the class for which such directors shall have been chosen, and until their successors are duly elected and shall qualify, unless sooner displaced. A vacancy in the Board of Directors shall be deemed to exist under this Section in the case of the death, removal or resignation of any director, or if the stockholders fail at any meeting of stockholders at which directors are to be elected to elect the number of directors then constituting the whole Board of Directors. If there are no directors in office then an election of directors may be held in the manner provided by the statutes.

Section 14. Compensation. Each director who shall not at the time also be a salaried officer or employee of the Corporation or any of its subsidiaries (an "outside director"), in consideration of such person serving as a director, shall be entitled to receive from the Corporation such amount per annum and such fees for attendance at meetings of the Board of Directors or of committees of the Board of Directors, or both, as the Board of Directors shall from time to time determine. In addition, each outside director shall be entitled to receive from the Corporation reimbursement for the reasonable expenses incurred by such person in connection with the performance of such person's duties as a director. Nothing contained in this Section 14 shall preclude any director from serving the Corporation or any of its subsidiaries in any other capacity and receiving compensation therefor.

Section 15. Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because such person's or persons' votes are counted for such purpose, if: (i) the material facts as to such person's relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to such person's relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

ARTICLE IV.

COMMITTEES

Section 1. Committees. The Board of Directors may, by resolution passed by a majority of the Board of Directors, designate committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Upon the absence or disqualification of a member of a committee, if the Board of Directors has not designated one or more alternates (or if such alternate(s) are then absent or disqualified), the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member or alternate. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority in reference to: (a) amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors as provided in Section 151(a) of the DGCL fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series); (b) adopting an agreement of merger or consolidation under Section 251 or Section 252 of the DGCL; (c) recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets; (d) recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution; or (e) amending the Bylaws of the Corporation. Unless the resolution appointing such committee or the Certificate of Incorporation expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock or to adopt a certificate of ownership and merger pursuant to Section 253 of the DGCL.

Section 2. Procedure, Quorum, Meetings. Each committee shall have such name as may be determined from time to time by resolution adopted by the Board of Directors. A majority of any committee of the Board of Directors shall constitute a quorum for the transaction of business at any meeting, may determine its action and fix the time and place of its regular and special meetings by resolution or otherwise (unless the Board of Directors shall otherwise provide) and the vote of a majority of the members thereof present at any meeting at which a quorum is present shall be the act of such committee. Each committee shall keep minutes of its meetings and report to the Board of Directors when required. The Board of Directors shall have the power at any time to change the membership of, to fill all vacancies in and to discharge any such committee, either with or without cause. Special meetings of any committee of the Board of Directors shall be called at the request of any member thereof. Notice of each special meeting of any committee of the Board of Directors shall be sent by mail, facsimile transmission, electronically (as provided in Section 232 of the DGCL), telegram, telex or telephone, or be delivered personally, to each member thereof not later than the day before the day on which the meeting is to be held, but notice need not be given to any member who shall waive notice thereof as provided in Article X of these Bylaws. Any regular or special meeting of any committee of the Board of Directors shall be a legal meeting without any notice thereof having been given if all the members thereof shall be present thereat. Notice of any adjourned meeting of any committee of the Board of Directors need not be given. Each committee of the Board of

Directors may adopt such rules and regulations not inconsistent with the law, the Certificate of Incorporation or these Bylaws for the conduct of its meetings as such committee deems proper.

ARTICLE V.

OFFICERS

Section 1. Number, Term of Office. The officers of the Corporation shall be elected by the Board of Directors and shall be a Chairman of the Board, President or one or more Vice Presidents as may be determined from time to time by the Board of Directors (and in the case of each such Vice President, with such descriptive title, if any, including that of Executive Vice President, as the Board of Directors shall deem appropriate), a Treasurer, a Secretary and such other officers or agents with such titles and such duties as the Board of Directors may from time to time determine, each to have such authority, functions or duties as in these Bylaws provided or as the Board of Directors may from time to time determine, and each to hold office for such term as may be prescribed by the Board of Directors and until such person's successor shall have been elected and shall qualify, or until such person's death or resignation, or until such person's removal in the manner hereinafter provided. The Chairman of the Board shall be elected from among the directors. One person may hold the offices and perform the duties of any two or more of said officers; provided, however, that no officer shall execute, acknowledge or verify any instrument in more than one capacity if such instrument is required by law, the Certificate of Incorporation or these Bylaws to be executed, acknowledged or verified by two or more officers. The Board of Directors may from time to time authorize any officer to appoint and remove any such other officers and agents and to prescribe their powers and duties.

Section 2. Removal. Any officer may be removed, either with or without cause, by the Board of Directors at any meeting thereof, or, except in the case of any officer elected by the Board of Directors, by any committee or superior officer upon whom such power may be conferred by the Board of Directors.

Section 3. Resignation. Any officer may at any time resign by giving written notice to the Board of Directors, the Chairman of the Board, the President or the Secretary of the Corporation. Any such resignation shall take effect at the date of delivery of such notice or at any later date specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 4. Vacancies. A vacancy in any office because of death, resignation, removal or any other cause may be filled for the unexpired portion of the term in the manner prescribed in these Bylaws for election to such office.

Section 5. Chairman of the Board. The Chairman of the Board shall have general supervision and direction of the business and affairs of the Corporation, subject to the control of the Board of Directors. The Chairman of the Board shall, if present, preside at meetings of the stockholders and meetings of the Board of Directors. The Chairman of the Board shall perform such other duties as the Board of Directors may from time to time determine. The Chairman of the Board may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments authorized by the Board of Directors or any committee thereof empowered to authorize the same.

Section 6. President. The President shall, if present and in the absence of the Chairman of the Board, preside at meetings of the stockholders and meetings of the Board of Directors. The President shall counsel with and advise the Chairman of the Board and perform such other duties as the Board of Directors, any committee thereof or the Chairman of the Board may from time to time determine. The President may sign and execute in the name of the

Corporation deeds, mortgages, bonds, contracts or other instruments authorized by the Board of Directors or any committee thereof empowered to authorize the same.

Section 7. Vice Presidents. Each Vice President shall have such powers and duties as shall be prescribed by the Chairman of the Board, the President or the Board of Directors or any committee thereof. Any Vice President may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments authorized by the Board of Directors or any committee thereof empowered to authorize the same.

Section 8. Treasurer. The Treasurer shall perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned to the Treasurer by the Chairman of the Board, the President, the Board of Directors or a committee thereof. The Board may require the Treasurer to give security for the faithful performance of such person's duties.

Section 9. Secretary. It shall be the duty of the Secretary to act as secretary at all meetings of the Board of Directors and of the stockholders and to record the proceedings of such meetings in a book or books kept for that purpose; the Secretary shall see that all notices required to be given by the Corporation are duly given and served; the Secretary shall be custodian of the seal of the Corporation (if one is adopted) and shall affix the seal or cause it to be affixed to all certificates of stock of the Corporation (unless the seal of the Corporation on such certificates shall be a facsimile, as hereinafter provided) and to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these Bylaws; the Secretary shall have charge of the stock ledger books and also of the other books, records and papers of the Corporation and shall see that the reports, statements and other documents required by law are properly kept and filed; and the Secretary shall in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to such person by the Chairman of the Board, the President or the Board of Directors or a committee thereof.

Section 10. Assistant Treasurers and Assistant Secretaries. If elected, the Assistant Treasurers and Assistant Secretaries shall perform such duties as shall be assigned to them by the Treasurer and Secretary, respectively, or by the Chairman of the Board, the President or the Board of Directors or a committee thereof. The Board may require any Assistant Treasurer to give security for the faithful performance of such person's duties.

ARTICLE VI.

INDEMNIFICATION

Section 1. General. Each person who at any time shall serve or shall have served as a Director or officer of the Corporation, or any person who, while a director or officer of the Corporation, is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, shall be entitled to (a) indemnification and (b) the advancement of expenses incurred by such person from the Corporation as, and to the fullest extent, permitted by Section 145 of the DGCL or any successor statutory provision, as from time to time amended. The Corporation may indemnify any other person, to the same extent and subject to the same limitations specified in the immediately preceding sentence, by reason of the fact that such other person is or was an employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise. The foregoing right of indemnification and advancement of expenses provided shall not be deemed exclusive of any other rights to which any person seeking indemnification or advancement of expenses may be entitled under any agreement, vote of stockholders or disinterested directors of the Corporation or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. All rights to

indemnification under this Article shall be deemed to be provided by a contract between the Corporation and the director, officer, employee or agent who served in such capacity at any time while this Article and other relevant provisions of the DGCL and other applicable law, if any, are in effect. Any repeal or modification of this Article shall not affect any rights or obligations then existing. Without limiting the provisions of this Article, the Corporation is authorized from time to time, without further action by the stockholders of the Corporation, to enter into agreements with any director or officer of the Corporation providing such rights of indemnification as the Corporation may deem appropriate, up to the maximum extent permitted by law. Any agreement entered into by the Corporation with a director may be authorized by the other directors, and such authorization shall not be invalid on the basis that similar agreements may have been or may thereafter be entered into with other directors.

Section 2. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have had the power to indemnify such person against such liability under the applicable provisions of this Article VI or the DGCL.

ARTICLE VII.

CAPITAL STOCK

Section 1. Certificates for Shares. Shares of the Corporation's stock may be certificated or uncertificated, as provided under the DGCL, and shall be entered in the books of the Corporation and registered as they are issued. Any certificates representing shares of stock of the Corporation, whenever authorized by the Board of Directors, shall be in such form as shall be approved by the Board of Directors and shall be signed by, or in the name of, the Corporation by the Chairman of the Board or the President or a Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer of the Corporation, and sealed with the seal of the Corporation (if one has been adopted), which may be by a facsimile thereof. Any or all such signatures may be facsimiles. Although any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate ceases to be such officer, transfer agent or registrar before such certificate is issued, it may nevertheless be issued by the Corporation with the same effect as if such officer, transfer agent or registrar were still such at the date of issue.

The stock ledger and blank share certificates shall be kept by the Secretary or a transfer agent or by a registrar or by any other officer or agent designated by the Board of Directors.

Section 2. Transfer of Shares. Transfer of shares of stock of the Corporation shall be made only on the books of the Corporation by the holder thereof, or by such holder's attorney thereunto authorized by a power of attorney duly executed and filed with the Secretary of the Corporation or a transfer agent or registrar for such stock, if any, with such proof of the authenticity of signature as the Corporation or its transfer agent may reasonably require and the payment of all taxes thereon. If the shares are certificated, such transfer shall be made by the surrender of the certificate or certificates for such shares properly endorsed or accompanied by a duly executed stock transfer power. If the shares are uncertificated, such transfer shall be made upon proper instructions from the holder of the uncertificated shares. The person in whose name shares stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation; provided, however, that whenever any transfer of shares shall be made for collateral security and both the transferee and transferor shall request the Corporation to do so, and written notice thereof shall be given to the Secretary or to such transfer agent or

registrar, such fact shall be stated in the entry of the transfer. No transfer of shares shall be valid as against the Corporation, its stockholders and creditors for any purpose until it shall have been entered in the stock records of the Corporation by an entry showing from and to whom transferred.

Section 3. Address of Stockholders. Each stockholder shall designate to the Secretary or transfer agent or registrar of the Corporation an address at which notices of meetings and all other corporate notices may be served or mailed to such person, and, if any stockholder shall fail to designate such address, corporate notices may be served upon such person by mail directed to such person at such person's post office address, if any, as the same appears on the share record books of the Corporation or at such person's last known post office address.

Section 4. Lost, Destroyed and Mutilated Certificates. The holder of any certificated share of stock of the Corporation shall immediately notify the Corporation of any loss, theft, destruction or mutilation of the certificate therefor. Upon the surrender of the mutilated certificate or, in the case of loss, theft or destruction of the certificate, upon satisfactory proof of such loss, theft or destruction, the Corporation may issue to such holder (i) a new certificate or certificates for shares or (ii) uncertificated shares in place of any certificate or certificates previously issued by the Corporation. The Board of Directors, or a committee designated thereby, may, in its discretion and as a condition precedent to the issuance of a new certificate or certificates or uncertificated shares, require the owner of such lost, stolen or destroyed certificate or certificates, or such person's legal representative, to give the Corporation a bond in such sum and with such surety or sureties as it may direct to indemnify the Corporation and said transfer agents and registrars against any claim that may be made on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or certificates or uncertificated shares.

Section 5. Regulations. The Board of Directors may make such additional rules and regulations as it may deem expedient concerning the issue and transfer of shares of stock of the Corporation and may make such rules and take such action as it may deem expedient concerning the issue of new certificates or uncertificated shares in lieu of certificates claimed to have been lost, stolen, destroyed or mutilated.

Section 6. Fixing Record Date for Determination of Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty nor less than ten (10) days before the date of such meeting. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting and shall be required to do so as provided in Article II, Section 4.

In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall be not more than sixty (60) days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

ARTICLE VIII.

SEAL

The Board of Directors may provide a corporate seal, which, if adopted, shall be in the form of a circle and shall bear the full name of the Corporation and the words "Corporate Seal Delaware" or such other words or figures as the Board of Directors may approve and adopt. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

ARTICLE IX.

FISCAL YEAR

The twelve-month period ending at midnight on December 31 in each year shall be the fiscal year of the Corporation.

ARTICLE X.

WAIVER OF NOTICE

Whenever any notice whatsoever is required to be given by these Bylaws, by the Certificate of Incorporation or by law, the person entitled thereto may, either before or after the meeting or other matter in respect of which such notice is to be given, waive such notice in writing, which writing shall be filed with or entered upon the records of the meeting or the records kept with respect to such other matter, as the case may be, and in such event such notice need not be given to such person and such waiver shall be deemed equivalent to notice. Neither the business to be transacted at, nor the purpose of, any meeting of the stockholders, the Board of Directors or any committee of the Board of Directors need be specified in any waiver of notice of such meeting. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

ARTICLE XI.

AMENDMENTS

To the extent permitted by law and the Certificate of Incorporation, these Bylaws may be altered, amended or repealed or new bylaws may be adopted by the Board of Directors at any annual, regular or special meeting of the Board of Directors. Notwithstanding the foregoing, the stockholders of the Corporation entitled to vote may adopt, amend or repeal these Bylaws, to the extent permitted by law and the Certificate of Incorporation.

ARTICLE XII.

MISCELLANEOUS

Section 1. Execution of Documents. The Board of Directors or any committee thereof shall designate the officers, employees and agents of the Corporation who shall have power to execute and deliver deeds, contracts, mortgages, bonds, debentures, notes, checks, drafts and other orders for the payment of money and other documents for and in the name of the Corporation and may authorize such officers, employees and agents to delegate such power (including authority to redelegate) by written instrument to other officers, employees or agents of

the Corporation. Such delegation may be by resolution or otherwise and the authority granted shall be general or confined to specific matters, all as the Board of Directors or such committee may determine. In the absence of such designation referred to in the first sentence of this Section 1, the officers of the Corporation shall have the power to execute and deliver the documents and to delegate and redelegate the power referred to above, to the extent incident to the normal performance of their duties.

Section 2. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation or otherwise as the Board of Directors or any committee thereof or any officer of the Corporation to whom power in that respect shall have been delegated by the Board of Directors or any such committee shall select.

Section 3. Checks. All checks, drafts and other orders for the payment of money out of the funds of the Corporation, and all notes or other evidence of indebtedness of the Corporation, shall be signed on behalf of the Corporation in such manner as shall from time to time be determined by resolution of the Board of Directors or of any committee thereof. In the absence of such resolution referred to in the immediately preceding sentence, the officers of the Corporation shall have such power so referred to, to the extent incident to the normal performance of their duties.

Section 4. Proxies in Respect of Stock or Other Securities of Other Corporations. The Board of Directors or any committee thereof shall designate the officers of the Corporation who shall have authority from time to time to appoint an agent or agents of the Corporation to exercise in the name and on behalf of the Corporation the powers and rights that the Corporation may have as the holder of stock or other securities in any other corporation, and to vote or consent in respect of such stock or securities; such designated officers may instruct the person or persons so appointed as to the manner of exercising such powers and rights; and such designated officers may execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal, or otherwise, such written proxies, powers of attorney or other instruments as they may deem necessary or proper in order that the Corporation may exercise its said powers and rights. In the absence of such designation referred to in the first sentence of this Section 4, the officers of the Corporation shall have such power so referred to, to the extent incident to the normal performance of their duties.

Section 5. Number and Gender of Words. When the context so requires in these Bylaws, words of gender shall include either or both genders and the singular number shall include the plural.

TENTH SUPPLEMENTAL INDENTURE

This TENTH SUPPLEMENTAL INDENTURE, dated as of July 14, 2021 (this “**Tenth Supplemental Indenture**”), is among Lennox International Inc., a Delaware corporation (the “**Company**”), Heatcraft Technologies Inc., a Delaware corporation (“**HTI**”), Lennox National Account Services Inc., a California corporation (“**Account Services**”), Lennox Procurement Company Inc., a Delaware corporation (“**LPCI**”), Lennox Services LLC, a Delaware limited liability company (“**LS LLC**” and, together with HTI, Account Services and LPCI, the “**New Guarantors**”), Advanced Distributor Products LLC, a Delaware limited liability company (“**ADP**”), Allied Air Enterprises LLC, a Delaware limited liability company (“**Allied Air**”), Heatcraft Inc., a Delaware corporation (“**Heatcraft**”), Heatcraft Refrigeration Products LLC, a Delaware limited liability company (“**HRP**”), Lennox Global LLC, a Delaware limited liability company (“**Global**”), Lennox Industries Inc., a Delaware corporation (“**Industries**”), Lennox National Account Services LLC, a Florida limited liability company (“**National Account**”), LGL Australia (US) Inc., a Delaware corporation (“**LGL Australia**”), LGL Europe Holding Co., a Delaware corporation (“**LGL Europe**” and, together with ADP, Allied Air, Heatcraft, HRP, Global, Industries, National Account and LGL Australia, collectively, the “**Existing Guarantors**”; the Existing Guarantors, together with the New Guarantors, collectively, the “**Guarantors**”), and U.S. Bank National Association, as Trustee under the Indenture referred to below.

RECITALS

WHEREAS, the Company, the Existing Guarantors and the Trustee are parties to an Indenture, dated as of May 3, 2010 (the “**Base Indenture**”), as supplemented by the First Supplemental Indenture, dated as of May 6, 2010, the Second Supplemental Indenture, dated as of March 28, 2011, the Third Supplemental Indenture, dated as of October 27, 2011, the Fourth Supplemental Indenture, dated as of December 10, 2013, the Fifth Supplemental Indenture, dated as of August 30, 2016, the Sixth Supplemental Indenture, dated as of November 3, 2016 (the “**Sixth Supplemental Indenture**”), the Seventh Supplemental Indenture, dated as of January 23, 2019, the Eight Supplemental Indenture, dated as of May 22, 2020 and the Ninth Supplemental Indenture, dated as of July 30, 2020 (the “**Ninth Supplemental Indenture**”) (the Base Indenture, as so supplemented, the “**Indenture**”), pursuant to which the Company has issued 3.000% Notes due 2023 (the “**2023 Notes**”), 1.350% Notes due 2025 (the “**2025 Notes**”) and 1.700% Notes due 2027 (the “**2027 Notes**” and, together with the 2023 Notes and the 2025 Notes, the “**Notes**”);

WHEREAS, Section 8.06 of the Sixth Supplemental Indenture and Section 8.06 of the Ninth Supplemental Indenture provide that the Company is required to cause each New Guarantor to execute and deliver to the Trustee a supplemental indenture evidencing its guarantee of the punctual payment when due of all monetary obligations of the Company under the Indenture and the Notes on the terms and conditions set forth herein and in Article 8 of the Sixth Supplemental Indenture and Article 8 of the Ninth Supplemental Indenture;

WHEREAS, each New Guarantor desires to enter into such supplemental indenture for good and valuable consideration, including substantial economic benefit in that the financial performance and condition of such New Guarantor is dependent on the financial performance and condition of the Company, the obligations hereunder of which such New Guarantor has guaranteed; and

WHEREAS, pursuant to Section 8.01 of the Base Indenture, the parties hereto are authorized to execute and deliver this Tenth Supplemental Indenture to amend the Indenture, without the consent of any Holder.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Guarantors, the Company and the Trustee mutually covenant and agree for the benefit of the Holders of the Notes as follows:

1. **Defined Terms.** As used in this Tenth Supplemental Indenture, terms defined in the Indenture or in the preamble or recitals hereto are used herein as therein defined. The words “herein,” “hereof” and “hereby” and other words of similar import used in this Tenth

Supplemental Indenture refer to this Tenth Supplemental Indenture as a whole and not to any particular section hereof.

2. Agreement to Guarantee. Each New Guarantor, as primary obligor and not merely as surety, hereby jointly and severally with the Existing Guarantors, irrevocably and fully and unconditionally guarantees to each Holder and to the Trustee and its successors and assigns (the “**Guarantee**”), on a senior unsecured basis and equal in right of payment to all existing and future senior indebtedness of such New Guarantor, the punctual payment when due of all monetary obligations of the Company under the Indenture and the Notes, whether for principal of or interest on the Notes, on the terms and subject to the conditions set forth in Article 8 of the Sixth Supplemental Indenture and Article 8 of the Ninth Supplemental Indenture and agrees to be bound by (and shall be entitled to the benefits of) all other applicable provisions of the Indenture as a Guarantor.
3. Termination, Release and Discharge. The Guarantee shall terminate and be of no further force or effect, and the New Guarantors shall be released and discharged from all obligations in respect of the Guarantee, as and when provided in Section 8.03 of the Sixth Supplemental Indenture and Section 8.03 of the Ninth Supplemental Indenture.
4. Parties. Nothing in this Tenth Supplemental Indenture is intended or shall be construed to give any Person, other than the Holders and the Trustee, any legal or equitable right, remedy or claim under or in respect of the Guarantee or any provision contained herein or in the Indenture.
5. Governing Law. This Tenth Supplemental Indenture and the Notes shall be deemed to be a contract under the laws of the State of New York, and for all purposes shall be construed in accordance with the laws of such State, except as may otherwise be required by mandatory provisions of law.
6. Ratification of Indenture; Supplemental Indentures; Part of Indenture. The Indenture, as supplemented by this Tenth Supplemental Indenture, is in all respects ratified and confirmed, and this Tenth Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided.
7. Trustee Makes No Representation; Trustee’s Rights and Duties. The recitals contained herein shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representation as to the validity or sufficiency of this Tenth Supplemental Indenture and shall not be liable in connection therewith. The rights and duties of the Trustee shall be determined by the express provisions of the Indenture and, except as expressly set forth in this Tenth Supplemental Indenture, nothing in this Tenth Supplemental Indenture shall in any way modify or otherwise affect the Trustee’s rights and duties thereunder.
8. Counterparts. This Tenth Supplemental Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.
9. Headings. The section headings herein are for convenience only and shall not affect the construction hereof.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Tenth Supplemental Indenture to be duly executed as of the date first above written.

LENNOX INTERNATIONAL INC.
ADVANCED DISTRIBUTOR PRODUCTS LLC
ALLIED AIR ENTERPRISES LLC
HEATCRAFT INC.
HEATCRAFT REFRIGERATION PRODUCTS LLC
HEATCRAFT TECHNOLOGIES INC.
LENNOX GLOBAL LLC
LENNOX INDUSTRIES INC.
LENNOX NATIONAL ACCOUNT SERVICES INC.
LENNOX NATIONAL ACCOUNT SERVICES LLC
LENNOX PROCUREMENT COMPANY INC.
LENNOX SERVICES LLC
LGL AUSTRALIA (US) INC.
LGL EUROPE HOLDING CO.

By: /s/ Theresa McCray
Name: Theresa McCray
Title: Vice President, Corporate
Tax and
Treasurer

[Signature Page to Tenth Supplemental Indenture]

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: /s/ Michael K. Herberger

Name: Michael K. Herberger

Title: Vice President

[Signature Page to Tenth Supplemental Indenture]

**DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF
THE SECURITIES AND EXCHANGE ACT OF 1934**

The following is a summary of the terms and provisions of the common stock, par value \$0.01 per share (the "Common Stock") of Lennox International Inc., a Delaware corporation, and is qualified by reference to our Restated Certificate of Incorporation ("Certificate of Incorporation") and Amended and Restated Bylaws ("Bylaws"), which are incorporated by reference herein and attached as exhibits to the Company's most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission, and to applicable provisions of Delaware law.

Authorized Capital Stock

Our authorized capital stock consists of 200,000,000 shares of Common Stock and 25,000,000 shares of preferred stock, par value \$0.01 per share ("Preferred Stock"). The outstanding shares of our Common Stock are legally issued, fully paid and nonassessable. There are no shares of Preferred Stock currently outstanding.

Voting Rights

The holders of our Common Stock are entitled to one vote per share on all matters to be voted on by stockholders. Generally, all matters to be voted on by stockholders must be approved by a majority (or, in the case of a contested election of directors, by a plurality) of the votes entitled to be cast by all shares of Common Stock present in person or represented by proxy, voting together as a single class, except as may be required by law and subject to any voting rights granted to holders of any Preferred Stock. However, the removal of a director from office for cause, the approval and authorization of specified business combinations and amendments to specified provisions of our Certificate of Incorporation and Bylaws each require the approval of not less than 80% of our voting stock, voting together as a single class. The Common Stock does not have cumulative voting rights.

Dividend Rights

Subject to the prior rights of the holders of any shares of our Preferred Stock, the holders of shares of our Common Stock shall be entitled to receive, to the extent permitted by law, such dividends as may be declared from time to time by our board of directors.

Liquidation Rights

On our liquidation, dissolution or winding up, after payment in full of the amounts required to be paid to holders of Preferred Stock, if any, all holders of shares of Common Stock are entitled to share ratably in any assets available for distribution to holders of shares of Common Stock.

Anti-Takeover Provisions

Classified Board of Directors; Removal; Number of Directors; Filling Vacancies

Our Certificate of Incorporation and Bylaws provide that our board of directors shall be divided into three classes, with the classes to be as nearly equal in number as possible. The term of office of each class shall expire at the third annual meeting of stockholders for the election of directors following the election of such class. Each director is to hold office until his or her successor is duly elected and qualified, or until his or her earlier resignation or removal.

Our Bylaws provide that any vacancies will be filled only by the affirmative vote of a majority of the remaining directors, even if less than a quorum. Accordingly, absent an amendment to the Bylaws, our board of directors could prevent any stockholder from enlarging our board of directors and filling the new directorships with such stockholder's own nominees. Moreover, our Certificate of Incorporation and Bylaws provide that directors may be removed only for cause and only upon the affirmative vote of holders of at least 80% of our voting stock at a special meeting of stockholders called expressly for that purpose.

The classification of directors could have the effect of making it more difficult for stockholders to change the composition of our board of directors. The classification provisions could also have the effect of discouraging a third

party from initiating a proxy contest, making a tender offer or otherwise attempting to obtain control of us, even though such an attempt might be beneficial to us and our stockholders.

No Stockholder Action by Written Consent; Special Meetings

Our Certificate of Incorporation and Bylaws provide that stockholder action can be taken only at an annual or special meeting of stockholders and stockholder action may not be taken by written consent in lieu of a meeting. Special meetings of stockholders can be called only by our board of directors by a resolution adopted by a majority of our board of directors, or by the chairman of the board, vice chairman or the president.

Our Certificate of Incorporation and Bylaws prohibit stockholder action by written consent and permit special meetings to be called only by the chairman, vice chairman or president, or at the request of a majority of our board or directors, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Other Rights and Preferences

The Common Stock has no sinking fund or redemption provisions and does not have any preemptive, subscription or conversion rights. Additional shares of authorized common stock may be issued, as authorized by our board of directors from time to time, without stockholder approval, except as may be required by applicable stock exchange requirements.

Listing

Our Common Stock is listed on the New York Stock Exchange under the symbol "LII."

EXHIBIT 21.1
Lennox International Inc. Subsidiaries

The following are the subsidiaries of Lennox International Inc., as of February 3, 2023, and the states or jurisdictions in which they are organized. Subsidiaries are indented below their immediate parent entity. The names of certain subsidiaries have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute, as of the end of the year covered by this report, a “significant subsidiary” as that term is defined in Rule 1-02(w) of Regulation S-X under the Securities Exchange Act of 1934.

Name	Ownership	Jurisdiction
Lennox Industries Inc. (See Annex A)	100%	Delaware
Heatcraft Inc.	100%	Delaware
Bohn de Mexico S.A. de C.V.	50%	Mexico
Frigus-Bohn S.A. de C.V.	50%	Mexico
Advanced Distributor Products LLC	100%	Delaware
Heatcraft Refrigeration Products LLC	100%	Delaware
Advanced Heat Transfer LLC	50%	Delaware
Heatcraft Technologies Inc.	100%	Delaware
Alliance Compressor LLC	24.5%	Delaware
Lennox Procurement Company Inc.	100%	Delaware

**ANNEX A
TO
EXHIBIT 21.1**

Lennox Industries Inc. Subsidiaries

Name	Ownership	Jurisdiction
Allied Air Enterprises LLC	100%	Delaware
LPAC Corp.	100%	Delaware
Lennox Global LLC (See Annex B)	100%	Delaware
LGL Europe Holding Co. (See Annex C)	53.2%	Delaware
Lennox National Account Services Inc.	100%	California
Lennox Services LLC	100%	Delaware
Lennox National Account Services LLC	100%	Florida

**ANNEX B
TO
EXHIBIT 21.1**

Lennox Global LLC Subsidiaries

Name	Ownership	Jurisdiction
Lennox (Shanghai) Refrigeration Technology Consulting Co Ltd.	100%	China
LGL Europe Holding Co. (See Annex C)	46.8%	Delaware
LGL Australia (US) Inc.	100%	Delaware
Lennox India Technology Centre Private Ltd.	0.0005%	India
LII Comercial de Mexico,S. de R.L. de C.V.	99.97%	Mexico

**ANNEX C
TO
EXHIBIT 21.1**

LGL Europe Holding Co. Subsidiaries

Name	Ownership	Jurisdiction
LGL Holland B.V.	100%	Netherlands
Lennox Benelux N.V./S.A.	0.024%	Belgium
Lennox Industries (Canada) ULC	100%	Canada
Lennox Switzerland GmbH	100%	Switzerland
LII Mexico Holdings Ltd.	100%	UK
LII United Products, S. de R.L. de C.V.	99.99%	Mexico
LII Comercial de Mexico,S. de R.L. de C.V.	0.03%	Mexico
Lennox Mexico Minority Holdings LLC	100%	Delaware
LII United Products, S. de R.L. de C.V.	0.01%	Mexico
Lennox Ukraine LLC	99%	Ukraine
Lennox India Technology Centre Private Ltd.	99.9995%	India
Etablissements Brancher S.A.S.	100%	France
LGL France S.A.S.	100%	France
Lennox Refac, S.A.	0.02%	Spain
LGL Germany GmbH	100%	Germany
Hyfra Ind. GmbH	100%	Germany
Lennox Deutschland GmbH	100%	Germany
LGL Deutschland GmbH	100%	Germany
Lennox Global Spain S.L.	100%	Spain
LGL Refrigeration Spain S.A.	100%	Spain
Lennox Portugal Lda	0.008%	Portugal
Lennox Refac, S.A.	99.98%	Spain
Lennox Portugal Lda	99.92%	Portugal
Lennox Polska sp. z.o.o.	100%	Poland
Lennox Benelux B.V.	100%	Netherlands
Lennox Benelux N.V./S.A.	99.976%	Belgium
Lennox NAO	0.5%	Russia
Lennox Ukraine LLC	1%	Ukraine
HCF-Lennox Limited	100%	United Kingdom
Lennox Industries	100%	United Kingdom
Lennox NAO	99.5%	Russia

List of Guarantor Subsidiaries

The following subsidiaries of Lennox International Inc. (the “Company”) are guarantors with respect to the Company’s (1) 3.00% Notes due 2023, (2) 1.35% Notes due 2025, and (3) 1.70% Notes due 2027:

Guarantor	State or Other Jurisdiction of Formation
Advanced Distributor Products LLC	Delaware
Allied Air Enterprises LLC	Delaware
Heatcraft Inc.	Delaware
Heatcraft Refrigeration Products LLC	Delaware
Heatcraft Technologies Inc.	Delaware
Lennox Global LLC	Delaware
Lennox Industries Inc.	Delaware
Lennox National Account Services Inc.	California
Lennox National Account Services, LLC	Florida
Lennox Procurement Company Inc.	Delaware
Lennox Services, LLC	Delaware
LGL Australia (US) Inc.	Delaware
LGL Europe Holding Co.	Delaware

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statement (No. 333-265185) on Form S-8 and the registration statement (No. 333-268030) on Form S-3 of our report dated February 21, 2023, with respect to the consolidated financial statements and financial statement Schedule II of Lennox International Inc. and the effectiveness of internal control over financial reporting.

(signed) KPMG LLP

Dallas, Texas

February 21, 2023

CERTIFICATION

I, Alok Maskara, certify that:

1. I have reviewed this annual report on Form 10-K of Lennox International Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2023

/s/ Alok Maskara

Alok Maskara

Chief Executive Officer

CERTIFICATION

I, Joseph W. Reitmeier, certify that:

1. I have reviewed this annual report on Form 10-K of Lennox International Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2023

/s/ Joseph W. Reitmeier

Joseph W. Reitmeier
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Lennox International Inc. (the "Company") on Form 10-K for the year ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, Alok Maskara, Chief Executive Officer of the Company, and Joseph W. Reitmeier, Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to his or her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company

/s/ Alok Maskara

Alok Maskara
Chief Executive Officer

February 21, 2023

/s/ Joseph W. Reitmeier

Joseph W. Reitmeier
Chief Financial Officer

February 21, 2023

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the report.