AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 27, 1999

REGISTRATION NO. 333-75725

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

LENNOX INTERNATIONAL INC.
(Exact name of Registrant as specified in its charter)

| DELAWARE | 3585 | 42-0991521 |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Industrial Standard Classification Code Number) | (I.R.S. Employer Identification No.) |

2100 LAKE PARK BLVD.
RICHARDSON, TEXAS 75080
(972) 497-5000
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

CARL E. EDWARDS, JR.
EXECUTIVE VICE PRESIDENT,
GENERAL COUNSEL AND SECRETARY
LENNOX INTERNATIONAL INC.
2100 LAKE PARK BLVD.
RICHARDSON, TEXAS 75080
(972) 497-5000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

| ANDREW M. BAKER | ROBERT F. GRAY, JR. |
|---|---|
| BAKER & BOTTS, L.L.P. | FULBRIGHT & JAWORSKI L.L.P. |
| 2001 ROSS AVENUE | 1301 MCKINNEY, SUITE 5100 |
| DALLAS, TEXAS 75201 | HOUSTON, TEXAS 77010 |
| (214) 953-6500 | (713) 651-5151 |

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: [ ]
- ---

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: [ ]
- ---

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering: [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: [ ]
- ---

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR

DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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## EXPLANATORY NOTE

This registration statement contains two forms of prospectus: one to be used in connection with an offering in the United States and Canada (the "U.S. Prospectus") and one to be used in a concurrent offering outside the United States and Canada (the "International Prospectus" and, together with the U.S. Prospectus, the "Prospectuses"). The Prospectuses are identical in all material respects except for the front cover page. The U.S. Prospectus is included herein and is followed by the alternate front cover page to be used in the International Prospectus. The alternate page for the International Prospectus included herein is labeled "Alternate Cover Page for International Prospectus." Final forms of each Prospectus will be filed with the Securities and Exchange Commission under Rule 424(b).

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND WE ARE NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS (Subject to Completion)

Issued May 27, 1999

Shares

[LENNOX INTERNATIONAL INC. LOGO]

COMMON STOCK

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LENNOX INTERNATIONAL INC. IS OFFERING SHARES OF COMMON STOCK AND THE SELLING STOCKHOLDERS ARE OFFERING SHARES OF COMMON STOCK. THIS IS OUR INITIAL PUBLIC OFFERING AND NO PUBLIC MARKET CURRENTLY EXISTS FOR OUR SHARES. WE ANTICIPATE THAT THE INITIAL PUBLIC OFFERING PRICE WILL BE BETWEEN $ AND $ PER SHARE.

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OUR COMMON STOCK HAS BEEN APPROVED FOR LISTING ON THE NEW YORK STOCK EXCHANGE UNDER THE TRADING SYMBOL "LII," SUBJECT TO OFFICIAL NOTICE OF ISSUANCE.

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INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 8.

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PRICE $ A SHARE

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| | PRICE TO PUBLIC | UNDERWRITING DISCOUNTS AND COMMISSIONS | PROCEEDS TO LENNOX | PROCEEDS TO SELLING STOCKHOLDERS |
|---|---|---|---|---|
| Per Share..... | $ | $ | $ | $ |
| Total..... | $ | $ | $ | $ |

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The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Lennox International Inc. has granted the underwriters the right to purchase up to an additional shares of common stock to cover over-allotments. Morgan Stanley & Co. Incorporated expects to deliver the shares of common stock to purchasers on , 1999.

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MORGAN STANLEY DEAN WITTER

CREDIT SUISSE FIRST BOSTON

WARBURG DILLON READ LLC

, 1999

[LENNOX INTERNATIONAL INC. LOGO]
NORTH AMERICAN RESIDENTIAL
[PHOTO DEPICTING PRODUCTS]
[PHOTO DEPICTING PRODUCTS]
HEAT TRANSFER

CLIMATE CONTROL SOLUTIONS IN FOUR KEY BUSINESSES
[PHOTO DEPICTING PRODUCTS]
COMMERCIAL AIR CONDITIONING
COMMERCIAL REFRIGERATION
[PHOTO DEPICTING PRODUCTS]

[Graphics depicting timeline of various milestones throughout Lennox's history]

[GRAPHIC]
1895
Dave Lennox builds and markets the industry's first riveted-steel furnace.

[GRAPHIC]
1904
Lennox establishes a one-step distribution network, selling directly to installing contractors.

[GRAPHIC]
1923
Lennox expands for the first time, building a warehouse in Syracuse, New York. Two years later a factory is added.

[GRAPHIC]
1935
Lennox pioneers the introduction of a forced-air furnace for residential heating.

1943
Lennox retools its factories to support the World War II effort.

1952
Lennox establishes operations in Canada.

[GRAPHIC]
Lennox expands its product line with the introduction of residential central air-conditioning systems.

[GRAPHIC]
1960
Lennox establishes an international division with a facility in Basingstoke, England and sales offices and warehouses in Holland and Germany.

[GRAPHIC]
1964
Lennox develops and manufactures the Duracurve heat exchanger, reducing noise problems in gas furnaces.

1965
Lennox introduces packaged multi-zone units for commercial heating and cooling.

[GRAPHIC]
1972
"Dave Lennox" appears for the first time in a Lennox advertising campaign.

[GRAPHIC]
1973
Lennox increases air conditioning efficiency with the development of the two-speed hermetic compressor.

[LENNOX INTERNATIONAL INC. LOGO]

HISTORY AND INNOVATIONS

[Graphics depicting timeline of various milestones throughout Lennox's history]

1982

Lennox develops and manufactures the industry's first high-efficiency gas furnace.

[GRAPHIC]

[HEATCRAFT LOGO]

1984

Lennox International Inc. is established as the parent company for Lennox Industries Inc. and future acquisitions.

1986

Lennox International expands into the commercial refrigeration and heat transfer markets with the establishment of Heatcraft Inc.

[GRAPHIC]

1988

Lennox International expands into two-step distribution of residential heating and cooling equipment with the acquisition of Armstrong Air Conditioning Inc.

[ARMSTRONG AIR CONDITIONING, INC. LOGO]

Heatcraft implements a 48-hour coil replacement program for commercial air conditioning systems.

1994

Lennox is the first to manufacture and market a complete combination high-efficiency residential space/water heating system.

[GRAPHIC]

Lennox enters the hearth products market with the introduction of gas fireplaces.

[GRAPHIC]

[LGL LOGO]

1995

Lennox Global Ltd. (LGL) is established to expand the company's presence in worldwide commercial air conditioning, commercial refrigeration and heat transfer product markets.

[GRAPHIC]

Lennox begins factory configure-to-order for commercial air conditioning with the introduction of the L series.

[GRAPHIC]

Heatcraft develops Floating Tube and Thermoflex technology, significantly reducing leaks in air-cooled condensers and unit coolers used for commercial refrigeration.

1996

Heatcraft introduces the Beacon Control System, improving the accuracy and reliability of refrigeration system information and easing installation.

[GRAPHIC]

1997

LGL enters into joint venture agreements in Europe, Asia and Latin America.

1998

Lennox Industries begins to establish a retail distribution network offering full sales and service functions.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock.

We own or otherwise have rights to trademarks or trade names that we use in connection with the sale of our products. Lennox(R), Armstrong Air(TM), Bohn(R), Larkin(TM), Heatcraft(R), CompleteHeat(R), Climate Control(TM), Chandler Refrigeration(R), Advanced Distributor Products(R), Raised Lance(TM), Air-Ease(R), Concord(R), Magic-Pak(R), Superior(TM), Marco(R), Whitfield(R), Security Chimneys(R), Alcair(TM), Friga-Bohn(TM) and Janka(TM), among others, are trademarks that are owned by us. This prospectus also makes reference to trademarks of other companies.

Until , 1999 (25 days after the date of this prospectus), all dealers that buy, sell or trade our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

## PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information and our financial statements and notes appearing elsewhere in this prospectus.

### LENNOX

We are a leading global provider of climate control solutions and had 1998 net sales of $1.8 billion. We design, manufacture and market a broad range of products for the heating, ventilation, air conditioning and refrigeration markets, which is sometimes referred to as "HVACR." Our products are sold under well-established brand names including "Lennox", "Armstrong Air", "Bohn", "Larkin", "Heatcraft" and others. We have recently initiated a program to acquire dealers in metropolitan areas in the U.S. and Canada so we can provide heating and air conditioning products and services directly to consumers.

Our furnaces, heat pumps, air conditioners, pre-fabricated fireplaces and related products are available in a variety of designs, efficiency levels and price points that provide an extensive line of comfort systems. A majority of our sales of residential heating and air conditioning products in the U.S. and Canada are to the repair and replacement market, which is less cyclical than the new construction market. We also provide a range of air conditioning products for commercial market applications such as mid-size office buildings, restaurants, churches and schools. Our commercial refrigeration products are used primarily in cold storage applications for food preservation in supermarkets, convenience stores, restaurants, warehouses and distribution centers. Our heat transfer products are used by us in our HVACR products and sold to third parties.

We market our products using multiple brand names and distribute our products through multiple distribution channels to penetrate different segments of the HVACR market. Our "Lennox" brand of residential heating and air conditioning products is sold directly through approximately 6,000 installing dealers -- the "one-step" distribution system -- which has created strong and long-term relationships with our dealers in North America. Our "Armstrong Air", "Air-Ease", "Concord" and "Magic-Pak" residential heating and air conditioning brands are sold to regional distributors that in turn sell the products to installing contractors -- the "two-step" distribution system typically utilized in the heating and air conditioning industry. The acquisition of heating and air conditioning dealers in Canada and the planned acquisition of dealers in the U.S. allows us to participate in the retail sale and service of heating and air conditioning products. Our hearth products, commercial air conditioning products and refrigeration products are also sold under multiple brand names and through a combination of wholesalers, contractors, original equipment manufacturers, manufacturers' representatives and national accounts.

### COMPETITIVE STRENGTHS

We have a combination of strengths that position us to continue to be a leading provider of climate control solutions, including:

- strong brand recognition and reputation, particularly with the well recognized "Lennox" name;
- one of the broadest distribution systems of any major HVACR manufacturer;
- leading heat transfer design and manufacturing expertise;
- commitment to product innovation and technological leadership; and
- demonstrated manufacturing efficiency for our products.

### GROWTH STRATEGY

Our growth strategy is designed to capitalize on our competitive strengths in order to expand our market share and profitability in the worldwide HVACR markets. We will continue to pursue internal programs and

strategic acquisitions that broaden our product and service offerings, expand our market opportunities and enhance our technological expertise. The key elements of this strategy include:

- expanding our market opportunities in North America through a series of initiatives, including the acquisition of heating and air conditioning dealers;

- exploiting international opportunities through acquisitions and internal growth;

- increasing our presence in the hearth products market by selling in the distribution channels we acquired and through our historical distribution channels; and

- continuing to invest in research and new product development.

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We are located at 2100 Lake Park Blvd., Richardson, Texas 75080 and our telephone number is (972) 497-5000.

## THE OFFERING

| | |
|---|---|
| Common stock offered by: | |
| Lennox | shares |
| Selling stockholders | ____ shares |
| Total | shares |
| Common stock offered in: | |
| U.S. offering | shares |
| International offering | ____ shares |
| Total | shares |
| Common stock to be outstanding after this offering | shares |
| Use of proceeds | We will receive approximately $ million in net proceeds from the offering. The net proceeds will be used to repay a portion of the amounts borrowed under our revolving credit facility and term credit agreement. We will not receive any proceeds from the sale of the shares of common stock offered by the selling stockholders. |
| Proposed NYSE symbol | LII |

All information in this prospectus relating to the number of shares of our common stock or options has been adjusted to reflect a -for-one stock split of our common stock which occurred on , 1999.

Unless we specifically state otherwise, the information in this prospectus does not take into account the issuance of up to shares of common stock which the underwriters have the option to purchase solely to cover over-allotments. If the underwriters exercise their over-allotment option in full, shares of common stock will be outstanding after the offering.

The number of shares of our common stock to be outstanding immediately after the offering does not take into account shares of our common stock that will be issuable upon the exercise of stock options, substantially all of which were awarded under our stock option plans. For more information on our stock option plans, see "Management -- 1998 Incentive Plan."

## SUMMARY FINANCIAL AND OTHER DATA

The following summary financial and other data for each of the years ended December 31, 1996, 1997 and 1998 have been derived from our audited financial statements included elsewhere in this prospectus. The summary financial and other data for each of the three months ended March 31, 1998 and 1999 are derived from our unaudited financial statements which, in our opinion, have been prepared on the same basis as the audited financial statements and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of this information. Our fiscal quarters are each comprised of 13 weeks. For convenience, the 13-week periods ended April 4, 1998 and April 3, 1999 are referred to as the three months ended March 31, 1998 and 1999, respectively. Effective September 30, 1997 we increased our ownership of Ets. Brancher S.A., our European joint venture, from 50% to 70% and, accordingly, changed our accounting method of recognizing this investment from the equity method to the consolidation method. You should read "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and notes included elsewhere in this prospectus for a further explanation of the financial data summarized here. The as adjusted amounts give effect to this offering and the use of the net proceeds as described under "Use of Proceeds."

| | YEAR ENDED DECEMBER 31, | | | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1998 | 1999 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | |
| STATEMENT OF OPERATIONS DATA: | | | | | |
| Net sales | $1,364,546 | $1,444,442 | $1,821,836 | $379,646 | $489,059 |
| Cost of goods sold | 961,696 | 1,005,913 | 1,245,623 | 261,802 | 337,481 |
| Gross profit | 402,850 | 438,529 | 576,213 | 117,844 | 151,578 |
| Selling, general and administrative expenses | 298,049 | 326,280 | 461,143 | 97,255 | 129,268 |
| Other operating expense, net | 4,213 | 7,488 | 8,467 | 2,612 | 2,518 |
| Product inspection charge(1) | -- | 140,000 | -- | -- | -- |
| Income (loss) from operations | 100,588 | (35,239) | 106,603 | 17,977 | 19,792 |
| Interest expense, net | 13,417 | 8,515 | 16,184 | 2,620 | 6,558 |
| Other | (943) | 1,955 | 1,602 | 230 | (211) |
| Minority interest | -- | (666) | (869) | (502) | (516) |
| Income (loss) before income taxes | 88,114 | (45,043) | 89,686 | 15,629 | 13,961 |
| Provision (benefit) for income taxes | 33,388 | (11,493) | 37,161 | 7,323 | 7,331 |
| Net income (loss) | $ 54,726 | $ (33,550) | $ 52,525 | $ 8,306 | $ 6,630 |
| Earnings (loss) per share: | | | | | |
| Basic | | | | | |
| Diluted | | | | | |
| Weighted average shares outstanding: | | | | | |
| Basic | | | | | |
| Diluted | | | | | |
| Dividends per share | | | | | |
| OTHER DATA: | | | | | |
| Depreciation and amortization | 34,149 | 33,430 | 43,545 | 9,787 | 13,502 |
| Capital expenditures | 31,903 | 34,581 | 52,435 | 12,316 | 20,050 |
| Research and development expenses | 23,235 | 25,444 | 33,260 | 7,376 | 9,567 |

| | MARCH 31, 1999 | |
|---|---|---|
| | ACTUAL | AS ADJUSTED |
| | (IN THOUSANDS) | |
| BALANCE SHEET DATA: | | |
| Cash and cash equivalents | $ 30,262 | |
| Working capital | 215,279 | |
| Total assets | 1,292,534 | |
| Total debt | 449,921 | |
| Stockholders' equity | 374,319 | |

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(1) Represents a pre-tax charge taken in the fourth quarter of 1997 for estimated costs of an inspection program for our Pulse furnaces installed

from 1982 to 1990 in the U.S. and Canada. We initiated the inspection program because we received anecdotal reports of accelerated corrosion of a component of these products under extreme operating conditions. We periodically review the reserve balance and at this time we believe the remaining reserve of $13.6 million at March 31, 1999 will be adequate to cover the remaining costs associated with this inspection program. This program ends on June 30, 1999.

## RISK FACTORS

You should carefully consider the risks described below before making an investment decision.

### RISK FACTORS RELATING TO OUR BUSINESS

Our business is subject to the following risks, which include risks relating to the industry in which we operate.

#### WE MAY INCUR MATERIAL COSTS AS A RESULT OF WARRANTY AND PRODUCT LIABILITY CLAIMS WHICH WOULD NEGATIVELY IMPACT OUR PROFITABILITY

The development, manufacture, sale and use of our products involve a risk of warranty and product liability claims. In addition, as we increase our efforts to acquire installing heating and air conditioning dealers in the U.S. and Canada, we incur the risk of liability claims for the installation and service of heating and air conditioning products. We maintain product liability insurance. Our product liability insurance policies have limits, however, that if exceeded, may result in material costs that would have an adverse effect on our future profitability. In addition, warranty claims are not covered by our product liability insurance and there may be types of product liability claims that are also not covered by our product liability insurance.

#### WE MAY NOT BE ABLE TO REALIZE OUR BUSINESS STRATEGY OF SUCCESSFULLY COMPLETING OR OPERATING STRATEGIC ACQUISITIONS

We intend to grow in part through the acquisition of heating and air conditioning dealers and other complementary businesses both in the U.S. and internationally. This strategy will involve reviewing and potentially reorganizing the operations, corporate infrastructure and systems and financial controls of acquired businesses. The success of our acquisition strategy may be limited because of unforeseen expenses, difficulties, complications and delays encountered in connection with the expansion of our operations through acquisitions. We may not be able to acquire or manage profitably additional businesses or to integrate successfully any acquired businesses into our business without substantial costs, delays or other operational or financial difficulties. In addition, we may be required to incur additional debt or issue equity to pay for future acquisitions.

#### WE ARE ENTERING NEW BUSINESSES IN WHICH WE HAVE LIMITED EXPERIENCE AND WE MAY NOT BE ABLE TO SUCCESSFULLY MANAGE OR OPERATE THESE NEW BUSINESSES

With our recently initiated program of acquiring heating and air conditioning dealers and with our recent acquisitions of hearth products manufacturers, we have entered into new lines of business. We cannot assure you that we will be able to successfully manage or operate these new businesses.

#### THE CONSOLIDATION OF DISTRIBUTORS AND DEALERS COULD FORCE US TO LOWER OUR PRICES OR HURT OUR BRAND NAMES WHICH WOULD RESULT IN LOWER SALES

There is currently an effort underway in the U.S. by several companies to purchase independent distributors and dealers and consolidate them into large enterprises. These large enterprises may be able to exert pressure on us or our competitors to reduce prices. Additionally, these new enterprises tend to emphasize their company name, rather than the brand of the manufacturer, in their promotional activities, which could lead to dilution of the importance and value of our brand names. Future price reductions and the brand dilution caused by the consolidation among HVACR distributors and dealers could have an adverse effect on our future sales and profitability.

#### OUR DEALER ACQUISITION PROGRAM COULD LEAD TO LOSS OF SALES FROM INDEPENDENT DEALERS AND DEALERS OWNED BY CONSOLIDATORS

With our recently initiated program of acquiring heating and air conditioning dealers in the U.S. and Canada, we face the risk that dealers owned by consolidators and independent dealers may discontinue using

our heating and air conditioning products because we are and increasingly will be in competition with them. We sold approximately $50 million of heating and air conditioning products to consolidators in 1998, representing 2.7% of our net sales.

COOLER THAN NORMAL SUMMERS AND WARMER THAN NORMAL WINTERS MAY DEPRESS OUR SALES

Demand for our products and for our services is strongly affected by the weather. Hotter than normal summers generate strong demand for our replacement air conditioning and refrigeration products and colder than normal winters have the same effect on our heating products. Conversely, cooler than normal summers and warmer than normal winters depress our sales. Because a high percentage of our overhead and operating expenses are relatively fixed throughout the year, operating earnings and net earnings tend to be lower in quarters with lower sales.

WE MAY NOT BE ABLE TO COMPETE FAVORABLY IN THE HIGHLY COMPETITIVE HVACR BUSINESS

Competition in our various markets could cause us to reduce our prices or lose market share, or could negatively affect our cash flow, which could have an adverse effect on our future financial results. Substantially all of the markets in which we participate are highly competitive. The most significant competitive factors we face are product reliability, product performance, service and price, with the relative importance of these factors varying among our product lines. In addition, in our new distribution channel in which we will sell our products directly to consumers, we face competition from independent dealers and dealers owned by consolidators and utility companies, some of whom may be able to provide their products or services at lower prices than we can.

WE MAY BE ADVERSELY AFFECTED BY PROBLEMS IN THE AVAILABILITY OF OR INCREASES IN THE PRICES OF COMPONENTS AND RAW MATERIALS

Increases in the prices of raw materials or components or problems in their availability could depress our sales or increase the costs of our products. We are dependent upon components purchased from third parties as well as raw materials such as copper, aluminum and steel. We enter into contracts each year for the supply of key components at fixed prices. However, if a key supplier is unable or unwilling to meet our supply requirements, we could experience supply interruptions or cost increases, either of which could have an adverse effect on our gross profit. In addition, we regularly pre-purchase a portion of our raw materials at a fixed price each year to hedge against price fluctuations, but a large increase in raw materials prices could significantly increase the cost of our products.

THE PROFITABILITY OF OUR INTERNATIONAL OPERATIONS COULD BE ADVERSELY AFFECTED BY ECONOMIC TURMOIL, WAR OR CIVIL UNREST

Our international operations are subject to various economic, political and other risks that are generally not present in our North American operations. International risks include:

- instability of foreign economies and governments;
- price and currency exchange controls;
- unfavorable changes in monetary and tax policies and other regulatory changes;
- fluctuations in the relative value of currencies;
- expropriation and nationalization of our foreign assets; and
- war and civil unrest.

We sell products in over 70 countries and have business units located in Europe, Asia Pacific, Latin America and Mexico. Sales of our products outside of the U.S. represented approximately 19.2% of our 1998 net sales. We anticipate that, over time, international sales will continue to grow as a percentage of our total sales.

OUR OPERATIONS ARE SUBJECT TO INHERENT RISKS THAT COULD RESULT IN LOSS OF LIFE OR SEVERE DAMAGE TO OUR PROPERTIES AND THE SUSPENSION OF OPERATIONS

Our operations are subject to hazards and risks inherent in operating large manufacturing facilities, including fires, natural disasters and explosions, all of which can result in loss of life or severe damage to our properties and the suspension of operations. We maintain business interruption and other types of property insurance as protection against operating hazards. The occurrence of a significant event not fully covered by insurance could have an adverse effect on our profitability.

SINCE A SIGNIFICANT PERCENTAGE OF OUR WORKFORCE IS UNIONIZED, WE FACE RISKS OF WORK STOPPAGES AND OTHER LABOR RELATIONS PROBLEMS

We are subject to a risk of work stoppage and other labor relations matters because a significant percentage of our workforce is unionized. As of December 31, 1998, approximately 30% of our workforce was unionized. Within the U.S., we currently have eight manufacturing facilities and five distribution centers, along with our North American Parts Center in Des Moines, Iowa, with collective bargaining agreements ranging from three to eight years in length. Of our significant manufacturing facilities, the contract at our Lynwood, California facility expires in December 1999. Following the expiration of the collective bargaining agreement in April 1999, we experienced a work stoppage at our Bellevue, Ohio factory for three weeks in May 1999. This facility has a new collective bargaining agreement that expires April 2002. Outside of the U.S., we have 12 significant facilities that are represented by unions. The agreement for our manufacturing facility in Toronto, Ontario expired in April 1999 and the agreement for our facility in Laval, Quebec expires in December 1999. As has been the case in the past, the employees at our Toronto facility are continuing to work under the expired contract pending negotiation of a new agreement. As we expand our operations, we are subject to increased unionization of our workforce. The results of future negotiations with these unions, including the effects of any production interruptions or labor stoppages, could have an adverse effect on our future financial results. You should read "Business -- Employees" for a more complete discussion of our collective bargaining agreements.

EXPOSURE TO ENVIRONMENTAL LIABILITIES COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS

Our future profitability could be adversely affected by current or future environmental laws. We are subject to extensive and changing federal, state and local laws and regulations designed to protect the environment in the U.S. and in other parts of the world. These laws and regulations could impose liability for remediation costs or result in civil or criminal penalties in cases of non-compliance. Compliance with environmental laws increases our costs of doing business. Because these laws are subject to frequent change, we are unable to predict the future costs resulting from environmental compliance.

The U.S. and other countries have established programs for limiting the production, importation and use of certain ozone depleting chemicals, including refrigerants used by us in most of our air conditioning and refrigeration products. Some categories of these refrigerants have been banned completely and others are currently scheduled to be phased out in the U.S. by the year 2030. The U.S. is under pressure from the international environmental community to accelerate the current 2030 deadline. In Europe, this phaseout may occur even sooner. The industry's failure to find suitable replacement refrigerants for substances that have been or will be banned or the acceleration of any phase out schedules for these substances by governments could have an adverse effect on our future financial results. You should read "Business -- Regulation" for a more complete discussion of environmental regulations which affect our business.

WE MAY BE ADVERSELY IMPACTED BY THE YEAR 2000 AND THE CONVERSION OF OUR MANAGEMENT INFORMATION SYSTEMS TO DISTRIBUTED PROCESSING SYSTEMS

Year 2000 problems might require us to incur unanticipated expenses or experience interruptions of operations that could have an adverse effect on our future sales and profitability. In 1996, we began converting all of our major domestic management information systems from mainframe systems to distributed processing systems. In order to avoid disruption to our operations, we have conducted the conversion on a phased basis.

We anticipate that our major domestic operations will be supported by distributed processing by the end of 1999. In addition, we have and will continue to make investments in our computer systems and applications in an effort to ensure that they are Year 2000 compliant. However, we may experience interruptions of operations because of problems in implementing distributed processing or because of Year 2000 problems within our company. Our suppliers or customers might experience Year 2000 problems. You should read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000 Compliance" and "Business -- Information Systems" for a more complete discussion of our systems upgrade and Year 2000 compliance initiative.

THE NORRIS FAMILY WILL BE ABLE TO EXERCISE SIGNIFICANT CONTROL OVER OUR COMPANY

The ability of the Norris family to exercise significant control over Lennox may discourage, delay or prevent a takeover attempt that a stockholder might consider in his or her best interest and that might result in a stockholder receiving a premium for his or her common stock. Following the closing of the offering, approximately 110 descendants of or persons otherwise related to D.W. Norris, one of our original owners, will be able to collectively control % of the outstanding shares of our common stock. Accordingly, if the Norris family were to act together, it would have the ability to:

- control the vote of most matters submitted to our stockholders, including any merger, consolidation or sale of all or substantially all of our assets;

- elect all of the members of our board of directors;

- prevent or cause a change in control of our company; and

- decide whether to issue additional common stock or other securities or declare dividends.

RISK FACTORS RELATING TO SECURITIES MARKETS

There are risks relating to the securities markets that you should consider in connection with your investment in and ownership of our stock.

ANTI-TAKEOVER PROVISIONS IN OUR GOVERNING DOCUMENTS AND DELAWARE LAW COULD PREVENT OR DELAY A CHANGE IN CONTROL OF OUR COMPANY

Our governing documents contain provisions that make it more difficult to implement corporate actions that may have the effect of delaying, deterring or preventing a change in control. A stockholder might consider a change in control in his or her best interest because he or she might receive a premium for his or her common stock. Examples of these provisions include:

- a vote of more than 80% of the outstanding voting stock is required for stockholders to amend specified provisions of the governing documents;

- our board of directors is divided into three classes, each serving three-year terms;

- members of our board of directors may be removed only for cause and only upon the affirmative vote of at least 80% of the outstanding voting stock; and

- a vote of more than 80% of the outstanding voting stock is required to approve specified transactions between us and any person or group that owns at least 10% of our voting stock.

Our board of directors has the ability, without stockholder action, to issue shares of preferred stock that could, depending on their terms, delay, discourage or prevent a change in control of Lennox. In addition, the Delaware General Corporation Law, under which we are incorporated, contains provisions that impose restrictions on business combinations such as mergers between us and a holder of 15% or more of our voting stock. You should read the "Description of Capital Stock" section for a more complete description of these provisions.

A SUBSTANTIAL NUMBER OF OUR SHARES WILL BE AVAILABLE FOR SALE IN THE PUBLIC MARKET AFTER THE
OFFERING AND SALES OF THOSE SHARES COULD ADVERSELY AFFECT OUR STOCK PRICE

Sales of a substantial number of shares of our common stock into the public market after the offering, or the perception that these sales could occur, could adversely affect our stock price or could impair our ability to obtain capital through an offering of equity securities. After the offering, we will have outstanding shares of common stock. Of these shares, the shares sold in this offering will be freely tradeable without restriction or further registration under the Securities Act of 1933, except for any shares purchased by our "affiliates" as that term is defined by Rule 144. The remaining shares of common stock outstanding, which will represent % of the total outstanding shares of common stock, will be "restricted" as that term is defined by Rule 144. You should read the "Shares Eligible For Future Sale" section for a more complete discussion of these matters.

BECAUSE THERE HAS BEEN NO PRIOR PUBLIC MARKET FOR OUR COMMON STOCK, OUR STOCK PRICE MAY FLUCTUATE SIGNIFICANTLY AFTER THE OFFERING AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT AS A RESULT

Prior to the offering, there has been no public market for our common stock. We do not know how our common stock will trade in the future. The initial public offering price will be determined through negotiations between the underwriters and us. You may not be able to resell your shares at or above the initial public offering price as the price of our common stock may be affected by a number of factors, including:

- actual or anticipated fluctuations in our operating results;

- changes in expectations as to our future financial performance or changes in financial estimates of securities analysts;

- announcements of new products or technological innovations; and

- the operating and stock price performance of other comparable companies.

In addition, the stock market in general has experienced extreme volatility that often has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may adversely affect the trading price of our common stock, regardless of our actual operating performance.

You should read the "Underwriters" section for a more complete discussion of the factors considered in determining the initial public offering price.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," and elsewhere in this prospectus constitute forward-looking statements. These statements relate to future events or our future financial performance. In come cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined under "Risk Factors." These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these statements. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results.

## USE OF PROCEEDS

We estimate that our net proceeds from the sale of our common stock in the offering, after deducting estimated expenses of $ million and underwriting discounts and commissions, will be approximately $ million, or approximately $ million if the underwriters exercise their over-allotment option in full, at an assumed initial public offering price of $ per share. We will use all of the proceeds from the offering to repay a portion of the borrowings under our revolving credit facility and term credit agreement. Borrowing availability under our revolving credit facility will be used:

- to fund some of the cash portion of the purchase of additional dealers and for other acquisitions;
- to provide working capital for our expanded operations;
- to fund capital expenditures; and
- for other general corporate purposes.

As of May 20, 1999, approximately $125 million was outstanding under our revolving credit facility at an average interest rate of 5.2% and approximately $80 million was outstanding under our term credit agreement at an interest rate of 6.0%. Borrowings under our revolving credit facility and term credit agreement, along with cash flow from operations, were used for:

- seasonal working capital needs;
- the acquisitions of the hearth products companies;
- the acquisitions of heating and air conditioning dealers in Canada;
- certain international acquisitions, including McQuay do Brasil S.A.;
- the acquisition of Livernois Engineering Holding Company and its licensed patents; and
- expenses incurred in our Pulse inspection program.

For more information about our revolving credit facility and term credit agreement, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

We will not receive any proceeds from the sale of common stock offered by the selling stockholders.

## DIVIDEND POLICY

We paid cash dividends of $ , $ and $ per share on our common stock during 1996, 1997 and 1998, respectively. We anticipate that we will continue to pay cash dividends on our common stock, but any future determination as to the payment or amount of dividends will depend upon our future results of operations, capital requirements, financial condition and other factors as our board of directors may consider. In addition, our revolving credit facility, term credit agreement and our other debt instruments prohibit the payment of dividends unless we can incur $1.00 of additional indebtedness according to the terms of these instruments. For more information about our debt instruments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

## CAPITALIZATION

The following table presents our cash and cash equivalents, short-term debt and capitalization as of March 31, 1999 and as adjusted to give effect to the offering and the use of the net proceeds as described under "Use of Proceeds." The outstanding share information excludes shares of common stock issuable upon the exercise of outstanding options as of March 31, 1999. You should read the information presented below together with our consolidated financial statements and notes, "Selected Financial and Other Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Management -- 1998 Incentive Plan" included elsewhere in this prospectus.

| | MARCH 31, 1999 | |
|---|---|---|
| | ACTUAL | AS ADJUSTED |
| | (DOLLARS IN THOUSANDS) | |
| Cash and cash equivalents | $ 30,262 | |
| Short-term debt (including current maturities of long-term debt) | $216,426 | |
| Long-term debt | $233,495 | |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value, 25,000,000 shares authorized, no shares issued or outstanding | -- | -- |
| Common stock, $.01 par value, 200,000,000 shares authorized, shares issued and outstanding actual and shares as adjusted | 11 | |
| Additional paid-in capital | 33,431 | |
| Retained earnings | 354,444 | |
| Currency translation adjustments | (13,567) | |
| Total stockholders' equity | 374,319 | |
| Total capitalization | $607,814 | |

## DILUTION

Our net tangible book value as of March 31, 1999 was approximately $ million or $ per share of common stock. Net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of common stock issued and outstanding. After giving effect to the sale of the shares of common stock offered by us at an assumed initial public offering price of $ per share and the use of the net proceeds as described under "Use of Proceeds", our pro forma net tangible book value as of March 31, 1999 would have been $ million, or $ per share. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors.

The following table illustrates this per share dilution:

| | | |
|---|---|---|
| Assumed initial public offering price | | $ |
| Net tangible book value before the offering | $ | |
| Increase in pro forma net tangible book value attributable to new investors | | |
| Pro forma net tangible book value after the offering | | |
| Dilution to new investors | | $ |

The following table summarizes, on a pro forma basis as of March 31, 1999, the differences in the total consideration paid and the average price per share paid by our existing stockholders and by purchasers of the shares of common stock in the offering:

| | SHARES PURCHASED | | TOTAL CONSIDERATION | | AVERAGE PRICE PER SHARE |
|---|---|---|---|---|---|
| | NUMBER | PERCENT | AMOUNT | PERCENT | |
| Existing stockholders | | % | $ | % | $ |
| New investors | | % | | % | |
| Total | | % | $ | % | |

The computations in the tables above exclude shares of common stock issuable upon exercise of stock options substantially all of which were awarded under our stock option plans. For more information on our stock option plans, see "Management -- 1998 Incentive Plan."

## SELECTED FINANCIAL AND OTHER DATA

The following selected financial and other data for each of the years in the five-year period ended December 31, 1998 have been derived from our financial statements which have been audited by Arthur Andersen LLP. The summary financial and other data for each of the three months ended March 31, 1998 and 1999 are derived from our unaudited financial statements which, in our opinion, have been prepared on the same basis as the audited financial statements and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such information. Our fiscal quarters are each comprised of 13 weeks. For convenience, the 13-week periods ended April 4, 1998 and April 3, 1999 are referred to as the three months ended March 31, 1998 and 1999, respectively. Effective September 30, 1997 we increased our ownership of Ets. Brancher, our European joint venture, from 50% to 70% and, accordingly, changed our accounting method of recognizing this investment from the equity method to the consolidation method. You should read "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and notes included elsewhere in this prospectus for a further explanation of the financial data summarized here.

| | YEAR ENDED DECEMBER 31, | | | | | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1998 | 1999 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | | | |
| STATEMENT OF OPERATIONS DATA: | | | | | | | |
| Net sales | $1,168,099 | $1,306,999 | $1,364,546 | $1,444,442 | $1,821,836 | $ 379,646 | $ 489,059 |
| Cost of goods sold | 815,511 | 946,881 | 961,696 | 1,005,913 | 1,245,623 | 261,802 | 337,481 |
| Gross profit | 352,588 | 360,118 | 402,850 | 438,529 | 576,213 | 117,844 | 151,578 |
| Selling, general and administrative expenses | 273,421 | 285,938 | 298,049 | 326,280 | 461,143 | 97,255 | 129,268 |
| Other operating expense, net | 7,460 | 2,555 | 4,213 | 7,488 | 8,467 | 2,612 | 2,518 |
| Product inspection charge(1) | -- | -- | -- | 140,000 | -- | -- | -- |
| Income (loss) from operations | 71,707 | 71,625 | 100,588 | (35,239) | 106,603 | 17,977 | 19,792 |
| Interest expense, net | 20,830 | 20,615 | 13,417 | 8,515 | 16,184 | 2,620 | 6,558 |
| Other | 836 | (622) | (943) | 1,955 | 1,602 | 230 | (211) |
| Minority interest | -- | -- | -- | (666) | (869) | (502) | (516) |
| Income (loss) before income taxes | 50,041 | 51,632 | 88,114 | (45,043) | 89,686 | 15,629 | 13,961 |
| Provision (benefit) for income taxes | 19,286 | 17,480 | 33,388 | (11,493) | 37,161 | 7,323 | 7,331 |
| Net income (loss) | $ 30,755 | $ 34,152 | $ 54,726 | $ (33,550) | $ 52,525 | $ 8,306 | $ 6,630 |
| Earnings (loss) per share: | | | | | | | |
| Basic | | | | | | | |
| Diluted | | | | | | | |
| Weighted average shares outstanding: | | | | | | | |
| Basic | | | | | | | |
| Diluted | | | | | | | |
| Dividends per share | | | | | | | |
| OTHER DATA: | | | | | | | |
| Depreciation and amortization | 32,896 | 32,212 | 34,149 | 33,430 | 43,545 | 9,787 | 13,502 |
| Capital expenditures | 36,189 | 26,675 | 31,903 | 34,581 | 52,435 | 12,316 | 20,050 |
| Research and development expenses | 22,773 | 22,682 | 23,235 | 25,444 | 33,260 | 7,376 | 9,567 |

| | DECEMBER 31, | | | | | MARCH 31, | |
|---|---|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1998 | 1999 |
| | (IN THOUSANDS) | | | | | | |
| BALANCE SHEET DATA: | | | | | | | |
| Cash and cash equivalents | $ 2,980 | $ 73,811 | $ 151,877 | $ 147,802 | $ 28,389 | $ 171,624 | $ 30,262 |
| Working capital | 252,301 | 307,502 | 325,956 | 335,891 | 263,289 | 404,738 | 215,279 |
| Total assets | 737,528 | 768,517 | 820,653 | 970,892 | 1,152,952 | 1,043,581 | 1,292,534 |
| Total debt | 243,480 | 219,346 | 184,756 | 198,530 | 317,441 | 272,120 | 449,921 |
| Stockholders' equity | 286,849 | 315,313 | 361,464 | 325,478 | 376,440 | 333,734 | 374,319 |

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(1) Represents a pre-tax charge taken in the fourth quarter of 1997 for

estimated costs of an inspection program for our Pulse furnaces installed from 1982 to 1990 in the U.S. and Canada. We initiated the inspection program because we received anecdotal reports of accelerated corrosion of a component of these products under extreme operating conditions. We periodically review the reserve balance and at this time we believe the remaining reserve of $13.6 million at March 31, 1999 will be adequate to cover the remaining costs associated with this inspection program. This program ends on June 30, 1999.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We participate in four reportable business segments of the HVACR industry. The first segment is the North American residential market in which we manufacture and market a full line of heating, air conditioning and hearth products for the residential replacement and new construction markets in the U.S. and Canada. The North American residential segment also includes installation, maintenance and repair services performed by Lennox-owned dealers. The second segment is the global commercial air conditioning market in which we manufacture and sell rooftop products and applied systems for commercial applications. The third segment is the global commercial refrigeration market which consists of unit coolers, condensing units and other commercial refrigeration products. The fourth segment is the heat transfer market in which we design, manufacture and sell evaporator and condenser coils, copper tubing and related manufacturing equipment to original equipment manufacturers and other specialty purchasers on a global basis.

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

The principal components of cost of goods sold are labor, raw materials, component costs, factory overhead and estimated costs of warranty expense. The principal raw materials used in our manufacturing processes are copper, aluminum and steel. In instances where we are unable to pass on to our customers increases in the costs of copper and aluminum, we enter into forward contracts for the purchase of such materials. We have forward commitments for the substantial majority of our internal needs of aluminum through December 1999 and copper through December 2000. We attempt to minimize the risk of price fluctuations in key components by entering into contracts, typically at the beginning of the year, which generally provide for fixed prices for our needs throughout the year. These hedging strategies enable us to establish product prices for the entire model year while minimizing the impact of price increases of components and raw materials on our margins. Warranty expense is estimated based on historical trends and other factors.

Following the expiration of the collective bargaining agreement in April 1999, we experienced a work stoppage at our Bellevue, Ohio factory for three weeks in May 1999. This factory manufactures our "Armstrong Air" brand of residential heating and air conditioning products for the North American market. We had accumulated additional inventory levels in anticipation of a possible work stoppage. Through the use of management personnel we continued limited production from this factory during this period. As a result, we were generally able to meet the majority of our customer orders. We do not believe that we suffered any damage to our relationships with our customers. On May 20, 1999, the union at the Bellevue, Ohio factory ratified a new collective bargaining agreement that expires April 2002 and this factory resumed full production within two business days.

In September 1997, we increased our ownership in Ets. Brancher from 50% to 70%. As a result, we assumed control of the venture and began consolidating the financial position and operating results of the venture in the fourth quarter of 1997. Previously, we used the equity method of accounting for our investment in this entity. In the fourth quarter of 1998, we restructured our ownership of our various European entities to allow for more efficient transfer of funds and to provide for tax optimization. Although our European operations contributed to revenue, they had an operating loss in 1997, 1998 and the first quarter of 1999, primarily due to the performance of the commercial air conditioning business. In the second half of 1998, we

commenced and substantially completed the installation of a new management team for our European operations. We are in the process of bringing our manufacturing and operating expertise to the European businesses.

We acquired Superior Fireplace Company, Marco Mfg., Inc. and Pyro Industries, Inc. in the third quarter of 1998 and Security Chimneys International, Ltd. in the first quarter of 1999 for an aggregate purchase price of approximately $120 million. These acquisitions give us one of the broadest lines of hearth products in the industry. These businesses had aggregate revenues of approximately $150 million in 1998, $68.6 million of which was reflected in our 1998 net sales.

We recently initiated a program to acquire high quality heating and air conditioning dealers in metropolitan areas in the U.S. and Canada to market "Lennox" and other brands of heating and air conditioning products. This strategy will enable us to extend our distribution directly to the consumer and permit us to participate in the revenues and margins available at the retail level while strengthening and protecting our brand equity. We believe that the retail sales and service market represents a significant growth opportunity because this market is large and highly fragmented. The retail sales and service market in the U.S. is comprised of over 30,000 dealers. In addition, we believe that the heating and air conditioning service business is somewhat less seasonal than the business of manufacturing and selling heating and air conditioning products. As of May 18, 1999, we had acquired 43 dealers in Canada for an aggregate purchase price of approximately $62 million and had signed letters of intent to acquire ten additional Canadian dealers and two U.S. dealers for an aggregate purchase price of approximately $27 million. As we acquire more heating and air conditioning dealers, we expect that we will incur additional costs to expand our infrastructure to effectively manage these businesses.

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

RESULTS OF OPERATIONS

The following table sets forth, as a percentage of net sales, our statement of income data for the years ended December 31, 1996, 1997 and 1998 and the three months ended March 31, 1998 and 1999.

| | YEAR ENDED DECEMBER 31, | | | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1998 | 1999 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 70.5 | 69.6 | 68.4 | 69.0 | 69.0 |
| Gross profit | 29.5 | 30.4 | 31.6 | 31.0 | 31.0 |
| Selling, general and administrative expenses | 21.8 | 22.6 | 25.3 | 25.6 | 26.5 |
| Other operating expense, net | 0.3 | 0.5 | 0.4 | 0.7 | 0.5 |
| Product inspection charge | -- | 9.7 | -- | -- | -- |
| Income (loss) from operations | 7.4 | (2.4) | 5.9 | 4.7 | 4.0 |
| Interest expense, net | 1.0 | 0.6 | 0.9 | 0.6 | 1.2 |
| Other | (0.1) | 0.1 | 0.1 | 0.1 | 0.0 |
| Minority interest | -- | 0.0 | 0.0 | (0.1) | (0.1) |
| Income (loss) before income taxes | 6.5 | (3.1) | 4.9 | 4.1 | 2.9 |
| Provision (benefit) for income taxes | 2.5 | (0.8) | 2.0 | 1.9 | 1.5 |
| Net income (loss) | 4.0% | (2.3)% | 2.9% | 2.2% | 1.4% |

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

| | YEARS ENDED DECEMBER 31, | | | | | | THREE MONTHS ENDED MARCH 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1996 | | 1997 | | 1998 | | 1998 | | 1999 | |
| | AMOUNT | % | AMOUNT | % | AMOUNT | % | AMOUNT | % | AMOUNT | % |
| BUSINESS SEGMENT: | | | | | | | | | | |
| North American residential | $ 857.1 | 62.8% | $ 865.1 | 59.9% | $1,013.7 | 55.7% | $203.6 | 53.6% | $284.9 | 58.3% |
| Commercial air conditioning | 228.9 | 16.8 | 278.8 | 19.3 | 392.1 | 21.5 | 81.8 | 21.6 | 92.5 | 18.9 |
| Commercial refrigeration | 135.6 | 9.9 | 154.3 | 10.7 | 237.3 | 13.0 | 47.9 | 12.6 | 61.6 | 12.6 |
| Heat transfer | 142.9 | 10.5 | 146.2 | 10.1 | 178.7 | 9.8 | 46.3 | 12.2 | 50.0 | 10.2 |
| Total net sales | $1,364.5 | 100.0% | $1,444.4 | 100.0% | $1,821.8 | 100.0% | $379.6 | 100.0% | $489.0 | 100.0% |
| GEOGRAPHIC MARKET: | | | | | | | | | | |
| U.S. | $1,252.5 | 91.8% | $1,274.9 | 88.3% | $1,472.3 | 80.8% | $304.8 | 80.3% | $383.1 | 78.3% |
| International | 112.0 | 8.2 | 169.5 | 11.7 | 349.5 | 19.2 | 74.8 | 19.7 | 105.9 | 21.7 |
| Total net sales | $1,364.5 | 100.0% | $1,444.4 | 100.0% | $1,821.8 | 100.0% | $379.6 | 100.0% | $489.0 | 100.0% |

THREE MONTHS ENDED MARCH 31, 1999 COMPARED TO THREE MONTHS ENDED MARCH 31, 1998

Net sales. Net sales increased $109.4 million, or 28.8%, to $489.0 million for the three months ended March 31, 1999 from $379.6 million for the three months ended March 31, 1998.

Net sales related to the North American residential segment were $284.9 million during the three months ended March 31, 1999, an increase of $81.3 million, or 39.9%, from $203.6 million for the corresponding three months in 1998. Of the $81.3 million increase, $35.9 million was due to sales from the hearth products acquisitions which occurred in the third quarter of 1998 and the first quarter of 1999, $16.7 million was due to sales from our Canadian dealers and $5.5 million was due to sales from acquired heating and air conditioning distributors. The remaining $23.2 million increase in North American residential net sales was primarily due to an 11.4% increase in sales of our existing businesses, almost all of which resulted from increased sales volumes, principally caused by three factors. First, the hot summer in 1998 depleted the inventory levels at our distributors and they increased their purchases in the first quarter of 1999 to refill their inventories. Second, we offered our Armstrong distributors preferential credit terms to encourage them to accumulate inventory in anticipation of a possible work stoppage at our Bellevue, Ohio factory. Third, our volume increased as a result of sales to new dealers, which were added as a result of programs to expand our dealer base.

Commercial air conditioning net sales increased $10.7 million, or 13.1%, to $92.5 million for the three months ended March 31, 1999 compared to the corresponding three months in 1998. Of this increase, $8.5 million was due to increased sales volumes in North America primarily due to the effectiveness of recently established commercial sales districts. Net sales related to the commercial refrigeration segment were $61.6 million during the three months ended March 31, 1999, an increase of $13.7 million, or 28.6%, from $47.9 million for the corresponding three months in 1998. McQuay do Brasil, which we acquired in September 1998, contributed $3.3 million to commercial refrigeration revenues in the first quarter of 1999 and Lovelock Luke Pty. Limited, which we acquired in December 1998, contributed $10.5 million. North American commercial refrigeration sales increased $3.3 million primarily due to strong sales volumes to our supermarket customers and increased activity with our large distributors, while sales in Europe decreased $3.4 million as compared to the prior period principally due to reduced sales in Russia and Eastern Europe. Heat transfer revenues increased $3.7 million, or 8.0%, to $50.0 million for the three months ended March 31, 1999 compared to the corresponding three months in 1998. This increase was primarily due to increased sales volumes to original equipment manufacturers in North America.

Domestic sales increased $78.3 million, or 25.7%, to $383.1 million for the first quarter of 1999 from $304.8 million for the first quarter of 1998. International sales increased $31.1 million, or 41.6%, to $105.9 million for the first quarter of 1999 from $74.8 million for the first quarter of 1998. Sales in Brazil for the first quarter of 1999 were $3.3 million but would have been approximately $6.5 million if devaluation of the Brazilian currency had not occurred in this quarter. As a result of the devaluation, we had to reduce the carrying value of our Brazilian investment by $5.9 million.

Gross profit. Gross profit was $151.6 million for the three months ended March 31, 1999 as compared to $117.8 million for the three months ended March 31, 1998, an increase of $33.8 million. Gross profit margin was 31.0% for both the three months ended March 31, 1999 and 1998. The increase of $33.8 million in gross profit was primarily attributable to increased sales in the 1999 period as compared to 1998. Gross profit margin remained unchanged for the 1999 period because there were no substantive price increases for our products for the 1999 period, and improvements due to lower raw material costs, improved manufacturing processes and increased overhead absorption associated with higher volumes of sales were offset by increases in labor and overhead costs.

Selling, general and administrative expenses. Selling, general and administrative expenses were $129.3 million for the three months ended March 31, 1999, an increase of $32.0 million, or 32.9%, from $97.3 million for the three months ended March 31, 1998. Selling, general and administrative expenses represented 26.5% and 25.6% of total net revenues for the first three months of 1999 and 1998, respectively. Of the $32.0 million increase, $18.5 million, or 57.8%, was related to increased infrastructure associated with acquisitions. Of the remaining $13.5 million increase, $9.5 million was due to increases in selling, general and administrative expenses for the North American residential segment which was primarily comprised of increases in costs due to additions of personnel, increased information technology costs and increased sales and marketing expenses. The remaining $4.0 million increase in selling, general and administrative expenses for the 1999 period related primarily to infrastructure investments in Europe and Asia and normal inflationary adjustments.

Other operating expense, net. Other operating expense, net totaled $2.5 million for the three months ended March 31, 1999, a decrease of $0.1 million from $2.6 million for the corresponding three months in 1998. Other operating expense, net is comprised of (income) loss from joint ventures, amortization of goodwill, and other intangibles and miscellaneous items. Increases in goodwill amortization were generally offset by decreases in miscellaneous expenses and a slight reduction in losses from joint ventures.

Income from operations. Income from operations was $19.8 million for the three months ended March 31, 1999 compared to $18.0 million for the three months ended March 31, 1998. Income from operations represented 4.0% and 4.7% of net sales for the three months ended March 31, 1999 and 1998, respectively.

Domestic income from operations was $21.8 million during the three months ended March 31, 1999, an increase of 16.0% from $18.8 million during the corresponding period in 1998. International income (loss) from operations was $(2.0) million during the 1999 period and $(0.8) million during the 1998 period.

Interest expense, net. Interest expense, net for the three months ended March 31, 1999 increased to $6.6 million from $2.6 million for the same period in 1998. Of the $4.0 million increase in interest expense, $1.7 million was due to the incurrence of $75 million in additional long-term borrowings in April 1998 and $2.3 million was due to increased usage of our credit lines. Short-term borrowing increased in the first quarter of 1999 as a result of acquisitions, payments related to the Pulse inspection program and increased working capital for seasonal needs.

Other. Other expense (income) was $(0.2) million for the three months ended March 31, 1999 and $0.2 million for the three months ended March 31, 1998. Other expense is primarily comprised of currency exchange gains or losses. The majority of the improvement in other expense (income) was due to the strengthening of the Canadian dollar.

Minority interest. Minority interest in subsidiaries' net losses of $(0.5) million for both the three months ended March 31, 1999 and 1998 represents the minority interest in Ets. Brancher and, for 1999, McQuay do Brasil.

Provision for income taxes. The provision for income taxes was $7.3 million for both the three months ended March 31, 1999 and 1998. The effective tax rate of 52.5% and 46.9% for the three months ended March 31, 1999 and 1998, respectively, differs from the statutory federal rate of 35.0% principally due to state and local taxes and valuation reserves provided for foreign operating losses. No tax benefits are being

recognized for our tax loss carryforwards in Europe, which will not be used until our operations in Europe are profitable.

Net income. Net income was $6.6 million and $8.3 million for the three months ended March 31, 1999 and 1998, respectively. Net income represented 1.4% and 2.2% of net sales for the three months ended March 31, 1999 and 1998, respectively.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Net sales. Net sales increased $377.4 million, or 26.1%, to $1,821.8 million for the year ended December 31, 1998 from $1,444.4 million for the year ended December 31, 1997. If the effect of the consolidation of Ets. Brancher is excluded, net sales would have increased by $226.7 million, or 16.1%, to $1,630.9 million for 1998 as compared to 1997.

Net sales related to the North American residential segment were $1,013.7 million during 1998, an increase of 17.2% from $865.1 million for 1997. This increase was primarily due to increased unit sales of "Lennox" and "Armstrong Air" brands of heating and air conditioning equipment and the inclusion of $68.6 million of sales beginning in the third quarter of 1998 of the hearth products companies. Hot weather in the spring of 1998 and an expanded dealer and distributor base led to greater sales of the "Lennox" and "Armstrong Air" brands. Commercial air conditioning revenues increased $113.3 million, or 40.6%, to $392.1 million for 1998 compared to 1997. If the effect of the consolidation of Ets. Brancher is excluded, commercial air conditioning revenues would have increased $46.5 million, or 17.9%, to $306.1 million for 1998 as compared to 1997. This increase was primarily due to increased volumes of rooftop air conditioner sales in the U.S. and Canada. Net sales related to the commercial refrigeration segment were $237.3 million during 1998, an increase of 53.8% from $154.3 million for 1997. If the effect of the consolidation of Ets. Brancher is excluded, net sales related to the commercial refrigeration products segment would have increased $20.2 million, or 14.8%, to $156.8 million for 1998 as compared to 1997. This increase is primarily caused by sales volume increases due to hot weather in North America in 1998 and the acquisition of McQuay do Brasil in September 1998. Heat transfer revenues increased $32.5 million, or 22.3%, to $178.7 million for 1998 compared to 1997. If the effect of the consolidation of Ets. Brancher is excluded, heat transfer revenues would have increased $11.4 million, or 8.0%, to $154.3 million for 1998 as compared to 1997. This increase is primarily caused by sales volume increases due to hot weather in North America in 1998.

Domestic sales increased $197.4 million, or 15.5%, to $1,472.3 million for 1998 from $1,274.9 million for 1997. Of this increase, $68.6 million is due to the inclusion of the hearth products companies and the balance was caused primarily by increased unit sales of "Lennox" and "Armstrong Air" brands due to the hot weather in 1998 and an expanded dealer and distributor base for these brands. International sales increased $180.0 million, or 106.2%, to $349.5 million for 1998 from $169.5 million for 1997. Of this increase, $150.7 million is due to the consolidation of Ets. Brancher and the remainder is primarily due to the acquisition of McQuay do Brasil and Lovelock Luke.

Gross profit. Gross profit was $576.2 million for the year ended December 31, 1998 as compared to $438.5 million for the year ended December 31, 1997, an increase of $137.7 million. Gross profit margin increased to 31.6% in 1998 from 30.4% for 1997. The increase of $137.7 million in gross profit was primarily attributable to increased sales in 1998 as compared to 1997 and the effect of the consolidation of Ets. Brancher for the full year. Ets. Brancher contributed $47.7 million and $11.2 million to gross profit in 1998 and 1997, respectively, and its gross profit margin was 25.0% and 27.9% in 1998 and 1997, respectively. If the effect of the consolidation of Ets. Brancher is excluded, gross profit margin would have been 32.4% and 30.4% for 1998 and 1997, respectively. The improved gross profit margin for 1998 is due to lower material costs, improved manufacturing processes and increased overhead absorption associated with the higher volume of sales in North America.

Selling, general and administrative expenses. Selling, general and administrative expenses were $461.1 million for 1998, an increase of $134.8 million, or 41.3%, from $326.3 million for 1997. Selling, general and administrative expenses represented 25.3% and 22.6% of total net revenues for 1998 and 1997, respectively. If the effect of the consolidation of Ets. Brancher is excluded, selling, general and administrative

expenses would have been $413.9 million for 1998, an increase of $99.8 million, or 31.8%, from $314.1 million for 1997, representing 25.4% and 22.4% of total net sales for 1998 and 1997, respectively. Approximately $16.7 million of the increase in selling, general and administrative expenses is composed of three non-recurring items: $7.1 million associated with the settlement of a lawsuit; approximately $5.0 million of incremental expense associated with the implementation of the SAP enterprise business software system; and $4.6 million associated with increased expenses of a terminated performance share plan. If the effect of these non-recurring items and the consolidation of Ets. Brancher is excluded, selling, general and administrative expenses would have been $397.2 million for 1998, an increase of $83.1 million, or 26.5%, from $314.1 million for 1997, representing 24.4% and 22.4% of total net sales for 1998 and 1997, respectively. The remaining increase in selling, general and administrative expenses is primarily due to increased variable costs associated with sales growth in North America and costs associated with creating infrastructure to manage international businesses, such as the establishment of a sales office in Singapore and the business development functions for our global operation.

Other operating expense, net. Other operating expense, net totaled $8.5 million for 1998, an increase of $1.1 million from $7.4 million for 1997. Other operating expense, net is comprised of (income) loss from joint ventures, amortization of goodwill and other intangibles and miscellaneous items. The $1.1 million increase is due to increases in amortization of goodwill of $1.7 million and losses from joint ventures of $1.3 million, partially offset by a decrease in other intangible and miscellaneous expense of $2.0 million.

Product inspection charge. In the fourth quarter of 1997, we recorded a non-recurring pre-tax charge of $140.0 million to provide for projected expenses of the product inspection program related to our Pulse furnace. We have offered the owners of all Pulse furnaces installed between 1982 and 1990 a subsidized inspection and a free carbon monoxide detector. The inspection includes a severe pressure test to determine the serviceability of the heat exchanger. If the heat exchanger does not pass the test, we will either replace the heat exchanger or offer a new furnace and subsidize the labor costs for installation. The cost required for the program depends on the number of furnaces located, the percentage of those that do not pass the pressure test and the replacement option chosen by the homeowner. We periodically review the reserve balance and at this time believe the remaining reserve of $27.3 million at December 31, 1998 will be adequate to cover the remaining costs associated with this inspection program. This program ends on June 30, 1999.

Income (loss) from operations. Income (loss) from operations was $106.6 million for 1998 compared to $(35.2) million for 1997. Excluding the Ets. Brancher consolidation, the special charge for the Pulse inspection program and the three non-recurring selling, general and administrative expense items mentioned above, income from operations would have been $122.6 million for 1998, or 7.5% of net sales, as compared to $106.1 million for 1997, or 7.6% of net sales.

Domestic income from operations was $108.7 million during 1998 as compared to a loss of $(38.8) million during 1997. International income (loss) from operations was $(2.1) million during 1998 and $3.6 million for 1997.

Interest expense, net. Interest expense, net for 1998 increased to $16.2 million from $8.5 million for 1997. Of the $7.7 million increase in interest expense, $3.6 million was due to the incurrence of $75 million in additional long-term borrowings in April 1998, $1.3 million was due to the consolidation of Ets. Brancher for the full year and the remainder was due to less interest income in 1998.

Other. Other expense was $1.6 million for 1998 and $2.0 million for 1997. Other expense is primarily comprised of currency exchange gains or losses.

Minority interest. Minority interest in subsidiaries' net loss of $(0.7) million in 1997 and $(0.9) million in 1998 represents the minority interest in Ets. Brancher and, for 1998, McQuay do Brasil.

Provision (benefit) for income taxes. The effective tax rates for the 1998 provision and the 1997 benefit were 41.4% and 25.5%, respectively. The effective tax rates differ from the federal statutory rate of 35% primarily due to state income taxes and valuation reserves provided for foreign operating losses.

Net income (loss). Net income (loss) was $52.5 million and $(33.6) million for the year ended December 31, 1998 and 1997, respectively. If the effects of the consolidation of Ets. Brancher and the non-recurring charge relating to the Pulse inspection program are excluded, net income would have been $52.9 million and $55.2 million for 1998 and 1997, representing 3.2% and 3.9% of net sales for 1998 and 1997, respectively.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Net sales. Net sales increased $79.9 million, or 5.9%, to $1,444.4 million for the year ended December 31, 1997 from $1,364.5 million for the year ended December 31, 1996. If the effect of the consolidation of Ets. Brancher is excluded, net sales would have increased by $39.7 million, or 2.9%, to $1,404.2 million for 1997 compared to 1996.

Net sales related to the North American residential segment were $865.1 million during 1997, an increase of 0.9% from $857.1 million for 1996. This increase was principally due to increases in the number of heating and air conditioning units sold by us, despite the fact that industry shipments were generally down 5% for 1997. The weather in 1997 was mild with a cool spring and modest winter over most of the U.S., and inventory levels for both dealers and distributors were higher than normal at the end of 1996. Commercial air conditioning revenues increased $49.9 million, or 21.8%, to $278.8 million for 1997 compared to 1996. Of the $49.9 million increase, 61.5% was due to increased volumes of rooftop air conditioner sales in North America and the balance was due to the consolidation of Ets. Brancher in the fourth quarter of 1997. Rooftop air conditioner business increased in 1997 principally due to focused sales efforts through commercial districts that we established early in 1997 as well as the continued roll out of the L Series rooftop product line. Net sales related to the commercial refrigeration segment were $154.3 million during 1997, an increase of 13.8% from $135.6 million for 1996. This increase was primarily due to the consolidation of Ets. Brancher in the fourth quarter of 1997. Heat transfer revenues increased $3.3 million, or 2.3%, to $146.2 million for 1997 compared to 1996. Ets. Brancher contributed $3.3 million to heat transfer product sales in 1997.

Domestic sales increased $22.4 million, or 1.8%, to $1,274.9 million for 1997 from $1,252.5 million for 1996 primarily due to the factors discussed above. International sales increased $57.5 million, or 51.3%, to $169.5 million for 1997 from $112.0 million for 1996. This increase is primarily due to the consolidation of Ets. Brancher in the last quarter of 1997.

Gross profit. Gross profit was $438.5 million for the year ended December 31, 1997 as compared to $402.9 million for the year ended December 31, 1996, an increase of $35.6 million. Gross profit margins were 30.4% and 29.5% for 1997 and 1996, respectively. The increase of $35.6 million in gross profit was primarily attributable to increased sales in 1997 and the effect of the consolidation of Ets. Brancher. Ets. Brancher contributed $11.2 million to gross profit in 1997, and its gross profit margin was 27.9%. If the effect of the consolidation of Ets. Brancher is excluded, gross profit margin would have remained the same for 1997.

Selling, general and administrative expenses. Selling, general and administrative expenses were $326.3 million for 1997, an increase of $28.3 million, or 9.5%, from $298.0 million for 1996. Selling, general and administrative expenses represented 22.6% and 21.8% of net sales for 1997 and 1996, respectively. Of the $28.3 million increase, $12.2 million was related to the consolidation of Ets. Brancher. Excluding the effect of the consolidation of Ets. Brancher, selling, general and administrative expenses would have represented 22.4% of net sales in 1997. The remaining $16.1 million increase in selling, general and administrative expenses related to expenses in establishing specialized commercial sales districts in North America, increased expenses related to a profit sharing plan and other variable cost increases associated with increased sales.

Other operating expense, net. Other operating expense, net totaled $7.4 million for 1997, an increase of $3.2 million from $4.2 million for 1996. In 1996, we recognized a non-recurring $4.6 million gain on the sale of a portion of our interest in Alliance Compressors, a joint venture to manufacture compressors. After the sale, we owned a 24.5% interest in Alliance Compressors.

Income (loss) from operations. Income (loss) from operations was $(35.2) million in 1997, a decrease of $135.8 million from $100.6 million in 1996. The $135.8 million decrease was primarily due to the

$140.0 million non-recurring pre-tax charge relating to the Pulse inspection program. Excluding the special charge for the Pulse inspection program and the consolidation of Ets. Brancher, income from operations would have been $106.1 million in 1997, representing 7.6% of net sales, the same percent as in 1996.

Domestic income (loss) from operations was $(38.8) million during 1997 as compared to $98.0 million during 1996. International income from operations was $3.6 million during 1997 and $2.6 million for 1996.

Interest expense, net. Interest expense, net for 1997 decreased to $8.5 million from $13.4 million for 1996. The decrease of $4.9 million in interest expense was primarily due to higher average cash balances resulting from improved working capital management. We did not have any short-term borrowings in 1996 or 1997 and long-term debt remained fairly consistent each year.

Other. Other expense was $2.0 million for 1997 and $(0.9) million for 1996. Other expense is primarily comprised of currency exchange gains or losses.

Minority interest. Minority interest in subsidiaries' net loss of $(0.7) million in 1997 represents the minority interest in Ets. Brancher.

Provision (benefit) for income taxes. The effective tax rates for the 1997 benefit and the 1996 provision were 25.5% and 37.9%, respectively. The effective tax rates differ from the federal statutory rate of 35% primarily due to state income taxes and valuation reserves provided for foreign operating losses.

Net income (loss). There was a net loss of $(33.6) million for the year ended December 31, 1997 compared to net income of $54.7 million for the year ended December 31, 1996. If the non-recurring charge relating to the Pulse inspection program and the consolidation of Ets. Brancher are excluded, net income would have been $55.2 million for 1997, representing 3.9% of net sales, compared to 4.0% of net sales for 1996.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations and capital requirements from internally generated funds and, to a lesser extent, borrowings from external sources. Our capital requirements have related principally to acquisitions, the expansion of our production capacity and increased working capital needs that have accompanied sales growth.

Net cash provided by operating activities totaled $158.8 million, $58.5 million and $5.0 million for 1996, 1997 and 1998, respectively. The reduction in cash provided by operating activities is primarily due to the Pulse inspection program as we spent $26.6 million and $86.1 million on this program in 1997 and 1998, respectively. In addition, we had unusually strong sales of our "Lennox" brand of North American air conditioning products late in 1997 and accordingly accounts receivable in December 1997 were higher than normal. Net cash provided by (used in) operating activities was $(57.2) million for the three months ended March 31, 1999 compared to $(31.7) million for the three months ended March 31, 1998. The increase in cash used in operating activities is primarily due to increases in accounts and notes receivable resulting from higher first quarter 1999 sales. Net cash used in investing activities totaled $37.1 million, $44.6 million, $212.4 million, $13.7 million and $71.2 million for 1996, 1997 and 1998 and the three months ended March 31, 1998 and 1999, respectively. The greater use of cash for investing relates primarily to increased acquisition activity as we spent $14.3 million, $160.5 million, $1.4 million and $51.1 million for acquisitions in 1997 and 1998 and the three months ended March 31, 1998 and 1999, respectively. Net cash provided by (used in) financing activities was ($44.0) million, ($17.3) million, $89.5 million, $69.2 million and $130.9 million for 1996, 1997 and 1998 and the three months ended March 31, 1998 and 1999, respectively. In 1998, we issued $75.0 million principal amount of notes and increased short term borrowings by $36.7 million. In the first quarter of 1999, we increased short-term borrowings by $134.5 million primarily to fund acquisitions. Due to the seasonality of the air conditioning and refrigeration businesses, we typically use cash in the first six months and generate cash during the latter half of the year. Accordingly, we do not believe it is appropriate to compare interim periods to the full fiscal year. Our internally generated cash flow, along with borrowings under our revolving credit facility, have been sufficient to cover our working capital, capital expenditure and debt service requirements over the last three years.

In the past, we have used a combination of internally generated funds, external borrowings and our stock to make acquisitions. We intend to acquire additional heating and air conditioning dealers in the U.S. and Canada. We plan to finance these acquisitions with a combination of cash, including a portion of the net proceeds of this offering, stock and debt. As of May 18, 1999, we had acquired 43 dealers in Canada for an aggregate purchase price of approximately $62 million and had signed letters of intent to acquire ten additional Canadian dealers and two U.S. dealers for an aggregate purchase price of approximately $27 million.

Our capital expenditures were $31.9 million, $34.6 million, $52.4 million and $20.0 million for 1996, 1997 and 1998 and the three months ended March 31, 1999, respectively. We have budgeted $80 million for capital expenditures for 1999. These expenditures primarily relate to production equipment (including tooling), training facilities, leasehold improvements and information systems. The majority of these planned capital expenditures are discretionary. We plan to finance these capital expenditures using cash flow from operations and a portion of the net proceeds from this offering.

At March 31, 1999, we had long-term debt obligations outstanding of $260.2 million. The total long-term debt consists primarily of six issues of notes with an aggregate principal amount of $240.6 million, interest rates ranging from 6.56% to 9.69% and maturities ranging from 2001 to 2008. The notes contain restrictive covenants, including covenants that place limitations on our ability to incur additional indebtedness, encumber our assets, sell our assets or pay dividends. Our ability to incur debt is limited to 60.0% of our consolidated capitalization. As of March 31, 1999, our consolidated indebtedness as a percent of consolidated capitalization was 51.8%. Generally, the aggregate sale of assets outside the ordinary course of business cannot exceed 15% of our consolidated assets during any fiscal year and all transfers after January 1, 1998 cannot exceed 30% of our consolidated assets. In addition, in order to pay dividends or make a sale of assets outside the ordinary course of business, we must be able to incur $1.00 of additional indebtedness. In addition, we are required to maintain a consolidated net worth equal to $261.0 million plus 15% of our consolidated quarterly net income beginning April 1, 1998. At March 31, 1999, the required consolidated net worth was $270.2 million and we had a consolidated net worth of $374.3 million. Upon a change of control, we must make an offer to repurchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest. Our debt service requirements (including principal and interest payments) for long-term debt are $38.1 million for 1999. As of December 31, 1998, we had approximate minimum commitments on all non-cancelable operating leases of $22 million and $19 million in 1999 and 2000, respectively.

We have $135 million of borrowings available under our revolving credit facility. Our revolving credit facility provides for both "standby loans" and "offered rate loans." Standby loans are made ratably by all lenders under the revolving credit facility, while offered rate loans are, subject to the terms and conditions of the credit facility, separately negotiated between us and one or more members of the lending syndicate. Standby loans bear interest, at our option, at a rate equal to either (a) the London Interbank Offered Rate plus a margin equal to 0.150% to 0.405% depending on the ratio of our debt to total capitalization, or (b) the greater of (1) the Federal Funds Effective Rate plus 0.5%, and (2) the Prime Rate. Offered rate loans bear interest at a fixed rate agreed to by us and the lender or lenders making such loans. Under the revolving credit facility, we are obligated to pay fees, including (a) a quarterly facility fee to each lender under the credit facility equal to a percentage, varying from 0.100% to 0.220% (depending on the ratio of our debt to total capitalization) of each lender's total commitment, whether used or unused, under the revolving credit facility and (b) administrative fees to the administrative agent and documentation agent under the revolving credit facility. The revolving credit facility contains the same restrictive covenants and maintenance tests as the notes. The revolving credit facility will expire on July 13, 2001, unless earlier terminated according to its terms and conditions.

In March 1999, we entered into a term credit agreement which provides for borrowings of up to $115 million. Repayments of borrowings result in a permanent reduction of the commitment. Loans bear interest, at our option, at a rate equal to (a) the rate offered by the administrative agent in its London offices plus 1.00% to 1.75%, depending upon the period, or (b) the greater of (1) the Federal Funds Effective Rate plus 0.5% or (2) the Prime Rate, in each case plus 0% to 0.75%, depending upon the period. Under the term credit agreement, we are obligated to pay fees, including (a) a quarterly commitment fee equal to 0.15% of the unused portion of the commitment and (b) administrative fees to the administrative agent. We are required to

use the net proceeds from any issuance of our securities, including the net proceeds from this offering, to repay any amounts outstanding under the term credit agreement. The term credit agreement expires upon completion of this offering. The term credit agreement otherwise expires on December 31, 1999.

We believe that cash flow from operations, as well as the net proceeds from the offering and available borrowings under our revolving credit facility, will be sufficient to fund our operations for the foreseeable future. We may pursue additional debt or equity financing in connection with acquisitions.

QUARTERLY RESULTS OF OPERATIONS

The following table presents certain of our quarterly information for the years ended December 31, 1997 and 1998 and the three months ended March 31, 1999. Such information is derived from our unaudited financial statements and, in the opinion of our management, includes all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of such information. Operating results for any given quarter are not necessarily indicative of results for any future period and should not be relied upon as an indicator of future performance. Beginning with the fourth quarter of 1997, our results of operations reflect the consolidation of Ets. Brancher.

| | QUARTER ENDED | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1997 | | | | 1998 | | | | 1999 |
| | MAR. 31 | JUNE 30 | SEPT. 30 | DEC. 31 | MAR. 31 | JUNE 30 | SEPT. 30 | DEC. 31 | MAR. 31 |
| | (IN MILLIONS) | | | | | | | | |
| Net sales | $307.1 | $365.4 | $381.9 | $390.0 | $379.6 | $456.0 | $529.2 | $457.0 | $489.0 |
| Cost of goods sold | 211.6 | 252.0 | 265.2 | 277.1 | 261.8 | 309.0 | 359.6 | 315.2 | 337.5 |
| Gross profit | 95.5 | 113.4 | 116.7 | 112.9 | 117.8 | 147.0 | 169.6 | 141.8 | 151.5 |
| Selling, general and administrative expenses | 76.1 | 79.8 | 80.1 | 90.3 | 97.3 | 108.4 | 125.7 | 129.8 | 129.3 |
| Other operating expense, net | 3.0 | 0.5 | 0.9 | 3.0 | 2.6 | 4.6 | (1.1) | 2.3 | 2.5 |
| Product inspection charge | -- | -- | -- | 140.0 | -- | -- | -- | -- | -- |
| Income (loss) from operations | 16.4 | 33.1 | 35.7 | (120.4) | 17.9 | 34.0 | 45.0 | 9.7 | 19.7 |
| Net income (loss) | $ 7.9 | $ 17.6 | $ 18.5 | $(77.6) | $ 8.3 | $ 17.2 | $ 24.5 | $ 2.5 | $ 6.6 |

The following table sets forth, as a percentage of net sales, statement of income data by quarter for the years ended December 31, 1997 and 1998.

| | QUARTER ENDED | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1997 | | | | 1998 | | | | 1999 |
| | MAR. 31 | JUNE 30 | SEPT. 30 | DEC. 31 | MAR. 31 | JUNE 30 | SEPT. 30 | DEC. 31 | MAR. 31 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 68.9 | 69.0 | 69.4 | 71.1 | 69.0 | 67.8 | 68.0 | 69.0 | 69.0 |
| Gross profit | 31.1 | 31.0 | 30.6 | 28.9 | 31.0 | 32.2 | 32.0 | 31.0 | 31.0 |
| Selling, general and administrative expenses | 24.8 | 21.8 | 21.0 | 23.1 | 25.6 | 23.8 | 23.7 | 28.4 | 26.5 |
| Other operating expense, net | 1.0 | 0.2 | 0.2 | 0.8 | 0.7 | 1.0 | (0.2) | 0.5 | 0.5 |
| Product inspection charge | -- | -- | -- | 35.9 | -- | -- | -- | -- | -- |
| Income (loss) from operations | 5.3 | 9.0 | 9.4 | (30.9) | 4.7 | 7.4 | 8.5 | 2.1 | 4.0 |
| Net income (loss) | 2.6% | 4.8% | 4.8% | (19.9)% | 2.2% | 3.8% | 4.6% | .5% | 1.4% |

Our quarterly operating results have varied significantly and are likely to vary significantly in the future. Demand for our products is seasonal and dependent on the weather. In addition, a majority of our revenue is derived from products whose sales peak in the summer months. Consequently, we often experience lower sales levels in the first and fourth quarters of each year. Because a high percentage of our overhead and operating expenses are relatively fixed throughout the year, operating earnings and net earnings tend to be lower in quarters with lower sales.

MARKET RISK

The estimated fair values of our financial instruments approximate their respective carrying amounts at March 31, 1999, except as follows (in thousands):

| | CARRYING AMOUNT | FAIR VALUE AMOUNT | INTEREST RATE |
|---|---|---|---|
| 9.69% promissory notes | $24,600 | $26,500 | 6.75% |
| 9.53% promissory notes | 21,000 | 21,800 | 6.75 |
| 11.10% promissory notes | 7,135 | 7,300 | 9.00 |

The fair values presented above are based on the amount of future cash flows associated with each instrument, discounted using our current borrowing rate for similar debt instruments of comparable maturity. The fair values are estimates as of March 31, 1999, and are not necessarily indicative of amounts for which we could settle currently or indicative of the intent or ability of us to dispose of or liquidate such instruments.

Our results of operations can be affected by changes in exchange rates. Net sales and expenses in currencies other than the U.S. dollar are translated into U.S. dollars for financial reporting purposes based on the average exchange rate for the period. During 1996, 1997 and 1998, net sales from outside the U.S. and Canada represented 8.2%, 11.7% and 19.2%, respectively, of total net sales. Historically, foreign currency transaction gains (losses) have not had a material effect on our operations.

We have entered into foreign currency exchange contracts to hedge our investment in Ets. Brancher. We do not engage in currency speculation. These contracts do not subject us to risk from exchange rate movements because the gains or losses on the contracts offset the losses or gains, respectively, on the assets and liabilities of Ets. Brancher. As of March 31, 1999, we had entered into foreign currency exchange contracts with a nominal value of 165.5 million French francs (approximately $27.0 million). These contracts require us to exchange French francs for U.S. dollars at maturity, which is in May 2003, at rates agreed to at inception of the contracts. If the counterparties to the exchange contracts do not fulfill their obligations to deliver the contracted currencies, we could be at risk for any currency related fluctuations.

From time to time we enter into foreign currency exchange contracts to hedge receivables from our foreign subsidiaries. These contracts do not subject us to risk from exchange rate movements because the gains or losses on the contracts offset losses or gains, respectively, on the receivables being hedged. As of March 31, 1999, we had obligations to deliver the equivalent of $61.7 million of various foreign currencies by June 30, 1999, for which the counterparties to the contracts will pay fixed contract amounts.

We have contracts with various suppliers to purchase copper and aluminum for use in our manufacturing processes. As of March 31, 1999, we had contracts to purchase 17.1 million pounds of copper over the next 24 months at fixed prices that average $0.75 per pound ($12.8 million) and contracts to purchase six million pounds of copper at a variable price equal to the COMEX copper price (0.63 per pound at March 31, 1999) over the next 12 months. We also had contracts to purchase 19.3 million pounds of aluminum at $0.61 per pound ($11.8 million) over the next 12 months. The fair value of the copper and aluminum purchase commitments was a liability of $2.6 million at March 31, 1999.

INFLATION

Historically, inflation has not had a material effect on our results of operations.

YEAR 2000 COMPLIANCE

The Year 2000 issue concerns the ability of information technology and non-information technology systems and processes to properly recognize and process date-sensitive information before, during and after December 31, 1999. We have a variety of computer software program applications, computer hardware equipment and other equipment with embedded electronic circuits, including applications used in our financial business systems, manufacturing processes and administrative functions, which are collectively referred to as the "systems". We expect that our systems will be ready for the Year 2000 transition.

In order to identify and resolve Year 2000 issues affecting us, we established a Year 2000 compliance program. The Year 2000 compliance program is administered by a task force, consisting of members of senior management as well as personnel from our accounting, internal audit and legal departments, which has oversight of the information systems managers and other administrative personnel charged with implementing our Year 2000 compliance program. The task force has established a specific compliance team for Lennox Corporate and for each of our operating locations.

In 1994 we began the replacement of all core business systems for our domestic subsidiaries. The purpose of this replacement was to upgrade systems architecture and functionality, improve business integration and implement process improvements. SAP was selected as the enterprise resource for planning ("ERP") system to replace mission critical software and hardware for Lennox Industries, Heatcraft's Heat Transfer and Refrigeration Products Divisions and the Lennox Corporate operations. Fourth Shift was selected as the ERP system for the Electrical Products Division of Heatcraft and is also being implemented for various subsidiaries of Lennox Global. A new version of ROI Manage 2000 was implemented for Armstrong. As of December 31, 1998, all replacements were complete except for the Heat Transfer Division of Heatcraft, which is scheduled to be complete by September 30, 1999, and upgrades for some subsidiaries of Lennox Global.

SAP, Fourth Shift and ROI Manage 2000 have certified that these systems are Year 2000 compliant. Hardware, operating systems and databases installed to support these systems are either compliant or have Year 2000 vendor supplied updates to be applied in 1999. Other smaller applications integrated with SAP have been replaced or upgraded with Year 2000 compliant software.

The implementations of SAP, Fourth Shift and ROI Manage 2000 and the related hardware, operating systems and databases comprise the systems that are most critical to our operations, which are referred to as "critical systems," and address the areas of our business which would have otherwise been significantly affected by the Year 2000. As of April 30, 1999, we were approximately 85% complete with the implementation of the Year 2000 compliance program for all critical systems, and we expect to be 100% complete by September 30, 1999.

Our Year 2000 Program also addresses compliance in areas in addition to critical systems, including: voice and data networks, desktop computers, peripherals, EDI, contracted or purchased departmental software, computer controlled production equipment, test stations, building security, transport and heating and air conditioning systems, service providers, key customers and suppliers and Lennox manufactured and purchased products. As of April 30, 1999, we were more than 60% complete with the implementation of the Year 2000 compliance program for all such areas, and we expect to be 100% complete by September 30, 1999.

We have initiated communications with significant suppliers, customers and other third parties to identify and assess Year 2000 risks and by September 1999 expect to have developed solutions that will minimize the impact on us. Lennox Industries distributed surveys to approximately 200 of its major suppliers in January 1999 and over half of these suppliers have responded. All of these respondents stated that they are either compliant or are planning to be compliant. In April 1999, a follow-up survey was sent to the suppliers who had not yet responded. We expect to resolve any identified problems with critical or non-responding suppliers or to develop contingency plans where needed. We depend on third-party trucking companies to deliver finished products from our factories to our customers. None of Lennox Industries' trucking contractors is individually critical to our business. About 125 different trucking companies handle 95% of Lennox Industries' distribution. We have communicated with approximately 50 of the largest trucking contractors and received assurances that they will not have service disruptions due to the Year 2000. Our manufacturing facilities are highly dependent on public utilities, especially electrical power, natural gas, water and communications companies. If third party providers, due to the Year 2000 issue, fail to provide us with components or materials which are necessary to manufacture our products, with sufficient electrical power and other utilities to sustain our manufacturing process, or with adequate and reliable means of transporting our products to our customers, and we have not developed adequate contingency plans, then there could be an adverse effect on our results of operations at any facility affected by these problems. Currently, we are not aware of any of our significant third party providers or customers that are not or will not be Year 2000 compliant.

We believe that our most reasonably likely worst case scenario is some short-term, localized disruptions of systems, transportation or suppliers that will affect an individual business operation, rather than broad-based and long-term problems that affect operating segments or our operations as a whole. For the most part, our manufacturing processes are not affected by Year 2000 issues. The most significant uncertainties relate to critical suppliers, particularly electrical power, water, natural gas and communications companies, and suppliers of parts that are vital to the continuity of our operations. Where possible, contingency plans are being formulated and put into place for all critical suppliers. These plans include developing the necessary safety stock levels for single source items. These contingency plans should be completed by October 1999.

Our estimated cost to become Year 2000 compliant is approximately $7.5 million, of which we have already spent approximately $3.4 million. All of these expenses will reduce our net income. Of the $7.5 million in total costs, approximately $5.1 million relates to application software, including consulting and training relating to the software, of which approximately $2.8 million has been spent to date. The remaining $2.3 million in total estimated costs relates to infrastructure and hardware, of which approximately $0.7 million has been spent and the remaining $1.6 million is expected to be expensed over a three-year period. The costs of application and infrastructure changes made for reasons other than the Year 2000 and which were not accelerated are not included in these estimates. We have not deferred any significant information technology projects because of our response to Year 2000 issues. All Year 2000 costs are being funded from our operating cash flows. These costs are generally not incremental to existing information technology budgets.

The total costs, anticipated impact and the expected dates to complete the various phases of the project are based on our best estimates using assumptions about future events. However, no assurance can be given that actual results will be consistent with such estimates and, therefore, actual costs, completion dates and impact may differ materially from the plans. See "Special Note Regarding Forward-Looking Statements."

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including certain derivatives embedded in other contracts (collectively referred to as derivatives) and for hedging activities. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. We do not believe that the adoption of this pronouncement will have a significant impact on our financial statements.

## BUSINESS

We are a leading global provider of climate control solutions. We design, manufacture and market a broad range of products for the HVACR markets. Our products are sold under well-established brand names including "Lennox", "Armstrong Air", "Bohn", "Larkin", "Heatcraft" and others. We are also one of the largest manufacturers in North America of heat transfer products, such as evaporator coils and condenser coils. We have leveraged our expertise in heat transfer technology, which is critical to the efficient operation of any heating or cooling system, to become an industry leader known for our product innovation and the quality and reliability of our products. As a result of recent acquisitions, we have also become a leader in the growing market for hearth products, which includes pre-fabricated fireplaces and related products. Historically, we have sold our "Lennox" brand of residential heating and air conditioning products directly to a network of installing dealers, which currently numbers approximately 6,000, making us the largest wholesale distributor of these products in North America. We have recently initiated a program to acquire dealers in metropolitan areas in the U.S. and Canada so that we can provide heating and air conditioning products and services directly to consumers.

Our furnaces, heat pumps, air conditioners, pre-fabricated fireplaces and related products are available in a variety of designs, efficiency levels and price points that provide an extensive line of comfort systems. A majority of our sales of residential heating and air conditioning products in the U.S. and Canada are to the repair and replacement market, which is less cyclical than the new construction market. We also provide a range of air conditioning products for commercial market applications such as mid-size office buildings, restaurants, churches and schools. Our commercial refrigeration products are used primarily in cold storage applications for food preservation in supermarkets, convenience stores, restaurants, warehouses and distribution centers. Our heat transfer products are used by us in our HVACR products and sold to third parties.

Shown below are our four business segments, the key products and brand names within each segment and 1998 net sales by segment. The North American residential segment also includes installation, maintenance and repair services performed by Lennox-owned dealers. See our audited financial statements included elsewhere in this prospectus for more information on our segments.

| SEGMENT | PRODUCTS | BRAND NAMES | 1998 NET SALES (IN MILLIONS) |
|---|---|---|---|
| North American residential | Furnaces, heat pumps, air conditioners, packaged heating and cooling systems and related products; pre-fabricated fireplaces, free standing stoves, fireplace inserts and accessories | Lennox, Armstrong Air, Air-Ease, Concord, Magic-Pak, Advanced Distributor Products, Superior, Marco, Whitfield and Security Chimneys | $1,013.7 |
| Commercial air conditioning | Unitary air conditioning and applied systems | Lennox, Alcair and Janka | 392.1 |
| Commercial refrigeration | Chillers, condensing units, unit coolers, fluid coolers, air cooled condensers and air handlers | Bohn, Friga-Bohn, Larkin, Climate Control and Chandler Refrigeration | 237.3 |
| Heat transfer | Evaporator and condenser coils and equipment and tooling to manufacture coils | Heatcraft and Friga-Bohn | 178.7 |
| | | Total..... | $1,821.8 |

We market and distribute our products using multiple brand names through multiple distribution channels to penetrate different segments of the HVACR market. Our "Lennox" brand of residential heating and air conditioning products is sold directly through installing dealers -- the "one-step" distribution system -- which has created strong and long-term relationships with dealers in North America. Our "Armstrong Air," "Air-Ease," "Concord" and "Magic-Pak" residential heating and air conditioning brands are sold to regional distributors that in turn sell the products to installing contractors -- the "two-step" distribution system typically utilized in the heating and air conditioning industry. The acquisition of heating

and air conditioning dealers in Canada and the planned acquisition of dealers in the U.S. allows us to participate in the retail sale and service of heating and air conditioning products. Our hearth products, commercial air conditioning products and refrigeration products are also sold under multiple brand names and through a combination of wholesalers, contractors, original equipment manufacturers, manufacturers' representatives and national accounts.

From our beginning in 1895 until the mid-1980's, we focused primarily on the North American residential heating and air conditioning market. In the 1980's, we expanded our product offerings by acquiring several heat transfer and commercial refrigeration businesses. In the mid-1990's, we increased our international presence, product offerings and brand portfolio through acquisitions in Europe, Latin America and the Asia Pacific region. The most significant international acquisition was the purchase in 1996 of a 50% interest in two operating subsidiaries of Ets. Brancher for approximately $22.0 million, which significantly expanded our geographic presence and provided us with an entry into the commercial air conditioning and refrigeration markets in Europe. In 1997, we increased our ownership interest in Ets. Brancher to 70% for an additional $18.4 million. In September 1998, we acquired a majority interest in McQuay do Brasil S.A., a Brazilian company which participates in the commercial refrigeration and heat transfer markets in Brazil and surrounding countries, for $20.5 million. We recently expanded our product offerings to include hearth products through the acquisitions of Superior Fireplace Company, Marco Mfg., Inc. and Pyro Industries, Inc. in the third quarter of 1998 and Security Chimneys International, Ltd. in the first quarter of 1999 for an aggregate purchase price of approximately $120 million. As a result of these acquisitions, we are one of the largest manufacturers of hearth products in the U.S. and Canada, offering a broad line of products through a variety of distribution channels.

We were founded in 1895 in Marshalltown, Iowa when Dave Lennox, who owned a machine repair business for the railroads, successfully developed and patented a riveted steel coal-fired furnace which was substantially more durable than the cast iron furnaces used at the time. By 1904, the manufacture of these furnaces had grown into a significant business and was diverting the Lennox Machine Shop from its core business. As a result, in 1904, a group of investors headed by D.W. Norris bought the furnace business and named it the Lennox Furnace Company. Over the years, D.W. Norris ensured that ownership of Lennox was distributed to all generations of his family. Today, Lennox's ownership is broadly distributed among approximately 110 descendants of or persons otherwise related to D.W. Norris.

INDUSTRY OVERVIEW

NORTH AMERICAN RESIDENTIAL

Residential Heating and Air Conditioning. The residential market in the U.S. and Canada is divided into two basic categories: furnaces and air conditioning systems. Air conditioning is further divided into two basic categories: residential split systems and heat pumps and window and room air conditioners. We do not participate in the window and room air conditioner category. Split system air conditioners are comprised of a condensing unit, normally located outside of the household, and an evaporator unit, which is typically positioned indoors to use the blower mechanism of a furnace or fan coil unit in the case of a heat pump.

In recent decades the functions performed by the products of this market have become increasingly important to modern life. The advent of modern, high efficiency air conditioning was one of the significant factors contributing to the growth of large metropolitan areas in parts of the southern U.S. According to a report published by the U.S. Department of Housing and Urban Development for 1995, 98% of all new houses constructed in the southern region of the U.S. and 80% of all new houses in the U.S. included central air conditioning. According to the U.S. Census Bureau, manufacturers' sales for all residential air conditioners and warm air furnaces produced in 1997 for the U.S. market were approximately $5.5 billion, reflecting a compound annual growth rate of approximately 7.2% from 1993 to 1997. We estimate that manufacturers' sales in Canada were approximately $200 million in 1997.

Services in the residential market in North America consist of the installation, replacement, maintenance and repair of heating and air conditioning systems at existing residences and the installation of heating and air conditioning systems at newly constructed homes. This market is served by small, owner-operated businesses

operating in a single geographic area and dealers owned by consolidators, utility companies and others, some of whom may operate under a uniform trade name and in multiple geographic locations. The retail sales and service market in the U.S. is comprised of over 30,000 dealers.

The principal factors affecting market growth in the North American residential market are new home construction, the weather and economic conditions, especially consumer confidence. Residential heating and air conditioning products are sold for both the replacement and new construction markets. The residential new construction market has historically been a more price sensitive market because many homebuilders focus on initial price rather than operating efficiency or ongoing service costs.

Hearth Products. The main components of the hearth products market are pre-fabricated gas fireplaces and inserts, pre-fabricated wood burning fireplaces and inserts, pellet stoves, gas logs, and accessories and miscellaneous items. We participate in all major aspects of the hearth products market. According to the Hearth Products Association, an industry trade group, there were 2.3 million unit sales in 1998, including all gas and wood burning appliances, and this market is expected to grow at 7.5% per year through 2000. The addition of a fireplace is considered one of the best return on investment decisions that a homeowner can make. Hearth products are distributed and sold through many channels, ranging from contractors to specialty retailers.

COMMERCIAL AIR CONDITIONING

The global commercial air conditioning market is divided into two basic categories: unitary air conditioners and applied systems. We primarily participate in the unitary air conditioning market in North America and in both the unitary and applied systems markets in Europe. Unitary products consist of modular split systems and packaged products with up to 30 tons of cooling capacity. One ton of cooling capacity is equivalent to 12,000 BTUs and is generally adequate to air condition approximately 500 square feet of space. Packaged units are self-contained heating and cooling or cooling only units that typically fit on top of a low rise commercial building such as a shopping center or a restaurant. Applied systems are typically larger engineered systems, which are designed to operate in multi-story buildings and include air cooled and water cooled chillers, air handling units and equipment to monitor and control the entire system.

According to the Air-Conditioning & Refrigeration Institute, an industry trade group, global manufacturers' sales for all commercial air conditioning systems produced in 1994 (the latest available data) were approximately $14 billion. The principal factors affecting growth in this market are new construction, economic conditions and environmental regulation of refrigerants. Unlike residential heating and air conditioning systems, some commercial air conditioning systems use refrigerants that have been banned or that are currently being phased out, especially in Europe. We expect that such regulation will lead to increased growth in this market.

COMMERCIAL REFRIGERATION

The global refrigeration market is a highly diversified market, including everything from household refrigerators and walk-in coolers to large, ammonia based flash freezing plants and process cooling equipment. We define our served market as the design and manufacture of equipment used in cold storage, primarily for the preservation of perishable goods. Our served market includes condensing units, unit coolers, air cooled condensers, non-supermarket racks and packaged systems. According to the U.S. Census Bureau, our served market in the U.S. accounted for approximately $510.9 million in revenues in 1997, reflecting a compound annual growth rate of approximately 5.3% from 1993 to 1997.

The principal factors affecting growth in the commercial refrigeration market are:

- new commercial construction activity, including construction of supermarkets, restaurants, convenience stores and distribution centers;

- replacement and retrofit activity in commercial buildings such as efficiency improvements and store design changes; and

- emergency replacement activity such as replacement of weather related product/component breakdowns and product maintenance.

HEAT TRANSFER

The heat transfer surface or coil is a fundamental technology employed in the heating and cooling cycles for HVACR products. The global heat transfer surface market is comprised not only of the traditional HVACR applications such as furnaces, air conditioners and unit coolers, but also numerous other applications such as ice machines, refrigerated trucks, farm equipment and off-road vehicles, recreational vehicles, computer room air conditioners and process cooling equipment used with sophisticated laser cutting machines. We produce heat transfer surfaces not only for traditional HVACR applications, but also for many of these other applications. Many HVACR manufacturers produce standard coils for their own use and generally do not sell coils to third parties. Coils are also designed and produced by independent coil manufacturers and sold to original equipment manufacturers for use in their products. Coils are typically designed, developed and sold by engineers who work with customers to produce a coil that will meet the customer's precise specifications. Factors affecting a coil purchaser's decision are quality, delivery time, engineering and design capability, and price.

Since heat transfer products are a fundamental part of HVACR products, the heat transfer market is driven by the same economic factors that affect the HVACR markets generally. Because of the fragmented nature of this market and the fact that coils are often produced internally by HVACR manufacturers, it is difficult to gauge the size of the worldwide served heat transfer market. According to the U.S. Census Bureau, the served market in the U.S. (i.e., third party sales) accounted for approximately $528.1 million in revenues in 1997, reflecting a compound annual growth rate of approximately 6.2% from 1993 to 1997.

COMPETITIVE STRENGTHS

We have a combination of strengths that position us to continue to be a leading provider of climate control solutions including:

STRONG BRAND RECOGNITION AND REPUTATION

We believe that our well known brand names and reputation for quality products and services position us to compete successfully in our existing markets and to continue to expand internationally. Our studies indicate that our "Lennox" brand is the most widely recognized brand name in the North American residential heating and air conditioning markets. Furthermore, in a recent survey of home builders, the "Lennox" brand received the highest overall rating in terms of product quality for furnaces and unitary air conditioners. We market our other HVACR and hearth products under the well known brand names of "Armstrong Air", "Bohn", "Larkin" and "Superior", among others.

BREADTH OF DISTRIBUTION

We market and distribute our products using multiple brand names through multiple distribution channels to penetrate different segments of the HVACR market. We sell our heating and air conditioning products through independent and Lennox-owned installing dealers, as well as through regional distributors. Our hearth products, commercial air conditioning and refrigeration products are also sold under multiple brand names and through a combination of wholesalers, installing contractors, manufacturers' representatives, original equipment manufacturers, national accounts and specialty retailers. We believe that sales growth is driven, in part, by the level of exposure to our customers and our distribution strategy is designed to maximize this exposure.

PROVEN HEAT TRANSFER EXPERTISE

Heat transfer surfaces, which include evaporator and condenser coils, are critical to the operation of most HVACR products. For a given application, a variety of factors must be evaluated, such as the size of the HVACR unit and desired energy efficiency, while considering such additional elements as manufacturing

ease. Since our acquisition of the Heatcraft business in 1986, we have devoted significant resources to the development of heat transfer surfaces. We use computer-aided design and other advanced software to improve the efficiency of designs and simulate and evaluate the movement of refrigerants even before a prototype is built. Since we also produce coils for sale to third parties, we are able to spread our research and development costs over third party purchases of heat transfer products as well as sales of our own HVACR products. We acquired Livernois Engineering Holding Company and related patents in May 1999 which provides us with access to additional heat transfer technology. Livernois produces heat transfer manufacturing equipment for the HVACR and automotive industries.

### COMMITMENT TO PRODUCT INNOVATION AND TECHNOLOGICAL LEADERSHIP

Throughout our history, we have dedicated substantial resources to research and development and product innovation. We pioneered the introduction of the forced air furnace in 1935, which resulted in new approaches to home design for more efficient heating. Other examples of our product innovation include:

- the multi-zone rooftop air conditioner in 1965;
- the two-speed condensing unit for more efficient air conditioning in 1973;
- the high efficiency gas furnace in 1982;
- the first commercially available high efficiency combination hot water heater and furnace in 1994; and
- "Floating Tube" and "Thermoflex" technologies, which significantly reduce leaks in air cooled condensers and unit coolers, in 1995.

We have invested approximately $125 million over the last five years on research and development activities, and we intend to continue to invest in these activities to create innovative and technologically superior products.

### DEMONSTRATED MANUFACTURING EFFICIENCY

Over the last several years, we have implemented advanced manufacturing techniques and created programs to incentivize our employees to reduce production cycle lead times to a week in many of our manufacturing facilities, compared to lead times of 90 days or more before the introduction of such concepts. These programs have not only led to improvements in inventory turnover, but also reductions in controllable working capital, which we define as inventories plus trade accounts receivables less accounts payable. From January 1996 to December 1998, controllable working capital as a percent of sales has declined from 36.1% to 26.7%, a reduction of 9.4%. If controllable working capital management had not improved, we estimate that our investment in working capital would have been approximately $170 million higher at December 31, 1998, which is based on the 9.4% improvement multiplied by 1998 net sales.

## GROWTH STRATEGY

Our growth strategy is designed to capitalize on our competitive strengths in order to expand our market share and profitability in the worldwide HVACR markets. We will continue to pursue internal programs and strategic acquisitions that broaden our product and service offerings, expand our market opportunities and enhance our technological expertise. We continually review acquisition candidates but do not have any agreements or commitments with respect to any significant acquisitions except for the acquisition of North American heating and air conditioning dealers described below. The key elements of this strategy include:

### EXPAND MARKET IN NORTH AMERICA

Our program to acquire heating and air conditioning dealers in the U.S. and Canada represents a new direction for the heating and air conditioning industry because, to our knowledge, no other major manufacturer has made a significant investment in retail distribution. This strategy will enable us to extend our distribution directly to the consumer, thereby permitting us to participate in the revenues and margins available at the

retail level while strengthening and protecting our brand equity. We believe that the retail sales and service market represents a significant growth opportunity because this market is large and highly fragmented. The retail sales and service market in the U.S. is comprised of over 30,000 dealers. We started this program in September 1998, and as of May 18, 1999 we had acquired 43 dealers in Canada for an aggregate purchase price of approximately $62 million and had signed letters of intent to acquire ten additional Canadian and two U.S. dealers for an aggregate purchase price of approximately $27 million. We intend to start acquiring dealers in the U.S. by initially focusing on our existing "Lennox" dealers and will try to achieve a balance between residential new construction, residential replacement and light commercial activities. We believe our long history of direct relationships with our dealers through the one-step distribution system and the resulting knowledge of local markets will give us advantages in identifying and acquiring suitable candidates. We have assembled an experienced management team to administer the dealer operations, and we have developed a portfolio of training programs, management procedures and goods and services that we believe will enhance the quality, effectiveness and profitability of dealer operations.

In addition to our acquisition program, we have initiated a program to strengthen our independent dealer network by providing all dealers with a broad array of services and support. Participants in a newly-created associate dealer program will receive retirement and other benefits in exchange for agreeing that at least 75% of their residential heating and air conditioning purchases will be of our products and for granting us a right of first refusal to acquire their businesses. As of May 18, 1999, 382 dealers in the U.S. and Canada were participating in our associate dealer program. All independent dealers, including participants in the associate dealer program, will be provided with access to Lennox-sponsored volume purchasing programs with third parties for goods and services used in their businesses.

We also intend to increase our market share in North America by:

- selectively expanding our "Lennox" independent dealer network;

- promoting the cross-selling of our "Armstrong Air" and other residential heating and air conditioning brands to our existing network of "Lennox" dealers as a second line;

- promoting the cross-selling of our hearth products to our "Lennox" dealer base;

- expanding the geographic market for the "Armstrong Air" brand of residential heating and air conditioning products from its traditional presence in the Northeast and Central U.S. to the southern and western portions of the U.S.;

- exploiting the fragmented third-party evaporator coil market; and

- pursuing complementary acquisitions that expand our product offerings or geographic presence.

EXPLOIT INTERNATIONAL OPPORTUNITIES

Worldwide demand for residential and commercial heating, air conditioning, refrigeration and heat transfer products is increasing. We believe that the increasing international demand for these products presents substantial opportunities, especially in emerging markets and particularly for heat transfer and refrigeration products. An example is the increasing use of refrigeration products to preserve perishables including food products in underdeveloped countries. Refrigeration products generally have the same design and applications globally. To take advantage of international opportunities, we have made substantial investments in manufacturing facilities in Europe, Latin America and Asia Pacific through acquisitions, including a 70% interest in Ets. Brancher. Our international sales have grown from $112.0 million in 1996 to $349.5 million in 1998. We will continue to focus on expanding our international operations through acquisitions and internal growth to take advantage of international growth opportunities. We are also investing additional resources in our international operations with the goal of achieving manufacturing and distribution efficiencies comparable to that of our North American operations.

INCREASE PRESENCE IN HEARTH PRODUCTS MARKET

With our recent acquisitions of hearth products companies, we now manufacture and sell one of the broadest lines of hearth products in North America. We offer multiple brands of hearth products at a range of price points. We believe that this broad product line will allow us to compete successfully in the hearth products market since many distributors prefer to concentrate their product purchases with a limited number of suppliers. We believe that we can increase our penetration of this market by selling in the distribution channels we acquired and through our historical distribution channels. Many of our heating and air conditioning dealers have begun to expand their product offerings to include hearth products.

CONTINUE PRODUCT INNOVATION

An important part of our growth strategy is to continue to invest in research and new product development. We have designated a number of our facilities as "centers for excellence" that are responsible for the research and development of core competencies vital to our success, such as combustion technology, vapor compression, heat transfer and low temperature refrigeration. Technological advances are disseminated from these "centers for excellence" to all of our operating divisions. Historically, our commitment to research and development has resulted in product innovations such as the first high efficiency gas furnace. More recently, we were the first to manufacture and market a complete combination high efficiency water heater and furnace, the CompleteHeat, and also developed an integrated electronic refrigeration control system, the Beacon control system.

PRODUCTS

NORTH AMERICAN RESIDENTIAL PRODUCTS AND SERVICES

Heating and Air Conditioning Products. We manufacture and market a broad range of furnaces, heat pumps, air conditioners, packaged heating and cooling systems and related products. These products are available in a variety of product designs and efficiency levels at a range of price points intended to provide a complete line of home comfort systems for both the residential replacement and new construction markets. We market these products through multiple brand names. In addition, we manufacture zoning controls, thermostats and a complete line of replacement parts. We believe that by maintaining a broad product line with multiple brand names, we can address different market segments and penetrate multiple distribution channels.

Our Advanced Distributor Products division builds evaporator coils, unit heaters and air handlers under the "ADP" brand as well as the "Lennox" and "Armstrong Air" brands. This division supplies us with components for our heating and air conditioning products and produces evaporator coils to be used in connection with competitors' heating and air conditioning products and as an alternative to such competitors' brand name components. We started this business in 1993 and have been able to achieve an approximate 20% share of this market for evaporator coils through the application of our technological and manufacturing skills.

Hearth Products. We believe we are the only North American HVACR manufacturer that also designs, manufactures and markets residential hearth products. Our hearth products include prefabricated gas and wood burning fireplaces, free standing pellet and gas stoves, fireplace inserts, gas logs and accessories. Many of the fireplaces are built with a blower or fan option and are efficient heat sources as well as attractive amenities to the home. Prior to the hearth products acquisitions, we offered a limited selection of hearth products in Canada and, to a lesser extent, in the U.S. We substantially expanded our offering of hearth products and distribution outlets with these acquisitions. We currently market our hearth products under the "Lennox", "Superior", "Marco", "Whitfield", and "Security Chimneys" brand names. We believe that our strong relationship with our dealers and our brand names will assist in selling into this market.

Retail Service. With our recently initiated program of acquiring dealers in the U.S. and Canada, we have begun to provide installation, maintenance, repair and replacement services for heating and air conditioning systems directly to both residential and light commercial customers. Installation services include the installation of heating and air conditioning systems in new construction and the replacement of existing

systems. Other services include preventative maintenance, emergency repairs and the replacement of parts associated with heating and air conditioning systems. We also sell a wide range of mechanical and electrical equipment, parts and supplies in connection with these services.

COMMERCIAL AIR CONDITIONING

We manufacture and sell commercial air conditioning equipment in North America, Europe, Asia Pacific and South America.

North America. In the North American commercial markets, our air conditioning equipment is used in applications such as low rise office buildings, restaurants, retail and supermarket centers, churches and schools. Our product offerings for these applications include rooftop units which range from two to 30 tons of cooling capacity and split system/air handler combinations which range from two to 20 tons. In North America, we sell unitary equipment as opposed to larger applied systems. Our newest rooftop unit, the L Series, was introduced in 1995 and has been well received by the national accounts market where it is sold to restaurants, mass merchandisers and other retail outlets. We believe that this product's success is attributable to its efficiency, design flexibility, low life cycle cost, ease of service and advanced control technology.

International. We compete in the commercial air conditioning market in Europe through our ownership of 70% of Ets. Brancher and Ets. Brancher's operating subsidiaries, HCF S.A. and Friga-Bohn S.A. We have agreed to buy the remaining 30% interest in Ets. Brancher on March 31, 2000 for 102.5 million French francs, or approximately $17 million. HCF manufactures and sells unitary products which range from two to 30 tons and applied systems which range up to 500 tons. HCF's products consist of chillers, air handlers, fan coils and large rooftop units and serve medium high-rise buildings, institutional applications and other field engineered applications. HCF manufactures its air conditioning products in several locations throughout Europe, including sites in the United Kingdom, France, Holland and Spain, and markets such products through various distribution channels in these countries and in Italy, Germany, Belgium and the Czech Republic.

We have been active in Australia for several years, primarily in the distribution of our residential and light commercial heating and air conditioning products manufactured in North America. In 1997, we acquired the assets of Alcair Industries, an Australian manufacturer of commercial heating and air conditioning products (packaged and split systems) ranging in size from two to 60 tons. This acquisition provided us with a manufacturing presence, doubled our revenues in Australia and added marketing, distribution and management strength to our operations in Australia.

Through our 50% owned Fairco joint venture in Argentina, we manufacture split system heating and air conditioning products and a limited range of L Series commercial air conditioning products for sale in Argentina, Chile and the surrounding Mercosur trading zone, which includes Brazil, Argentina, Bolivia, Paraguay and Uruguay.

COMMERCIAL REFRIGERATION

North America. We are one of the leading manufacturers of commercial refrigeration products in North America. Our refrigeration products include chillers, condensing units, unit coolers, fluid coolers, air cooled condensers and air handlers. Our refrigeration products are sold for cold storage applications to preserve food and other perishables. These products are used by supermarkets, convenience stores, restaurants, warehouses and distribution centers. As part of our sale of commercial refrigeration products, we routinely provide application engineering for consulting engineers, contractors and others. Some of our larger commercial refrigeration projects have included the sale of custom designed systems for the Georgia Dome, Camden Yards, Ohio University, the Boston Museum of Fine Arts and Ericsson Stadium.

International. Friga-Bohn manufactures and markets refrigeration products through manufacturing facilities and joint ventures located in France, Italy and Spain. Friga-Bohn's refrigeration products include small chillers, unit coolers, air cooled condensers, fluid coolers and refrigeration racks. These products are sold to distributors, installing contractors and original equipment manufacturers.

We also own 50% of a joint venture in Mexico that produces unit coolers and condensing units of the same design and quality as those manufactured by us in the U.S. Since this venture produces a smaller range of products, the product line is complemented with imports from the U.S. which are sold through the joint venture's distribution network. Sales are made in Mexico to wholesalers, installing contractors and original equipment manufacturers. As production volumes increase, there exists the potential to export some of the high labor content products from the joint venture into North America and Latin America.

In the third quarter of 1998, we acquired a 79% interest in McQuay do Brasil S.A., a Brazilian company that manufactures condensing units and unit coolers. We believe this acquisition gives us the leading market share for commercial refrigeration products in Brazil.

In the fourth quarter of 1998, we acquired the assets of Lovelock Luke Pty. Limited, a distributor of refrigeration and related equipment in Australia and New Zealand. This acquisition gives us an established commercial refrigeration business in Australia and New Zealand.

HEAT TRANSFER

We are one of the largest manufacturers of heat transfer coils in the U.S., Europe, Mexico and Brazil. These products are used primarily by original equipment manufacturers of residential and commercial air conditioning products, transportation air conditioning and refrigeration systems, and commercial refrigeration products. A portion of our original equipment manufacturer coils are produced for use in our residential and commercial HVACR products. We also produce private label replacement coils for use in other manufacturers' HVACR equipment. We believe that the engineering expertise of our sales force provides us with an advantage in designing and applying these products for our customers. Advanced computer software enables us to predict with a high degree of accuracy the performance of complete air conditioning and refrigeration systems.

In addition to supplying the original equipment manufacturer market, we also produce replacement coils for large commercial air conditioning, heating and industrial processing systems. Many of these coils are specially designed for particular systems and in the event of a failure may need to be replaced quickly. We are the industry leader in this market and have designed our manufacturing processes and systems in North America so that we can deliver custom coils within 48 hours of receipt of an order. This premium service enables us to receive superior prices and generate attractive margins.

We also design and manufacture the equipment and tooling necessary to produce coils. We use such equipment and tooling in our manufacturing facilities and sell it to third parties. Typically, there is a long lead time between the initial order and receipt for this type of equipment and tooling from third parties. Since we have the ability to quickly produce the equipment and tooling necessary to manufacture heat transfer products and systems, we can accelerate the international growth of our heat transfer products segment. For example, we were able to design, manufacture and deliver the equipment necessary to produce evaporator and condenser coils for our joint venture in Mexico in what we estimate was half the time than would otherwise have been required to obtain the equipment from third parties. Upon completion of our acquisition of Livernois, we will also supply heat transfer manufacturing equipment to the automotive industry.

In addition to manufacturing heat transfer products in the North American market, we produce coils for the European market through a joint venture in the Czech Republic. Our joint venture in Mexico produces evaporator and condenser coils for use in that country and for export to the Caribbean and the U.S. Our Brazilian joint venture manufactures heat transfer coils that are sold to both HVACR manufacturers and automotive original equipment manufacturers in Brazil.

MARKETING AND DISTRIBUTION

We manage numerous distribution channels for our products in order to better penetrate the HVACR market. Generally, our products are sold through a combination of distributors, independent and company-owned dealers, wholesalers, manufacturers' representatives, original equipment manufacturers and national accounts. We have also established separate distribution networks in each country in which we conduct

operations. We deploy dedicated sales forces across all our business segments and brands in a manner designed to maximize the ability of each sales force to service its particular distribution channel. To maximize enterprise-wide effectiveness, we have active cross-functional and cross-organizational teams working on issues such as pricing and coordinated approaches to product design and national account customers with interests cutting across business segments. We have approximately 1,600 persons employed in sales and marketing positions and spent $50.2 million on advertising, promotions and related marketing activities in 1998.

One example of the competitive strength of our marketing and distribution strategy is in the North American residential heating and air conditioning market, in which we use three distinctly different distribution approaches -- the one-step distribution system, the two-step distribution system and sales made directly to consumers through Lennox-owned dealers. We market and distribute our "Lennox" brand of heating and air conditioning products directly to approximately 6,000 dealers that install these products.

We distribute our "Armstrong Air", "Air-Ease", "Concord" and "Magic-Pak" brands of residential heating and air conditioning products through the traditional two-step distribution process whereby we sell our products to distributors who, in turn, sell the products to a local installing dealer. Accordingly, by using multiple brands and distribution channels, we are able to better penetrate the North American residential heating and air conditioning market. In addition, we have begun to acquire or establish distributors in key strategic areas when a satisfactory relationship with an independent distributor is not available.

We have initiated a program to acquire high quality dealers in metropolitan areas in the U.S. and Canada so we can provide heating and air conditioning products and services directly to consumers. We intend to start acquiring dealers in the U.S. by initially focusing on our existing "Lennox" dealers who are part of our one-step distribution system.

Through the years, the "Lennox" brand has become synonymous with the "Dave Lennox" image, which is utilized in national television and print advertising as well as in numerous locally produced dealer ads, open houses and trade events, and is easily the best recognized advertising icon in the heating and air conditioning industry. We spent an aggregate of $40.1 million in advertising, promotions and related marketing activities in 1998 on the "Lennox" brand alone.

MANUFACTURING

We operate 15 manufacturing facilities in the U.S. and Canada and 19 outside the U.S. and Canada. These plants range from small manufacturing facilities to large 1,000,000 square foot facilities in Grenada, Mississippi and Marshalltown, Iowa. In our facilities most impacted by seasonal demand, we manufacture both heating and air conditioning products to smooth seasonal production demands and maintain a relatively stable labor force. We are generally able to hire temporary employees to meet changes in demand.

Some of the recently acquired manufacturing facilities have not yet reached the levels of efficiency that have been achieved at our plants which we have owned for a longer time. However, we intend to bring our manufacturing and operating expertise to these plants.

PURCHASING

We rely on various suppliers to furnish the raw materials and components used in the manufacture of our products. To maximize our buying power in the marketplace, we utilize a "purchasing council" that consolidates purchases of our entire domestic requirements of particular items across all business segments. The purchasing council generally concentrates its purchases for a given material or component with one or two suppliers, although we believe that there are alternative suppliers for all of our key raw material and component needs. Compressors, motors and controls constitute our most significant component purchases, while steel, copper and aluminum account for the bulk of our raw material purchases. Although most of the compressors used by us are purchased directly from major compressor manufacturers, we own a 24.5% interest in a joint venture to manufacture compressors in the one and one-half to seven horsepower range. We expect that this joint venture, which began limited production in April 1998, will be capable of providing us with a

substantial portion of our compressor requirements in the residential air conditioning market after achieving full production levels, which is expected in 2001.

We attempt to minimize the risk of price fluctuations in key components by entering into contracts, typically at the beginning of the year, which generally provide for fixed prices for our needs throughout the year. In instances where we are unable to pass on to our customers increases in the costs of copper and aluminum, we enter into forward contracts for the purchase of such materials. We have forward commitments for the substantial majority of our internal needs of aluminum through December 1999 and copper through December 2000.

INFORMATION SYSTEMS

Our North American operations are supported by enterprise business systems which support all core business processes. Enterprise business systems are designed to enhance the continuity of operations, ensure appropriate controls, and support timely and efficient decision making. Our largest operating divisions began installing the SAP enterprise business software system in 1996. We have substantially completed the implementation of SAP software and full implementation by all divisions converting to SAP is expected to be completed by the end of 1999. The SAP software system is designed to facilitate the flow of information and business processes across all business functions such as sales, manufacturing, distribution and financial accounting.

TECHNOLOGY AND RESEARCH AND DEVELOPMENT

We support an extensive research and development program focusing on the development of new products and improvements to our existing product lines. We spent an aggregate of $23.2 million, $25.4 million and $31.8 million on research and development during 1996, 1997 and 1998, respectively. As of December 31, 1998, we employed approximately 480 persons dedicated to research and development activities. We have a number of research and development facilities located around the world, including a limited number of "centers for excellence" that are responsible for the research and development of particular core competencies vital to our business, such as combustion technology, vapor compression, heat transfer and low temperature refrigeration.

We use advanced, commercially available computer-aided design, computer-aided manufacturing, computational fluid dynamics and other sophisticated software not only to streamline the design and manufacturing processes, but also to give us the ability to run complex computer simulations on a product design before a working prototype is created. We operate a full line of metalworking equipment and advanced laboratories certified by applicable industry associations.

PATENTS AND PROPRIETARY RIGHTS

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. Our policy is to obtain and protect patents whenever such action would be beneficial to us. No patent which we consider material will expire in the next five years. We own several trademarks that we consider important in the marketing of our products, including Lennox(R), Heatcraft(R), CompleteHeat(R), Raised Lance(TM), Larkin(TM), Climate Control(TM), Chandler Refrigeration(R), Bohn(R), Advanced Distributor Products(R), Armstrong Air(TM), Air-Ease(R), Concord(R), Magic-Pak(R), Superior(TM), Marco(R), Whitfield(R), Security Chimneys(R), Janka(TM), Alcair(TM) and Friga-Bohn(TM). These trademarks have no fixed expiration dates and we believe our rights in these trademarks are adequately protected.

COMPETITION

Substantially all of the markets in which we participate are highly competitive. The most significant competitive factors facing us are product reliability, product performance, service and price, with the relative importance of these factors varying among our product lines. In addition, as we acquire more heating and air conditioning dealers, we will face increasing competition from independent dealers and dealers owned by

consolidators and utility companies. Our competitors may have greater financial and marketing resources than we have. Listed below are some of the companies that we view as our main manufacturing competitors in each segment we serve, with relevant brand names, when different than the company name, shown in parentheses.

- North American residential -- United Technologies Corporation (Carrier); Goodman Manufacturing Company (Janitrol, Amana); American Standard Companies Inc. (Trane); York International Corporation; Hearth Technologies Inc. (Heatilator); and CFM Majestic, Inc. (Majestic).

- Commercial air conditioning -- United Technologies Corporation (Carrier); American Standard Companies Inc. (Trane); York International Corporation; Daikin Industries, Ltd.; and McQuay International.

- Commercial refrigeration -- United Technologies Corporation (Ardco Group); Tecumseh Products Co.; Copeland Corporation; and Hussmann International Inc. (Krack).

- Heat transfer -- Modine Manufacturing Company and Super Radiator Coils.

EMPLOYEES

As of December 31, 1998, we employed approximately 11,700 employees, approximately 3,400 of which were represented by unions. The number of hourly workers we employ during the course of the year may vary in order to match our labor needs during periods of fluctuating demand. We believe that our relationships with our employees are generally good.

Within the U.S., we have eight manufacturing facilities and five distribution centers, along with our North American Parts Center in Des Moines, Iowa, with collective bargaining agreements ranging from three to eight years in length. The five distribution centers are covered by a single contract that expires in 2001. At our significant manufacturing facilities, one collective bargaining agreement expires in December 1999 -- Lynwood, California. Three collective bargaining agreements expire in 2000 -- Marshalltown, Iowa, Burlington, Washington and Atlanta, Georgia -- and three expire in 2002 -- Bellevue, Ohio, Danville, Illinois and Union City, Tennessee. Following the expiration of the collective bargaining agreement in April 1999, we experienced a work stoppage at our Bellevue, Ohio factory for three weeks in May 1999. This facility has a new collective bargaining agreement that expires April 2002. Outside of the U.S., we have 12 significant facilities that are represented by unions. The four agreements for HCF in France have no fixed expiration date. The agreement at our facility in Laval, Quebec expires in December 1999 and the agreement at our facility in Burgos, Spain expires in 2000. The agreement at our facility in Toronto, Ontario expired in April 1999 and, as has been the case in the past, the employees at this facility are continuing to work under the expired contract pending negotiation of a new agreement. We believe that our relationships with the unions representing our employees are generally good, and do not anticipate any material adverse consequences resulting from negotiations to renew these agreements.

PROPERTIES

The following chart lists our major domestic and international manufacturing, distribution and office facilities and whether such facilities are owned or leased:

DOMESTIC FACILITIES

| LOCATION | DESCRIPTION AND APPROXIMATE SIZE | PRINCIPAL PRODUCTS | OWNED/LEASED |
|---|---|---|---|
| Richardson, TX | World headquarters and offices; Lennox Industries headquarters; 230,000 square feet | N/A | Owned and Leased |
| Bellevue, OH | Armstrong headquarters, factory and distribution center; 800,000 square feet | Residential furnaces, residential and light commercial air conditioners and heat pumps | Owned and Leased |
| Grenada, MS | Heatcraft Heat Transfer Division headquarters and factory, 1,000,000 square feet; Advanced Distributor Products factory, 300,000 square feet; commercial products factory, 217,000 square feet | Coils and copper tubing; evaporator coils, gas-fired unit heaters and residential air handlers; and custom order replacement coils | Owned and Leased |
| Stone Mountain, GA | Heatcraft Refrigeration Products Division headquarters, R&D and factory; 145,000 square feet | Commercial and industrial condensing units, packaged chillers and custom refrigeration racks | Owned |
| Marshalltown, IA | Lennox Industries heating and air conditioning products factory, 1,000,000 square feet; distribution center, 300,000 square feet | Residential heating and cooling products, gas furnaces, split-system condensing units, split-system heat pumps and CompleteHeat | Owned and Leased |
| Des Moines, IA | Lennox Industries distribution center and light manufacturing; 352,000 square feet | Central supplier of Lennox repair parts | Leased |
| Carrollton, TX | Lennox Industries heating and air conditioning products development and research facility; 130,000 square feet | N/A | Owned |
| Stuttgart, AR | Lennox Industries light commercial heating and air conditioning factory; 500,000 square feet | Commercial rooftop equipment and accessories | Owned and Leased |
| Union City, TN | Superior Fireplace Company factory; 294,690 square feet | Gas and wood burning fireplaces | Owned |
| Lynwood, CA | Marco Mfg. Inc. headquarters and factory; 200,000 square feet | Gas and wood burning fireplaces | Leased |

INTERNATIONAL FACILITIES

| LOCATION | DESCRIPTION AND APPROXIMATE SIZE | PRINCIPAL PRODUCTS | OWNED/LEASED |
|---|---|---|---|
| Genas, France | Friga-Bohn headquarters and factory; 16,000 square meters | Heat exchangers for refrigeration and air conditioning; refrigeration products, condensers, fluid coolers, pressure vessels, liquid receivers and refrigeration components | * |
| Mions, France | HCF-Lennox headquarters and factories; 12,000 square meters | Air cooled chillers, water cooled chillers, reversible chillers and packaged boilers | * |
| Burgos, Spain | Lennox-Refac factory; 8,000 square meters | Comfort air conditioning equipment, packaged and split units (cooling or heat pump); small and medium capacity water cooled chillers | * |
| Krunkel, Germany | European headquarters and factories for HYFRA GmbH products; 6,000 square meters | Process cooling systems | * |
| Prague, Czech Republic | Janka and Friga-Coil factories; 30,000 square meters | Air handling equipment; heat transfer coils | * |
| Sydney, Australia | Lennox Australia Pty. Ltd. headquarters and factory; 20,000 square feet | Rooftop packaged and split commercial air conditioners | Leased |
| San Jose dos Campos, Brazil | McQuay do Brasil headquarters and factory; 160,000 square feet | Refrigeration condensing units, unit coolers and heat transfer coils | * |
| Etobicoke, Canada | Lennox-Canada factory, 212,000 square feet | Multi-position gas furnaces, gas fireplaces and commercial unit heaters | Owned |

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* Facilities owned or leased by a joint venture in which we have an interest.

In addition to the properties described above and excluding dealer facilities, we lease over 55 facilities in the U.S. for use as sales offices and district warehouses and a limited number of additional facilities worldwide for use as sales and service offices and regional warehouses. We believe that our properties are in good condition and adequate for our requirements. We also believe that our principal plants are generally adequate to meet our production needs.

REGULATION

Our operations are subject to evolving and often increasingly stringent federal, state, local and international laws and regulations concerning the environment. Environmental laws that affect or could affect our domestic operations include, among others, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Occupational Safety and Health Act, the National Environmental Policy Act, the Toxic Substances Control Act, any regulations promulgated under these acts and various other Federal, state and local laws and regulations governing environmental matters. We believe we are in substantial compliance with such existing environmental laws and regulations. Our non-U.S. operations are also subject to various environmental statutes and regulations. Generally, these statutes and regulations impose operational requirements that are similar to those imposed in the U.S. We believe we are in substantial compliance with applicable non-U.S. environmental statutes and regulations.

Refrigerants. In the past decade, there has been increasing regulatory and political pressure to phase out the use of certain ozone depleting substances, including hydrochlorofluorocarbons, which are sometimes referred to as "HCFCs". This development is of particular importance to us and our competitors because of the common usage of HCFCs as refrigerants for air conditioning and refrigeration equipment. As discussed below, we do not believe that implementation of the phase out schedule for HCFCs contained in the current regulations will have a material adverse effect on our financial position or results of operations. We do believe, however, that there will likely be continued pressure by the international environmental community for the U.S. and other countries to accelerate the phase out schedule. We have been an active participant in the ongoing international dialogue on these issues and believe that we are well positioned to react to any changes in the regulatory landscape.

In September 1987, the U.S. became a signatory to an international agreement titled the Montreal Protocol on Substances that Deplete the Ozone Layer. The Montreal Protocol requires its signatories to phase out HCFCs on an orderly basis. All countries in the developed world have become signatories to the Montreal Protocol. The manner in which these countries implement the Montreal Protocol and regulate HCFCs differs widely.

The 1990 U.S. Clean Air Act amendments implement the Montreal Protocol by establishing a program to limit the production, importation and use of specified ozone depleting substances, including HCFCs currently used as refrigerants by us and our competitors. Under the Act and implementing regulations, all HCFCs must be phased out between 2010 and 2030. We believe that these regulations as currently in effect will not have a material adverse effect on our operations. It is not expected that the planned phase out of HCFCs will have a significant impact on the sales of products utilizing these refrigerants prior to the end of the decade. Nonetheless, as the supply of virgin and recycled HCFCs falls, it will be necessary to address the need to substitute permitted substances for HCFCs. Further, the U.S. is under pressure from the international environmental community to accelerate the current 2030 deadline for phase out of HCFCs. An accelerated phase out schedule could adversely affect our future financial results and the industry generally.

We, together with major chemical manufacturers, are continually in the process of reviewing and addressing the potential impact of refrigerant regulations on our products. We believe that the combination of products that presently utilize HCFCs, and products in the field which can be retrofitted to alternate refrigerants, provide a complete line of commercial and industrial products. Therefore, we do not foresee any material adverse impact on our business or competitive position as a result of the Montreal Protocol, the 1990 Clean Air Act amendments or their implementing regulations. However, we believe that the implementation

of severe restrictions on the production, importation or use of refrigerants we employ in larger quantities or acceleration of the current phase out schedule could have such an impact on us and our competitors.

We are subject to appliance efficiency regulations promulgated under the National Appliance Energy Conservation Act of 1987, as amended, and various state regulations concerning the energy efficiency of our products. We have developed and are developing products which comply with National Appliance Energy Conservation Act regulations, and do not believe that such regulations will have a material adverse effect on our business. The U.S. Department of Energy began in 1998 its review of national standards for comfort products covered under National Appliance Energy Conservation Act. It is anticipated that the National Appliance Energy Conservation Act regulations requiring manufacturers to phase in new higher efficiency products will not take effect prior to 2006. We believe we are well positioned to comply with any new standards that may be promulgated by the Department of Energy and do not foresee any adverse material impact from a National Appliance Energy Conservation Act standard change.

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 sent or send waste for treatment or disposal. We are currently involved in remediation activities at our facility in Grenada, Mississippi and at a formerly owned site in Ft. Worth, Texas. In addition, former hazardous waste management units at two of our facilities, Danville, Illinois and Wilmington, North Carolina, are currently in the process of being closed under the Resource Conservation and Recovery Act.

The Resource Conservation and Recovery Act closure process can result in the need to conduct soil and/or groundwater remediation to address any on-site releases. The Grenada facility is subject to an administrative order issued by the Mississippi Department of Environmental Quality under which we will conduct groundwater remediation. We have established a $1.8 million reserve to cover costs of remediation at the Grenada facility and possible costs associated with the Resource Conservation and Recovery Act closure at the Danville facility. We also have installed and are operating a groundwater treatment system at our previously owned facility in Ft. Worth, Texas. We have established a reserve having a balance of approximately $200,000 to cover the projected $50,000 annual operating costs for ongoing treatment at the Ft. Worth site. Resource Conservation and Recovery Act closure activities at the Wilmington facility include an ongoing groundwater remediation project. This project is being conducted and funded by a prior owner of the facility, under an indemnification obligation under the contract pursuant to which we acquired the facility. We have no reason to believe that the prior owner will not continue to conduct and pay for the required remediation at the Wilmington facility. However, if the prior owner refused to meet its contractual obligations, we could be required to complete the remediation.

From time to time we have received notices that we are a potentially responsible party along with other potentially responsible parties in Superfund proceedings for cleanup of hazardous substances at certain sites to which the potentially responsible parties are alleged to have sent waste. At present, our only active Superfund involvements are at the Granville Solvents Superfund Site located in Ohio, the Envirochem Third Site in Illinois and the Operating Industries site in California. Since 1994, we have spent an average of $49,000 per year for costs related to the Granville Solvents site and expect to incur similar costs at the site over the next few years. Total estimated exposure costs at the Envirochem Third Site are approximately $30,000. Marco Mfg., an indirect subsidiary of Lennox, is one of more than 4,000 companies identified as potentially responsible parties for the Operating Industries site. In June 1998, Marco Mfg. received a settlement offer from the Operating Industries steering committee to settle its liability as a de minimis party for approximately $60,000. Marco rejected the settlement offer and has no reason to believe that its ultimate liability will exceed the proposed settlement amount. Based on the facts presently known, we do not believe that environmental cleanup costs associated with these three Superfund sites will have a material adverse effect on our financial position or results of operations.

Dealer operations. The heating and air conditioning dealers acquired in the U.S. and Canada will be subject to various federal, state and local laws and regulations, including, among others:

- permitting and licensing requirements applicable to service technicians in their respective trades;

- building, heating, ventilation, air conditioning, plumbing and electrical codes and zoning ordinances;

- laws and regulations relating to consumer protection, including laws and regulations governing service contracts for residential services; and

- laws and regulations relating to worker safety and protection of the environment.

A large number of state and local regulations governing the residential and commercial maintenance services trades require various permits and licenses to be held by individuals. In some cases, a required permit or license held by a single individual may be sufficient to authorize specified activities for all of our service technicians who work in the geographic area covered by the permit or license.

LEGAL PROCEEDINGS

We are involved in various claims and lawsuits incidental to our business. In the opinion of our management, these claims and suits in the aggregate will not have a material adverse effect on our business, financial condition or results of operations.

## MANAGEMENT

The directors and executive officers of our company, their present positions and their ages are as follows:

| NAME | AGE | POSITION |
|---|---|---|
| John W. Norris, Jr. | 63 | Chairman of the Board and Chief Executive Officer |
| H. E. French | 57 | President and Chief Operating Officer, Heatcraft Inc. |
| Robert E. Schjerven | 56 | President and Chief Operating Officer, Lennox Industries Inc. |
| Michael G. Schwartz | 40 | President and Chief Operating Officer, Armstrong Air Conditioning Inc. |
| Harry J. Ashenhurst | 50 | Executive Vice President, Human Resources |
| Scott J. Boxer | 48 | Executive Vice President, Lennox Global Ltd. and President, European Operations |
| Carl E. Edwards, Jr. | 57 | Executive Vice President, General Counsel and Secretary |
| W. Lane Pennington | 43 | Executive Vice President, Lennox Global Ltd. and President, Asia Pacific Operations |
| Clyde W. Wyant | 60 | Executive Vice President, Chief Financial Officer and Treasurer |
| John J. Hubbuch | 56 | Vice President, Controller and Chief Accounting Officer |
| Linda G. Alvarado | 47 | Director |
| David H. Anderson | 58 | Director |
| Richard W. Booth | 67 | Director |
| Thomas W. Booth | 41 | Director |
| David V. Brown | 51 | Director |
| James J. Byrne | 63 | Director |
| Janet K. Cooper | 44 | Director |
| Thomas B. Howard, Jr. | 70 | Director |
| John E. Major | 53 | Director |
| Donald E. Miller | 68 | Director |
| Terry D. Stinson | 57 | Director |
| Richard L. Thompson | 59 | Director |

There is currently one vacancy on our board of directors which we expect to fill with a non-employee director. The following biographies describe the business experience of our executive officers and directors.

John W. Norris, Jr. was elected Chairman of the board of directors of Lennox in 1991. He has served as a director of Lennox since 1966. After joining Lennox in 1960, Mr. Norris held a variety of key positions including Vice President of Marketing, President of Lennox Industries (Canada) Ltd., a subsidiary of Lennox, and Corporate Senior Vice President. He became President of Lennox in 1977 and was appointed President and Chief Executive Officer of Lennox in 1980. Mr. Norris is on the board of directors of the Air-Conditioning & Refrigeration Institute of which he was chairman in 1986. He is also an active board member of the Gas Appliance Manufacturers Association, where he was Chairman from 1980 to 1981. He also serves as a director of AmerUs Life Holdings, Inc., a life insurance and annuity company, and Metroplex Regional Advisory Board of Chase Bank of Texas, NA.

H. E. French is the President and Chief Operating Officer of Heatcraft Inc., a subsidiary of Lennox. Mr. French joined Lennox in 1989 as Vice President and General Manager of the Refrigeration Products division for Heatcraft Inc. In 1995 he was named President and Chief Operating Officer of Armstrong Air Conditioning Inc., a subsidiary of Lennox. Mr. French was appointed to his current role in 1997. Prior to joining Lennox, Mr. French spent 11 years in management with Wickes/Larkin, Inc.

Robert E. Schjerven was named President and Chief Operating Officer of Lennox Industries Inc., a subsidiary of Lennox, in 1995. In 1986, he joined Lennox as Vice President of Marketing and Engineering for Heatcraft Inc. From 1988 to 1991 he held the position of Vice President and General Manager of that

subsidiary. From 1991 to 1995 he served as President and Chief Operating Officer of Armstrong Air Conditioning Inc. Mr. Schjerven spent the first 20 years of his career with the Trane Company, a HVACR manufacturer, and McQuay-Perfex Inc.

Michael G. Schwartz became the President and Chief Operating Officer of Armstrong Air Conditioning Inc. in 1997. He joined Heatcraft in 1990 when Lennox acquired Bohn Heat Transfer Inc. and served as Director of Sales and Marketing, Original Equipment Manufacturer Products. Prior to his current appointment, he served as Vice President of Commercial Products for Heatcraft Inc. where his responsibilities included the development of Heatcraft's position in the A-Coil market. Mr. Schwartz began his career with Bohn Heat Transfer Inc. in 1981.

Harry J. Ashenhurst was appointed Executive Vice President, Human Resources and Administration in 1994. He joined Lennox in 1989 as Vice President of Human Resources. Dr. Ashenhurst was named Executive Vice President, Human Resources for Lennox in 1990 and in 1994 moved to his current position and assumed responsibility for the Public Relations and Communications and Aviation departments. Prior to joining Lennox, he worked as an independent management consultant with the consulting firm of Roher, Hibler and Replogle. While at Roher, Hibler and Replogle, Dr. Ashenhurst was assigned to work as a corporate psychologist for Lennox.

Scott J. Boxer joined Lennox in 1998 as Executive Vice President, Lennox Global Ltd., a subsidiary of Lennox, and President, European Operations. Prior to joining Lennox, Mr. Boxer spent 26 years with York International Corporation, a HVACR manufacturer, in various roles, most recently as President, Unitary Products Group Worldwide, where he reported directly to the Chairman of that company and was responsible for directing that company's residential and light commercial heating and air conditioning operations worldwide.

Carl E. Edwards, Jr. joined Lennox in February 1992 as Vice President and General Counsel. He became the Secretary of Lennox in April 1992 and was also named Executive Vice President and General Counsel in December 1992. Prior to joining Lennox, he was Vice President, General Counsel and Secretary for Elcor Corporation. He also serves as a director of Kentucky Electric Steel Inc.

W. Lane Pennington was appointed to his current position of Executive Vice President, Lennox Global Ltd. and President, Asia Pacific Operations in 1998. He joined Lennox in 1997 as Vice President, Asia Pacific Operations. From 1988 until 1997, Mr. Pennington was with Hilti International Corp., a worldwide supplier of specialized building products and engineering services for the commercial construction industry, where he most recently served as President, Hilti Asia Limited, based in Hong Kong.

Clyde W. Wyant joined Lennox in 1990 and was appointed Executive Vice President, Chief Financial Officer and Treasurer, the position he still holds. Prior to joining Lennox, he served as Executive Vice President, Chief Financial Officer and Director of Purolator Products Co. (formerly Facet Enterprises, Inc.), a manufacturer of filtration equipment, from 1985 to 1990. In 1965, Mr. Wyant began his career with Helmerich & Payne Inc., an oil service company, where he last served as Vice President, Finance.

John J. Hubbuch was named Vice President, Controller and Chief Accounting Officer of Lennox in 1998. Mr. Hubbuch joined Lennox in 1986 as the Division Controller for Heatcraft Inc. In 1989 he became Heatcraft's Group Controller. From 1982 to 1986, Mr. Hubbuch was the Division Controller for McQuay-Perfex Inc./SynderGeneral. In 1992 he became Corporate Controller of Lennox.

Linda G. Alvarado has served as a director of Lennox since 1987. She is President of Alvarado Construction, Inc. a general contracting firm specializing in commercial, government and industrial construction and environmental remediation projects. She currently serves on the Board of Directors of Cyprus Amax Minerals Company, a diversified mining company, US West Communications, Inc., a telecommunications company, Englehard Corporation, a commercial catalyst and pigments company, and Pitney Bowes Inc., an office equipment and services company, and is part owner of the Colorado Rockies Baseball Club.

David H. Anderson has served as a director of Lennox since 1973. Mr. Anderson currently serves as the Co-Executive Director of the Santa Barbara Museum of Natural History. He formerly had a private law practice specializing in land use and environmental law. Mr. Anderson also serves as legal counsel for a local land conservation organization in Santa Barbara County. He currently serves on the Boards of the California Nature Conservancy, the Land Trust for Santa Barbara County and the Santa Barbara Foundation.

Richard W. Booth has served as a director of Lennox since 1966. Mr. Booth retired from Lennox in 1992 as Executive Vice President, Administration and Secretary, a position he had held since 1983. Mr. Booth held a variety of key positions after joining Lennox in 1954. He serves on the board of directors of Employers Mutual Casualty Company, a casualty insurance company, and is a member of the board of trustees of Grinnell College.

Thomas W. Booth has served as a director of Lennox since April 1999. Since 1997, Mr. Booth has been the Director, Business Development of Heatcraft Inc. Mr. Booth joined Lennox in 1984 and has served in various capacities including the District Manager for the Baltimore/Virginia sales branch of Lennox Industries from 1994 to 1997.

David V. Brown has served as a director of Lennox since 1989. Dr. Brown owns the Plantation Farm Camp, a working 500-acre ranch with livestock that provides learning in a farm setting for children. He is currently serving on the Strategic Planning Board of the Western Association of Independent Camps, an educational organization for training camp advisors.

James J. Byrne has served as a director of Lennox since 1990. He has been a managing partner of Byrne Technology Partners, Ltd., a management services company for technology companies, since January 1996. Prior to his current role, he held a number of positions in the technology industry including President of Harris Adacom Corporation, a network products and services company, Senior Vice President of United Technologies Corporation's Semiconductor Operation and President of North American group of Mohawk Data Sciences, a manufacturer of distributed computer products. Mr. Byrne began his career with General Electric Company. Mr. Byrne is a Director of STB Systems Inc., a developer of video boards for personal computer manufacturers, and ICARUS International, Inc., a developer of engineering software.

Janet K. Cooper has served as a director of Lennox since April 1999. Ms. Cooper has been the Vice President and Treasurer of US West, Inc., a regional Bell operating company, since 1998. From 1978 to 1998, Ms. Cooper served in various capacities with The Quaker Oats Company, including its Vice President, Treasurer & Tax from 1992 to 1998. Ms. Cooper serves on the board of directors of The TORO Company, a manufacturer of equipment for lawn and turf care maintenance.

Thomas B. Howard, Jr. has served as a director of Lennox since 1980. From 1989 to 1992, Mr. Howard served as Chairman and Chief Executive Officer of Beazer U.S.A. and as a Director of Beazer PLC (U.K.), a manufacturer of construction materials. From 1969 to 1989, Mr. Howard served Gifford-Hill & Company Inc. in various capacities most recently as its Chief Executive Officer. After Gifford-Hill was acquired by Beazer PLC (U.K.), Mr. Howard assumed the position of Chairman and Chief Executive Officer, a position he held until he retired in 1992. He is a member of the board of directors of Beazer Homes USA.

John E. Major has served as a director of Lennox since 1993. Mr. Major has been the Chairman, Chief Executive Officer and President of Wireless Knowledge, a QUALCOMM Incorporated and Microsoft joint venture which operates a network operation center, since November 1998. Previously he was Executive Vice President of QUALCOMM and President of its Wireless Infrastructure Division, and was responsible for managing and guiding the market potential for CDMA infrastructure products. Prior to joining QUALCOMM in 1997, Mr. Major served most recently as Senior Vice President and Staff Chief Technical Officer at Motorola, Inc., a manufacturer of telecommunications equipment, and Senior Vice President and General Manager for Motorola's Worldwide Systems Group of the Land Mobile Products Sector. Mr. Major currently serves on the board of directors of Littlefuse, Inc., a manufacturer of fuses, and Verilink Corporation, a manufacturer of network access devices.

Donald E. Miller has served as a director of Lennox since 1987. Mr. Miller spent his 35 year career with The Gates Corporation, an industrial and automotive rubber products manufacturer. He retired as Vice

Chairman of that company in 1996. From 1987 until 1994 he held the position of President and Chief Operating Officer of The Gates Corporation. Mr. Miller serves on the board of directors of Sentry Insurance Corporation, a mutual insurance company, OEA, Inc., a company engaged in specialized automotive and aerospace technologies, and Chateau Communities Inc., a real estate investment trust, and is the President of the Board of Colorado School of Mines Foundation.

Terry D. Stinson has served as a director of Lennox since 1998. Mr. Stinson has been the Chairman and Chief Executive Officer of Bell Helicopter Textron Inc., the aircraft segment of Textron Inc., a multi-industry corporation, since 1998 and was its President from 1996 to 1998. From 1991 to 1996, Mr. Stinson served as Group Vice President and Segment President of Textron Aerospace Systems and Components for Textron Inc. Prior to that position, he had been the President of Hamilton Standard Division of United Technologies Corporation, a defense supply company, since 1986.

Richard L. Thompson has served as a director of Lennox since 1993. In 1995, Mr. Thompson was named to his present position of Group President and member of the Executive Office of Caterpillar Inc., a manufacturer of construction and mining equipment. He joined Caterpillar in 1983 as Vice President, Customer Services. In 1990, he was appointed President of Solar Turbines Inc., a wholly owned subsidiary of Caterpillar and manufacturer of gas turbines. From 1990 to 1995, he held the role of Vice President of Caterpillar, with responsibility for its worldwide engine business. Previously, he had held the positions of Vice President of Marketing and Vice President and General Manager, Components Operations with RTE Corporation, a manufacturer of electrical distribution products.

John W. Norris, Jr., Richard W. Booth, David H. Anderson and David V. Brown are all grandchildren of D.W. Norris, and Thomas W. Booth is a great grandchild of D.W. Norris. John W. Norris, Jr., David V. Brown, Richard W. Booth and David H. Anderson are first cousins. Richard W. Booth is the father of Thomas W. Booth.

## INFORMATION REGARDING THE BOARD OF DIRECTORS AND COMMITTEES

Our board of directors is divided into three classes of directors, with each class elected to a three-year term every third year and holding office until their successors are elected and qualified. The class whose term of office will expire at our 2000 Annual Meeting of Stockholders consists of Linda G. Alvarado, Richard W. Booth, David V. Brown, Thomas B. Howard, Jr. and John E. Major. The class whose term of office will expire at our 2001 Annual Meeting of Stockholders consists of Janet K. Cooper, Terry D. Stinson and Richard L. Thompson. The class whose term of office will expire at our 2002 Annual Meeting of Stockholders consists of David H. Anderson, Thomas W. Booth, James J. Byrne, Donald E. Miller and John W. Norris, Jr.

Our board of directors has established an audit committee, acquisition committee, board operations committee, human resource committee, compensation committee and a pension and risk management committee. The audit committee is responsible for meeting with management and our independent accountants to determine the adequacy of internal controls and other financial reporting matters. The following directors currently serve on the audit committee: John E. Major (chair), Linda G. Alvarado, Janet K. Cooper, Donald E. Miller and Terry D. Stinson.

The acquisition committee is responsible for evaluating potential acquisitions and making recommendations on proposed acquisitions. The following directors currently serve on the acquisition committee: Donald E. Miller (chair), David H. Anderson, Janet K. Cooper, Thomas B. Howard, Jr., Terry D. Stinson and Richard L. Thompson.

The board operations committee is responsible for making recommendations on the election of directors and officers, the number of directors, and other matters pertaining to the operations of our board of directors. The following directors currently serve on the board operations committee: Richard W. Booth (chair), David V. Brown, James J. Byrne, Janet K. Cooper and Terry D. Stinson.

The human resource committee is responsible for succession planning, management development programs and other human resource matters. The following directors currently serve on the human resource

committee: James J. Byrne (chair), Linda G. Alvarado, David V. Brown, Thomas B. Howard, Jr., John E. Major and Richard L. Thompson.

The compensation committee is responsible for evaluating the performance of our chief executive officer, making recommendations with respect to the salary of our chief executive officer, approving the compensation of executive staff members, approving the compensation for non-employee directors and committee members, approving incentive stock options for senior management, approving all employee benefit plan designs and other matters relating to the compensation of our directors, officers and employees. The following directors currently serve on the compensation committee: Richard L. Thompson (chair), Linda G. Alvarado, James J. Byrne, John E. Major and Thomas B. Howard, Jr.

The pension and risk management committee is responsible for overseeing the administration of our pension and profit sharing plans, overseeing matters relating to our insurance coverage, reviewing matters of legal liability and environmental issues, and other matters relating to risk management. The following directors currently serve on the pension and risk management committee: David H. Anderson (chair), Richard W. Booth, Thomas W. Booth and Donald E. Miller.

## COMPENSATION OF DIRECTORS

In 1999, non-employee directors will receive an annual retainer of $21,000 in cash and $5,000 in common stock for board of directors and committee service, an annual retainer of $4,000 in cash for serving as a committee chair and a fee of $1,000, or $500 in the event of a telephonic meeting, in cash for attending each meeting day of the board of directors or any committee of the board. Board members may elect to receive the cash portion of their annual retainer in cash or shares of common stock. All directors receive reimbursement for reasonable out-of-pocket expenses incurred in connection with attendance at meetings of the board of directors or any committee of the board. In addition, each non-employee director may receive, under our 1998 incentive plan, options to purchase shares of common stock at an exercise price equal to the fair market value of such shares at the date of grant.

## EXECUTIVE COMPENSATION

The following table sets forth information on compensation earned in 1998 by our Chief Executive Officer and our four other most highly compensated executive officers, such individuals sometimes being referred to as the "named executive officers". In the third quarter of 1998, we terminated the Lennox International Inc. performance share plan in connection with the adoption of the 1998 incentive plan. We terminated the performance share plan to reduce potential earnings volatility associated with the application of variable price accounting rules to the provisions of the plan. The amounts in the LTIP Payouts column in the Summary Compensation Table below consists of the value of common stock issued to the named executive officers in connection with the termination of the performance share plan and in full settlement of our obligations under that plan. Performance awards are now granted under our 1998 incentive plan.

SUMMARY COMPENSATION TABLE

| | | | LONG-TERM COMPENSATION | | | |
|---|---|---|---|---|---|---|
| | ANNUAL COMPENSATION | | AWARDS | | PAYOUTS | |
| NAME | SALARY | BONUS(1) | RESTRICTED STOCK AWARDS(2) | SECURITIES UNDERLYING OPTIONS/SARS GRANTED | LTIP PAYOUTS(3) | ALL OTHER COMPENSATION(4) |
| John W. Norris, Jr. | $648,660 | $1,130,003 | $1,960,304 | | $2,043,909 | $146,600 |
| Robert L. Jenkins(5) | 361,200 | 370,158 | 288,206 | | 859,815 | 91,425 |
| Robert E. Schjerven | 335,400 | 323,562 | 739,038 | | 750,994 | 86,656 |
| H.E. French | 309,852 | 328,902 | 502,320 | | 595,940 | 80,389 |
| Clyde W. Wyant | 291,300 | 348,639 | 516,762 | | 718,883 | 67,645 |

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(1) Includes annual incentive payments for the respective year from two annual variable pay plans.

(2) Represents performance share awards of the following number of shares of restricted common stock granted pursuant to the 1998 incentive plan in December 1998 multiplied by the stock price on the grant date, $ per share: Mr. Norris -- ; Mr. Jenkins -- ; Mr. Schjerven -- ; Mr. French -- ; and Mr. Wyant -- . Such shares represent all of such individual's holdings of restricted common stock at December 31, 1998. For the named executive officers, shares will vest at December 31, 1999, shares will vest at December 31, 2000 and the remainder will vest at December 31, 2001, in each case if performance targets are met. Shares which do not vest in any performance period due to failure to achieve such goals will vest in 2006, 2007 and 2008, respectively. Information about performance share awards made under the 1998 incentive plan in December 1998 which do not vest unless certain performance goals are met is set forth in the table titled "Long-Term Incentive Plans -- Awards in Last Fiscal Year."

(3) Represents awards of shares of common stock multiplied by the stock price on the award date, $ per share, in connection with the termination of the performance share plan.

(4) Composed of contributions by Lennox to its profit sharing retirement plan and to profit sharing restoration plan and the dollar value of term life insurance premiums paid by us for the benefit of the named executive officers. Contributions to the plans for the named executive officers were as follows: Mr. Norris -- $139,730; Mr. Jenkins -- $86,223; Mr. Schjerven -- $81,369; Mr. French -- $73,833; and Mr. Wyant -- $62,619.

(5) On December 31, 1998, Mr. Jenkins retired from his position as the Assistant to the Chairman of the Board -- Business Development.

We maintain a pay-for-performance compensation philosophy to pay market-competitive base salaries, while also delivering variable pay which is directly linked to the achievement of performance measurements and to the performance and contribution of the individual.

Executive compensation is composed of three primary components: base salary, variable pay and benefits and perquisites. In order to evaluate the competitiveness of our total compensation programs, we have periodically engaged Hewitt Associates LLC, a human resources consulting firm, to conduct market analyses of the compensation programs for executive level jobs within our organization. In doing so, we emphasize delivering competitive total compensation opportunities, while maintaining the flexibility to design individual compensation components to support critical business objectives.

The following table provides information concerning stock options granted to the named executive officers in 1998.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

| | INDIVIDUAL GRANTS | | | | |
|---|---|---|---|---|---|
| NAME | NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED | PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR | EXERCISE OR BASE PRICE | EXPIRATION DATE | GRANT DATE PRESENT VALUE(1) |
| John W. Norris, Jr.... | | 16.7% | | December 11, 2008 | $755,325 |
| Robert L. Jenkins..... | | -- | | -- | -- |
| Robert E. Schjerven... | | 5.6 | | December 11, 2008 | 251,775 |
| H. E. French..... | | 4.1 | | December 11, 2008 | 184,635 |
| Clyde W. Wyant..... | | 4.1 | | December 11, 2008 | 184,635 |

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(1) The grant date present values shown in the table were determined using the Black-Scholes option valuation model using the following assumptions: stock price volatility of 35.4% which represents an average volatility among general industry companies; expected option life of 10.0 years; dividend yield of 1.66%; risk free interest rate of 4.53%; Hewitt Associates Modified Derived Value: $ which includes the following additional assumptions: discounts for the probability of termination for death, disability, retirement and voluntary/involuntary terminations.

The following table provides for each of the named executive officers the options exercised during 1998 and the number of options and the value of unexercised options held by the named executive officers as of December 31, 1998.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

| NAME | SHARES ACQUIRED ON EXERCISE | VALUE REALIZED | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT DECEMBER 31, 1998 | | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT DECEMBER 31, 1998(1) | |
|---|---|---|---|---|---|---|
| | | | EXERCISABLE | UNEXERCISABLE | EXERCISABLE | UNEXERCISABLE |
| John W. Norris, Jr. | | -- | | | $1,872,771 | 0 |
| Robert L. Jenkins | | $ 812,648 | -- | -- | -- | -- |
| Robert E. Schjerven | | 1,042,300 | -- | | -- | 0 |
| H. E. French | | 1,363,807 | -- | | -- | 0 |
| Clyde W. Wyant | | 360,121 | | | 1,106,297 | 0 |

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(1) Calculated on the basis of the fair market value of the underlying securities as of December 31, 1998, $ per share, minus the exercise price of "in-the-money" options

The following table provides information concerning performance share awards made under the 1998 incentive plan to the named executive officers in 1998. The named executive officers are awarded a number of shares of common stock subject to achievement of performance targets based on the average return on equity for a three year period. Information about the portion of the award that becomes vested regardless of whether the performance goals are met is presented under the Restricted Stock Awards column in the table titled "Summary Compensation Table." Presented below is the maximum number of shares of common stock that may be payable to each of the named executive officers that is subject to achievement of the performance goals. The actual number of shares awarded depends on the level of achievement of the performance objectives.

LONG-TERM INCENTIVE PLANS -- AWARDS IN LAST FISCAL YEAR

| NAME | NUMBER OF SHARES, UNITS OR OTHER RIGHTS | PERFORMANCE OR OTHER PERIOD UNTIL MATURATION OR PAYOUT |
|---|---|---|
| John W. Norris, Jr. | | 3 years |
| Robert L. Jenkins | | 3 years |
| Robert E. Schjerven | | 3 years |
| H. E. French | | 3 years |
| Clyde W. Wyant | | 3 years |

1998 INCENTIVE PLAN

GENERAL

Our board of directors has adopted, and our stockholders have approved, the 1998 incentive plan. The 1998 incentive plan amends and restates the 1994 stock option and restricted stock plan. Any outstanding awards under the 1994 stock option and restricted stock plan will remain outstanding. The objectives of the 1998 incentive plan are to attract and retain employees, to attract and retain qualified directors and to stimulate the active interest of such persons in our development and financial success. Awards provide participants with a proprietary interest in our growth and performance. The description below represents a summary of the principal terms and conditions of the 1998 incentive plan.

Awards to our employees or independent contractors under the 1998 incentive plan may be made in the form of grants of stock options, stock appreciation rights, restricted or non-restricted stock or units denominated in stock, cash awards or performance awards or any combination of these awards. Awards to non-employee directors under the 1998 incentive plan will be in the form of grants of stock options.

The 1998 incentive plan provides for awards to be made in respect of a maximum of shares of our common stock, of which shares will be available for awards to our employees and the remainder of which will be available for awards to non-employee directors. No participant under the 1998 incentive plan may be granted in any 12-month period awards consisting of stock options or stock appreciation rights for more than shares of common stock, stock awards for more than shares of common stock or cash awards in excess of $ . Shares of common stock which are the subject of awards that are forfeited or terminated or expire unexercised will again immediately become available for awards under the 1998 incentive plan.

Our compensation committee will have the exclusive authority to administer the 1998 incentive plan as it relates to employee awards and to take all actions which are specifically contemplated by the plan or are necessary or appropriate in connection with the administration thereof. The compensation committee may, in its discretion:

- provide for the extension of the exercisability of an award;
- accelerate the vesting or exercisability of an award to our employees;
- eliminate or make less restrictive any restrictions contained in an award to our employees;
- waive any restriction or other provision of the 1998 incentive plan or in any award to our employees; or
- otherwise amend or modify an award to our employees in any manner that is either not adverse to the employee holding the award or consented to by such employee.

EMPLOYEE AWARDS

The compensation committee will determine the type or types of awards made under the 1998 incentive plan and will designate the employees who are to be recipients of such awards. Each award may be embodied in an agreement, which will contain such terms, conditions and limitations as are determined by the compensation committee. Awards to our employees may be granted singly, in combination or in tandem. Awards to our employees may also be made in combination or in tandem with, in replacement of, or as alternatives to, grants or rights under the 1998 incentive plan or any other employee plan or program of Lennox, including any acquired entity. All or part of an award to our employees may be subject to conditions established by the compensation committee, which may include continuous service with Lennox, achievement of specific business objectives, increases in specified indices, attainment of specified growth rates and other comparable measurements of performance.

The types of awards to our employees that may be made under the 1998 incentive plan are as follows:

Options: Options are rights to purchase a specified number of shares of common stock at a specified price. An option granted under the 1998 incentive plan may consist of either an incentive stock option that complies with the requirements of Section 422 of the Internal Revenue Code of 1986, or a non-qualified stock option that does not comply with such requirements. Incentive stock options must have an exercise price per share that is not less than the fair market value of the common stock on the date of grant. To the extent that the aggregate fair market value, measured at the time of grant, of common stock subject to incentive stock options that first become exercisable by an employee in any one calendar year exceeds $100,000, such options shall be treated as non-qualified stock options and not as incentive stock options. Non-qualified stock options must have an exercise price per share that is not less than, but may exceed, the fair market value of the common stock on the date of grant. In either case, the exercise price must be paid in full at the time an option is exercised in cash or, if the employee so elects, by means of tendering common stock or surrendering another award.

Stock Appreciation Rights: Stock appreciation rights are rights to receive a payment, in cash or common stock, equal to the excess of the fair market value or other specified valuation of a specified number of shares of common stock on the date the rights are exercised over a specified strike price. A stock appreciation right may be granted in tandem under the 1998 incentive plan to the holder of an option with respect to all or a portion of the shares of common stock subject to such option or may be granted separately. The terms, conditions and limitations applicable to any stock appreciation rights, including the term of any stock

appreciation rights and the date or dates upon which they become exercisable, will be determined by our compensation committee.

Stock Awards: Stock awards consist of grants of restricted common stock or non-restricted common stock or units denominated in common stock. The terms, conditions and limitations applicable to any stock awards will be determined by our compensation committee. The compensation committee may remove any restrictions on stock awards, at its discretion. Rights to dividends or dividend equivalents may be extended to and made part of any stock award in the discretion of the compensation committee.

Cash Awards: Cash awards consist of grants denominated in cash. The terms, conditions and limitations applicable to any cash awards will be determined by our compensation committee.

Performance Awards: Performance awards consist of grants made to an employee subject to the attainment of one or more performance goals. A performance award will be paid, vested or otherwise deliverable solely upon the attainment of one or more pre-established, objective performance goals established by our compensation committee prior to the earlier of (a) 90 days after the commencement of the period of service to which the performance goals relate and (b) the elapse of 25% of the period of service, and in any event while the outcome is substantially uncertain. A performance goal may be based upon one or more business criteria that apply to the employee, one or more business units of Lennox or Lennox as a whole. The terms, conditions and limitations applicable to any performance awards will be determined by our compensation committee.

DIRECTOR AWARDS

Our board of directors will administer the 1998 incentive plan as it relates to awards to non-employee directors. The board will have the right to determine on an annual basis, or at any other time in its sole discretion, to award options which are non-qualified stock options to non-employee directors. Such options awarded shall provide that no more than shares of common stock be purchased in any year. All options awarded to directors shall have a term of 10 years and shall vest and become exercisable in increments of one-third on each of the three succeeding anniversaries after the date of grant. Unvested options awarded to directors shall be forfeited if a director resigns without the consent of the majority of our board of directors.

OTHER PROVISIONS

Our board of directors may amend, modify, suspend or terminate the 1998 incentive plan for the purpose of addressing any changes in legal requirements or for any other purpose permitted by law, except that:

- no amendment that would impair the rights of any employee or non-employee director to any award may be made without the consent of such employee or non-employee director; and

- no amendment requiring stockholder approval under any applicable legal requirements will be effective until such approval has been obtained.

In the event of any subdivision or consolidation of outstanding shares of our common stock, declaration of a stock dividend payable in shares of our common stock or other stock split, the 1998 incentive plan provides for our board of directors to make appropriate adjustments to:

- the number of shares of common stock reserved under the 1998 incentive plan;

- the number of shares of common stock covered by outstanding awards in the form of common stock or units denominated in common stock;

- the exercise or other price in respect of such awards;

- the appropriate fair market value and other price determinations for awards in order to reflect such transactions; and

- the limitations in the 1998 incentive plan regarding the number of awards which may be made to any employee in a given year.

Furthermore, in the event of any other recapitalization or capital reorganization of Lennox, any consolidation or merger of Lennox with another corporation or entity, the adoption by Lennox of any plan of exchange affecting the common stock or any distribution to holders of common stock or securities or property, other than normal cash dividends or stock dividends, our board of directors will make appropriate adjustments to the amounts or other items referred to above to give effect to such transactions, but only to the extent necessary to maintain the proportionate interest of the holders of the awards and to preserve, without exceeding, the value of the awards.

RETIREMENT PLANS

The named executive officers participate in four Lennox-sponsored retirement plans. The plans are as follows: the pension plan for salaried employees, the profit sharing retirement plan, the supplemental retirement plan, and the profit sharing restoration plan. The supplemental retirement plan and the profit sharing restoration plan are non-qualified plans. We pay the full cost of all these plans.

The pension plan for salaried employees is a floor offset plan. A target benefit is calculated using credited service and final average pay during the five highest consecutive years. The benefit is currently based on 1.00% of final average pay, plus .60% of final average pay above Social Security covered compensation, times the number of years of credited service, not to exceed 30 years. Employees vest after five years of service and may commence unreduced benefits at age 65. If specified age and service requirements are met, benefits may commence earlier on an actuarially reduced basis. At time of retirement, a participant may choose one of five optional forms of payment. The supplemental retirement plan permits income above Internal Revenue Service limitations to be considered in determining final average pay, doubles the rate of benefit accrual, limits credited service to 15 years and permits early retirement on somewhat more favorable terms than the pension plan.

The profit sharing retirement plan is a defined contribution plan. Profit sharing contributions, as determined by our board of directors, are credited annually to participants' accounts based on pay. Participants are fully vested after 6 years. The assets of the plan are employer directed. Distributions may occur at separation of employment and can be paid directly to the participant. The restoration plan permits accruals that otherwise could not occur because of Internal Revenue Service limitations on compensation.

The estimates of annual retirement benefits shown in the following table are the targets established by the supplemental retirement plan.

| FINAL AVERAGE EARNINGS(1) | YEARS OF SERVICE 5 | 10 | 15 | 20 | 25 | 30 |
|---|---|---|---|---|---|---|
| $ 250,000 | $ 35,896 | $ 71,792 | $107,688 | $107,688 | $107,688 | $107,688 |
| 425,000 | 63,896 | 127,792 | 191,688 | 191,688 | 191,688 | 191,688 |
| 600,000 | 91,896 | 183,792 | 275,688 | 275,688 | 275,688 | 275,688 |
| 775,000 | 119,896 | 239,792 | 359,688 | 359,688 | 359,688 | 359,688 |
| 950,000 | 147,896 | 295,792 | 443,688 | 443,688 | 443,688 | 443,688 |
| 1,125,000 | 175,896 | 351,792 | 527,688 | 527,688 | 527,688 | 527,688 |

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(1) Final Average Earnings are the average of the five highest consecutive years of includible earnings. Compensation for these purposes includes salary and bonuses, and excludes extraordinary compensation such as benefits from the 1998 incentive plan or its predecessor plans. Bonus numbers used in these calculations, as per plan requirements, are the bonuses actually paid in those years. In the Summary Compensation Table, the 1998 bonus reported is the bonus earned in 1998, but not paid until 1999.

As of December 31, 1998, the final average pay and the eligible years of credited service for each of the named executive officers was as follows: Mr. Norris, $855,001 -- 38.25 years; Mr. Jenkins, $483,948 -- 14.00 years; Mr. Wyant, $402,391 -- 8.30 years; Mr. Schjerven, $411,416 -- 12.80 years; Mr. French, $340,666 -- 9.80 years.

EMPLOYMENT AGREEMENTS

We have entered into an employment agreement with each of the named executive officers who are currently employees of Lennox. These employment agreements establish a specified duration or term of employment; the basis of compensation and assignments; and post-employment covenants covering confidential information, the diverting of employees, vendors and contractors and the solicitation of customers. These agreements also establish binding arbitration as the mechanism for resolving disputes and provide benefits and income in the event employment terminates under specified circumstances.

The agreements commence on the date they are signed by both parties and remain in effect until December 31 of that year and afterwards for a series of one-year terms. On January 1 of each year after the end of the first term and for each year afterwards, the agreements automatically renew for an additional year, unless either party notifies the other, in writing, at least 30 days prior to such date, of a decision not to renew the agreement.

If we terminate the employee prior to the expiration of the term of the agreement or if we do not renew the agreement for any reason other than for cause, the employee will be entitled to receive monthly payments of the greater of the employee's base salary for the remainder of the agreement's term or three months of the employee's base salary in addition to any other compensation or benefits applicable to an employee at the employee's level.

If we terminate the employee other than for cause, including our non-renewal of the agreement, and the employee agrees to execute a written general release of any and all possible claims against us existing at the time of termination, we will provide the employee with an enhanced severance package. That package includes payment of the employee's base monthly salary for a period of twenty-four months following the date of termination, a lump sum payment of $12,000 in lieu of perquisites lost, and forgiveness of COBRA premiums due for group health insurance coverage for up to eighteen months while the employee remains unemployed. If the employee remains unemployed at the end of eighteen months, the equivalent of the COBRA premium will be paid to the employee on a month to month basis for up to six additional months while the employee remains unemployed. Outplacement services are provided or, at the employee's election, a lump-sum payment of 10% of the employee's annual base salary will be made to the employee in lieu of those services. Additionally, the employee's beneficiary will receive a lump-sum death benefit equivalent to six months of the employee's base salary should the employee die while entitled to enhanced severance payments.

CHANGE OF CONTROL EMPLOYMENT AGREEMENTS

We have entered into a change of control employment agreement with each of the named executive officers who are currently employees of Lennox. The change of control agreements provide for certain benefits under specified circumstances if the officer's employment is terminated following a change of control transaction involving Lennox. The change of control agreements are intended to provide protections to the officers that are not afforded by their existing employment agreements, but not to duplicate benefits provided by the existing employment agreements. The term of the change of control agreements is generally two years from the date of a potential change of control, as discussed below, or a change of control. If the officer remains employed at the conclusion of such term, the officer's existing employment agreement will continue to apply. The employment rights of the named executive officers under the change of control agreements would be triggered by either a change of control or a potential change of control. Following a potential change of control, the term of the change of control agreement may terminate but the change of control agreement will remain in force and a new term of the agreement will apply to any future change of control or potential change of control, if either (a) our board of directors determines that a change of control is not likely or (b) the named executive officer, upon proper notice to us, elects to terminate his term of the change of control agreement as of any anniversary of the potential change of control.

A "change of control" generally includes the occurrence on or after the date of the offering of any of the following:

(a) any person, other than specified exempt persons, including Lennox and its subsidiaries and employee benefit plans, becoming a beneficial owner of 35% or more of the shares of common stock or voting stock of Lennox then outstanding, including as a result of the offering;

(b) a change in the identity of a majority of the persons serving as members of our board of directors, unless such change was approved by a majority of the incumbent members of our board of directors;

(c) the approval by the stockholders of a reorganization, merger or consolidation in which:

(1) existing stockholders would not own more than 65% of the common stock and voting stock of the resulting company;

(2) a person, other than specified exempt persons, would own 35% or more of the common stock or voting stock of the resulting company; or

(3) less than a majority of the board of the resulting company would consist of the then incumbent members of our board of directors; or

(d) the approval by the stockholders of a liquidation or dissolution of Lennox, unless such liquidation or dissolution is part of a plan of liquidation or dissolution involving a sale to a company of which following such transaction:

(1) more than 65% of the common stock and voting stock would be owned by existing stockholders;

(2) no person, other than specified exempt persons, would own 35% or more of the common stock or voting stock of such company; and

(3) at least a majority of the board of directors of such company would consist of the then incumbent members of our board of directors.

A "potential change in control" generally includes any of the following:

- the commencement of a tender or exchange offer for voting stock that, if consummated, would result in a change of control;

- Lennox entering into an agreement which, if consummated, would constitute a change of control;

- the commencement of a contested election contest subject to proxy rules; or

- the occurrence of any other event that our board of directors determines could result in a change of control.

During the term of the change of control agreement, an officer's position, authority, duties and responsibilities may not be diminished, and all forms of compensation, including salary, bonus, regular salaried employee plan benefits, stock options, restricted stock and other awards, must continue on a basis no less favorable than at the beginning of the term of the change of control agreement and, in the case of specified benefits, must continue on a basis no less favorable in the aggregate than the most favorable application of such benefits to any of our employees.

If an officer terminates employment during the term of the change of control agreement for good reason and we fail to honor the terms of the change of control agreement, we will pay the officer:

- his then unpaid current salary and a pro rata portion of the highest bonus earned during the three preceding years, as well as previously deferred compensation and accrued vacation time;

- a lump-sum benefit equal to the sum of three times the officer's annual base salary and three times the annual bonus he would have earned in the year of termination;

- for purposes of our supplemental retirement plan and our profit sharing restoration plan, three additional years added to both his service and age criteria; and

- continued coverage under our employee welfare benefits plans for up to four and one-half years.

In addition, all options, restricted stock and other compensatory awards held by the officer will immediately vest and become exercisable, and the term of these awards will be extended for up to one year following termination of employment. The officer may also elect to cash out equity-based compensatory awards at the highest price per share paid by specified persons during the term of the change of control agreement or the six-month period prior to the beginning of the term of the change of control agreement.

In the event of any contest concerning a change of control agreement in which the officer is successful, in whole or in part, on the merits:

- we have no right of offset;

- the officer is not required to mitigate damages; and

- we agree to pay any legal fees incurred by the officer in connection with such contest.

We also agree to pay all amounts owing to the officer during any period of dispute, subject only to the officer's agreement to repay any amounts to which he is determined not to be entitled. The change of control agreements provide for a tax gross-up in the event that specified excise taxes are applicable to payments made by us under a change of control agreement or otherwise. The change of control agreements require the officer to maintain the confidentiality of our information, and, for a period of 24 months following his termination of employment, to avoid any attempts to induce our employees to terminate their employment with us.

INDEMNIFICATION AGREEMENTS

We have entered into indemnification agreements with our directors and a number of our executive officers. Under the terms of the indemnification agreements, we have generally agreed to indemnify, and advance expenses to, each indemnitee to the fullest extent permitted by applicable law on the date of the agreements and to such greater extent as applicable law may at a future time permit. In addition, the indemnification agreements contain specific provisions pursuant to which we have agreed to indemnify each indemnitee:

- if such person is, by reason of his or her status as a director, nominee for director, officer, agent or fiduciary of ours or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise with which such person was serving at our request, any such status being referred to as a "corporate status," made or threatened to be made a party to any threatened, pending or completed action, suit, arbitration, alternative dispute resolution mechanism, investigation or other proceeding, other than a proceeding by or in the right of Lennox;

- if such person is, by reason of his or her corporate status, made or threatened to be made a party to any proceeding brought by or in the right of Lennox to procure a judgment in its favor, except that no indemnification shall be made in respect of any claim, issue or matter in such proceeding as to which such indemnitee shall have been adjudged to be liable to Lennox if applicable law prohibits such indemnification, unless and only to the extent that a court shall otherwise determine;

- against expenses actually and reasonably incurred by such person or on his or her behalf in connection with any proceeding to which such indemnitee was or is a party by reason of his or her corporate status and in which such indemnitee is successful, on the merits or otherwise;

- against expenses actually and reasonably incurred by such person or on his or her behalf in connection with a proceeding to the extent that such indemnitee is, by reason of his or her corporate status, a

witness or otherwise participates in any proceeding at a time when such person is not a party in the proceeding; and

- against expenses actually and reasonably incurred by such person in certain judicial adjudications of or awards in arbitration to enforce his or her rights under the indemnification agreements.

In addition, under the terms of the indemnification agreements, we have agreed to pay all reasonable expenses incurred by or on behalf of an indemnitee in connection with any proceeding, whether brought by or in the right of Lennox or otherwise, in advance of any determination with respect to entitlement to indemnification and within 15 days after the receipt by us of a written request from such indemnitee for such payment. In the indemnification agreements, each indemnitee has agreed that he or she will reimburse and repay us for any expenses so advanced to the extent that it shall ultimately be determined that he or she is not entitled to be indemnified by us against such expenses.

The indemnification agreements also include provisions that specify the procedures and presumptions which are to be employed to determine whether an indemnitee is entitled to indemnification. In some cases, the nature of the procedures specified in the indemnification agreements varies depending on whether we have undergone a change in control.

## PRINCIPAL AND SELLING STOCKHOLDERS

The following table contains information regarding the beneficial ownership of our common stock as of April 30, 1999 and as adjusted to reflect the offering by the following individuals:

- each person known by us to own more than 5% of the outstanding shares of common stock;
- each of our directors;
- each named executive officer;
- all executive officers and directors as a group; and
- each selling stockholder.

All persons listed have an address in care of our principal executive offices and have sole voting and investment power of their shares unless otherwise indicated.

The information contained in this table reflects "beneficial ownership" as defined in Rule 13d-3 of the Securities Exchange Act of 1934. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options held by that person that were exercisable on April 30, 1999 or became exercisable within 60 days following April 30, 1999 are considered outstanding. However, such shares are not considered outstanding for the purpose of computing the percentage ownership of any other person. To our knowledge and unless otherwise indicated, each stockholder has sole voting and investment power over the shares listed as beneficially owned by such stockholder, subject to community property laws where applicable. Percentage of ownership is based on shares of common stock outstanding as of April 30, 1999 and shares of common stock outstanding after the completion of the offering assuming no exercise of the underwriters' over-allotment option. As of April 30, 1999, we had approximately holders of our common stock.

| | SHARES BENEFICIALLY OWNED BEFORE THE OFFERING | | | SHARES BENEFICIALLY OWNED AFTER THE OFFERING | |
|---|---|---|---|---|---|
| BENEFICIAL OWNER | NUMBER | PERCENTAGE | SHARES TO BE SOLD IN THE OFFERING | NUMBER | PERCENTAGE |
| John W. Norris, Jr.(1) | | 11.2% | | | |
| H. E. French | | * | | | |
| Robert E. Schjerven | | * | | | |
| Robert L. Jenkins | | * | | | |
| Clyde W. Wyant(2) | | * | | | |
| Linda G. Alvarado(3) | | * | | | |
| David H. Anderson(4) | | 12.4 | | | |
| Richard W. Booth(5) | | 14.4 | | | |
| Thomas W. Booth(6) | | 7.8 | | | |
| David V. Brown(7) | | 3.7 | | | |
| James J. Byrne(8) | | * | | | |
| Janet K. Cooper | | -- | | | |
| Thomas B. Howard, Jr.(9) | | * | | | |
| John E. Major(10) | | * | | | |
| Donald E. Miller(11) | | * | | | |
| Terry D. Stinson | | -- | | | |
| Richard L. Thompson(12) | | * | | | |
| All executive officers and directors as a group (22 persons)(13) | | 46.9 | | | |
| Robert W. Norris(14) | | 7.0 | | | |
| A.O.C. Corporation(15) | | 7.6 | | | |

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* Less than 1%

(1) Includes:
(a) shares held by the Robert W. Norris Trust A of which John W. Norris, Jr. is a co-trustee;
(b) shares held by the John W. Norris, Jr. Trust A of which John W. Norris, Jr. is a co-trustee;
(c) shares held by the Megan E. Norris Trust A of which John W. Norris, Jr. is a co-trustee;
(d) shares of the Robert W. Norris Irrevocable Descendants' Trust of which John W. Norris, Jr. is the trustee; and
(e) shares subject to options.

(2) Includes shares of common stock subject to options.

(3) Includes:
(a) shares held by Cimarron Holdings L.L.C. of which Linda G. Alvarado is the managing member; and
(b) shares subject to options.

(4) Includes:
(a) shares held by the Leo E. Anderson Trust of which David H. Anderson is the trustee;
(b) shares held by the Kristin H. Anderson Trust of which David H. Anderson is a co-trustee;
(c) shares held by the David H. Anderson Trust of which David H. Anderson is the trustee;
(d) shares held by the Betty Oakes Trust of which David H. Anderson is the trustee;
(e) shares held by David H. Anderson's child; and
(f) shares subject to options.

(5) Includes:
(a) shares held by the 1996 Anderson GST Exempt Trust of which Richard W. Booth is the trustee;
(b) shares held by a trust for the benefit of Richard W. Booth of which Richard W. Booth is a co-trustee;
(c) shares held by a trust for the benefit of Anne Zink of which Richard W. Booth is a co-trustee; and
(d) shares subject to options.

(6) Includes:

(a) shares held by a trust for the benefit of Richard W. Booth of which Thomas W. Booth is a co-trustee;

(b) shares held by a trust for the benefit of Richard W. Booth of which Thomas W. Booth is a co-trustee.

(c) shares held by the Thomas W. Booth Trust of which Thomas W. Booth is the trustee; and

(d) shares held by Thomas W. Booth's children.

(7) Includes:

(a) shares held by David V. Brown's children; and
(b) shares subject to options.

(8) Includes shares subject to options.

(9) Includes:

(a) shares held by the Howard Family Trust of which Thomas B. Howard, Jr. is a co-trustee; and
(b) shares subject to options.

(10) Includes shares subject to options.

(11) Includes:

(a) shares held by the Donald E. Miller Trust of which Donald E. Miller is a co-trustee; and
(b) shares subject to options.

(12) Includes shares subject to options.

(13) Includes shares subject to options.

(14) Includes:

(a) shares held by the Robert W. Norris Trust A of which Robert W. Norris is a co-trustee;

(b) shares held by the John W. Norris, Jr. Trust A of which Robert W. Norris is a co-trustee;

(c) shares held by the Robert W. Norris Revocable Trust of which Robert W. Norris is the trustee;

(d) shares held by the Christine Marie Dammann 1991 Revocable Trust of which Robert W. Norris is the trustee;

(e) shares held by the Stefan Robert Norris Revocable Trust of which Robert W. Norris is the trustee; and

(f) shares held by the Nicholas W. Norris 1991 Revocable Trust of which Robert W. Norris is the trustee; and

(g) shares subject to options.

(15) John W. Norris, Jr., David H. Anderson, Richard W. Booth and David V. Brown are members of the board of directors of A.O.C. Corporation.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

John W. Norris, Jr., our Chairman and Chief Executive Officer, and David H. Anderson, Richard W. Booth and David V. Brown, each one of our directors, as well as some of our stockholders, are members of AOC Land Investment, LLC. AOC Land Investment, LLC owns 70% of AOC Development II, LLC. AOC Development II, LLC is building a new office building and we have agreed to lease part of it for use as our corporate headquarters. The lease will have a term of 25 years and the annual lease payments are expected to be approximately $2.1 million per year for the first five years. We believe that the terms of our lease with AOC Development II, LLC are at least as favorable as could be obtained from unaffiliated third parties.

From time to time we have entered into stock disposition agreements which allowed our executives, directors and stockholders to borrow money and use our capital stock held by them as collateral. The stock disposition agreements provided that in the event of a default on the underlying loan, we would do one of several things, including registering the capital stock under the Securities Act of 1933 finding a buyer to purchase the stock or purchasing the stock ourself. There were never any defaults under these agreements. Currently, there are stock disposition agreements in existence covering shares of common stock. We will not enter into these type of agreements following completion of the offering.

These transactions were not the result of arms-length negotiations. Accordingly certain of the terms of these transactions may be more or less favorable to us than might have been obtained from unaffiliated third parties. We do not intend to enter into any future transactions in which our directors, executive officers or principal stockholders and their affiliates have a material interest unless such transactions are approved by a majority of the disinterested members of our board of directors and are on terms that are no less favorable to us than those that we could obtain from unaffiliated third parties.

## DESCRIPTION OF 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 $.01 per share. Of the 200,000,000 shares of common stock authorized, are being offered in the offering, or shares if the underwriters' over-allotment option is exercised in full, and shares have been reserved for issuance under our 1998 incentive plan. See "Management -- 1998 Incentive Plan" for a description of the 1998 incentive plan. None of the preferred stock is outstanding.

### COMMON STOCK

The holders of 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 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, the approval and authorization of specified business combinations and amendments to specified provisions of our certificate of incorporation each require the approval of not less than 80% of the combined voting power of our outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class. See "-- Certificate of Incorporation and Bylaw Provisions". The common stock does not have cumulative voting rights.

Subject to the prior rights of the holders of any shares of our preferred stock, the holders of 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. 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 common stock are entitled to share ratably in any assets available for distribution to holders of shares of common stock.

The outstanding shares of common stock are legally issued, fully paid and nonassessable. The common stock 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.

PREFERRED STOCK

As of the date of this prospectus, no shares of preferred stock are outstanding. Our board of directors may authorize the issuance of preferred stock in one or more series and may determine, for the series, the designations, powers, preferences and rights of such series, and the qualifications, limitations and restrictions of the series, including:

- the designation of the series;
- the consideration for which the shares of any such series are to be issued;
- the rate or amount per annum, if any, at which holders of the shares of 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, the date or dates from which such dividends shall be cumulative;
- the redemption rights and price or prices, if any, for shares of the series;
- the amounts payable on and the preferences, if any, of shares of the series in the event of dissolution or upon distribution of our assets;
- whether the shares of the series will be convertible into or exchangeable for other of our securities, and the price or prices or rate or rates at which conversion or exchange shall be exercised;
- the terms and amounts of any sinking fund provided for the purchase or redemption of shares of the series;
- the voting rights, if any, of the holders of shares of the series; and
- such other preferences and rights, privileges and restrictions applicable to any such series as may be permitted by law.

We believe that the ability of our board of directors to issue one or more series of preferred stock will provide us with flexibility in structuring possible future financings and acquisitions and in meeting other corporate needs that might arise. The authorized shares of preferred stock will be available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange on which our securities may be listed or traded.

Although our board of directors has no intention at the present time of doing so, it could issue a series of preferred stock that could, depending on the terms of such series, impede the completion of a merger, tender offer or other takeover attempt. Our board of directors will make any determination to issue such shares based on its judgment as to our best interests and the best interests of our stockholders. Our board of directors, in so acting, could issue preferred stock having terms that could discourage a potential acquiror from making, without first negotiating with our board of directors, an acquisition attempt through which such acquiror may be able to change the composition of our board of directors, including a tender offer or other transaction that some, or a majority, of our stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then current market price of such stock.

BUSINESS COMBINATION STATUTE

As a corporation organized under the laws of the State of Delaware, we will be subject to Section 203 of the Delaware General Corporation Law, which restricts specified business combinations between us and an "interested stockholder" or its affiliates or associates for a period of three years following the time that the stockholder becomes an "interested stockholder." In general, an "interested stockholder" is defined as a stockholder owning 15% or more of our outstanding voting stock. The restrictions do not apply if:

- prior to an interested stockholder becoming such, our board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- upon completion of the transaction which resulted in any person becoming an interested stockholder, such interested stockholder owns at least 85% of our voting stock outstanding at the time the transaction commenced, excluding shares owned by employee stock ownership plans and persons who are both directors and officers of Lennox; or

- at or subsequent to the time an interested stockholder becomes such, the business combination is both approved by our board of directors and authorized at an annual or special meeting of our stockholders, not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock not owned by the interested stockholder.

Under some circumstances, Section 203 makes it more difficult for a person who would be an "interested stockholder" to effect various business combinations with a corporation for a three-year period, although the stockholders may elect to exclude a corporation from the restrictions imposed under Section 203. Our certificate of incorporation does not exclude us from the restrictions imposed under Section 203. It is anticipated that the provisions of Section 203 may encourage companies interested in acquiring us to negotiate in advance with our board of directors since the stockholder approval requirement would be avoided if a majority of the directors then in office approves, prior to the date on which a stockholder becomes an interested stockholder, either the business combination or the transaction which results in the stockholder becoming an interested stockholder.

CERTIFICATE OF INCORPORATION AND BYLAW PROVISIONS

The summary below describes provisions of our certificate of incorporation and bylaws. The provisions of our certificate of incorporation and bylaws discussed below may have the effect, either alone or in combination with the provisions of Section 203 discussed above, of making more difficult or discouraging a tender offer, proxy contest or other takeover attempt that is opposed by our board of directors but that a stockholder might consider to be in such stockholder's best interest. Those provisions include:

- restrictions on the rights of stockholders to remove directors;

- prohibitions against stockholders calling a special meeting of stockholders or acting by unanimous written consent in lieu of a meeting;

- requirements for advance notice of actions proposed by stockholders for consideration at meetings of the stockholders; and

- restrictions on business combination transactions with "related persons."

CLASSIFIED BOARD OF DIRECTORS; REMOVAL; NUMBER OF DIRECTORS; FILLING VACANCIES

Our certificate of incorporation and bylaws provide that the board of directors shall be divided into three classes, designated Class I, Class II and Class III, 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. See "Management -- Information Regarding the Board of Directors and Committees" for a discussion of the directors in each 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 the number of directors will be fixed from time to time by to a resolution adopted by the board of directors; provided that the number so fixed shall not be more than 15 nor less than three directors. Our bylaws also 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 the 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 the board of directors. At least two annual meetings of stockholders, instead of one, are

generally required to effect a change in a majority of the board of directors. Such a delay may help ensure that our directors, if confronted by a holder attempting to force a proxy contest, a tender or exchange offer, or an extraordinary corporate transaction, would have sufficient time to review the proposal as well as any available alternatives to the proposal and to act in what they believe to be the best interest of the stockholders. The classification provisions will apply to every election of directors, however, regardless of whether a change in the composition of the board of directors would be beneficial to us and our stockholders and whether or not a majority of our stockholders believe that such a change would be desirable.

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. The classification of the board of directors could thus increase the likelihood that incumbent directors will retain their positions. In addition, because the classification provisions may discourage accumulations of large blocks of our stock by purchasers whose objective is to take control of us and remove a majority of the board of directors, the classification of the board of directors could tend to reduce the likelihood of fluctuations in the market price of the common stock that might result from accumulations of large blocks. Accordingly, stockholders could be deprived of opportunities to sell their shares of common stock at a higher market price than might otherwise be the case.

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 the board of directors, or by the chairman of the board, vice chairman or the president. Moreover, the business permitted to be conducted at any special meeting of stockholders is limited to the business brought before the meeting under the notice of meeting given by us.

The provisions of our certificate of incorporation and bylaws prohibiting stockholder action by written consent and permitting special meetings to be called only by the chairman, vice chairman or president, or at the request of a majority of the board or directors, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting. The provisions would also prevent the holders of a majority of our voting stock from unilaterally using the written consent procedure to take stockholder action. Moreover, a stockholder could not force stockholder consideration of a proposal over the opposition of the chairman, vice chairman or president, or a majority of the board of directors, by calling a special meeting of stockholders prior to the time such parties believe such consideration to be appropriate.

ADVANCE NOTICE PROVISIONS FOR STOCKHOLDER NOMINATIONS AND STOCKHOLDER PROPOSALS

Our bylaws establish an advance notice procedure for stockholders to make nominations of candidates for election as directors or bring other business before an annual meeting of stockholders.

The stockholder notice procedure provides that only persons who are nominated by, or at the direction of, the board of directors, or by a stockholder who has given timely written notice containing specified information to our secretary prior to the meeting at which directors are to be elected, will be eligible for election as our directors. The stockholder notice procedure also provides that at an annual meeting only such business may be conducted as has been brought before the meeting by, or at the direction of, the chairman of the board of directors, or in the absence of the chairman of the board, the president, or by a stockholder who has given timely written notice containing specified information to our secretary of such stockholder's intention to bring such business before such meeting. Under the stockholder notice procedure, for notice of stockholder nominations or proposals to be made at an annual meeting to be timely, such notice must be received by us not less than 60 days nor more than 90 days in advance of such meeting. For notice of stockholder nominations or proposals to be made at a special meeting of stockholders to be timely, such notice must be received by us 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. However, in the event that less than 70 days notice or prior public disclosure of the date of the meeting of stockholders is given or made to the stockholders, to be timely, notice of a nomination or

proposal delivered by the stockholder must be received by our 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. If the board of directors or, alternatively, the presiding officer at a meeting, in the case of a stockholder proposal, or the chairman of the meeting, in the case of a stockholder nomination to the board of directors, determines at or prior to the meeting that business was not brought before the meeting or a person was not nominated in accordance with the stockholder notice procedure, such business will not be conducted at such meeting, or such person will not be eligible for election as a director, as the case may be.

By requiring advance notice of nominations by stockholders, the stockholder notice procedure will afford our board of directors an opportunity to consider the qualifications of the proposed nominees and, to the extent considered necessary or desirable by the board of directors, to inform stockholders about such qualifications. By requiring advance notice of other proposed business, the stockholder notice procedure will also provide a more orderly procedure for conducting annual meetings of stockholders and, to the extent considered necessary or desirable by the board of directors, will provide the board of directors with an opportunity to inform stockholders, prior to such meetings, of any business proposed to be conducted at such meetings, together with any recommendations as to the board of directors' position regarding action to be taken regarding such business, so that stockholders can better decide whether to attend such a meeting or to grant a proxy regarding the disposition of any such business.

Although our bylaws do not give the board of directors any power to approve or disapprove stockholder nominations for the election of directors or proposals for action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if the proper procedures are not followed, and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal, without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

FAIR PRICE PROVISION

Our certificate of incorporation contains a "fair price" provision that applies to specified business combination transactions involving any person, entity or group that beneficially owns at least 10% of our aggregate voting stock -- such person, entity or group is sometimes referred to as a "related person". This provision requires the affirmative vote of the holders of not less than 80% of our voting stock to approve specified transactions between a related person and us or our subsidiaries, including:

- any merger, consolidation or share exchange;

- any sale, lease, exchange, mortgage, pledge, transfer or other disposition of our assets, or the assets of any of our subsidiaries having a fair market value of more than 10% of our total consolidated assets, or assets representing more than 10% of our earning power and our subsidiaries taken as a whole, which is referred to as a "substantial part";

- any sale, lease, exchange, mortgage, pledge, transfer or other disposition to or with us or any of our subsidiaries of all or a substantial part of the assets of a related person;

- the issuance or transfer of any of our securities or any of our subsidiaries by us or any of our subsidiaries to a related person;

- any reclassification of securities, recapitalization, or any other transaction involving us or any of our subsidiaries that would have the effect of increasing the voting power of a related person;

- the adoption of a plan or proposal for our liquidation or dissolution proposed by or on behalf of a related person;

- the acquisition by or on behalf of a related person of shares constituting a majority of our voting power; and

- the entering into of any agreement, contract or other arrangement providing for any of the transactions described above.

This voting requirement will not apply to certain transactions, including:

(a) any transaction approved by a two-thirds vote of the continuing directors; or

(b) any transaction in which:

(1) the consideration to be received by the holders of common stock, other than the related person involved in the business combination, is not less in amount than the highest per share price paid by the related person in acquiring any of its holdings of common stock; and

(2) if necessary, a proxy statement complying with the requirements of the Securities Exchange Act of 1934 shall have been mailed at least 30 days prior to any vote on such business combination to all of our stockholders for the purpose of soliciting stockholder approval of such business combination.

This provision could have the effect of delaying or preventing a change in control of us in a transaction or series of transactions that did not satisfy the "fair price" criteria.

LIABILITY OF DIRECTORS; INDEMNIFICATION

Our certificate of incorporation provides that a director will not be personally liable for monetary damages to us or our stockholders for breach of fiduciary duty as a director, except for liability:

- for any breach of the director's duty of loyalty to us or our stockholders;

- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

- for paying a dividend or approving a stock repurchase in violation of Section 174 of the Delaware General Corporation Law; or

- for any transaction from which the director derived an improper personal benefit.

Any amendment or repeal of such provision shall not adversely affect any right or protection of a director existing under such provision for any act or omission occurring prior to such amendment or repeal.

Our bylaws provide that each person who at any time serves or served as one of our directors or officers, or any person who, while one of our directors or officers, is or was serving at our request as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, shall be entitled to indemnification and the advancement of expenses from us, and to the fullest extent, permitted by Section 145 of the Delaware General Corporation Law or any successor statutory provision. We will indemnify any person who was or is a party to any threatened, pending or completed action, suit or proceeding because he or she is or was one of our directors or officers, or is or was serving at our request as a director or officer of another corporation, partnership or other enterprise. However, as provided in Section 145, this indemnification will only be provided if the indemnitee acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, our best interests.

AMENDMENTS

Our certificate of incorporation provides that we reserve the right to amend, alter, change, or repeal any provision contained in our certificate of incorporation, and all rights conferred to stockholders are granted subject to such reservation. The affirmative vote of holders of not less than 80% of our voting stock, voting together as a single class, shall be required to alter, amend, adopt any provision inconsistent with or repeal specified provisions of our certificate of incorporation, including those provisions discussed in this section. In addition, the 80% vote described in the prior sentence shall not be required for any alteration, amendment, adoption of inconsistent provision or repeal of the "fair price" provision discussed under "-- Fair Price

Provision" above which is recommended to the stockholders by two-thirds of the continuing directors of Lennox and such alteration, amendment, adoption of inconsistent provision or repeal shall require the vote, if any, required under the applicable provisions of the Delaware General Corporation Law and our certificate of incorporation. In addition, our certificate of incorporation provides that stockholders may only adopt, amend or repeal our bylaws by the affirmative vote of holders of not less than 80% of our voting stock, voting together as a single class. Our bylaws may be amended by our board of directors.

## RIGHTS TO PURCHASE SECURITIES AND OTHER PROPERTY

Our certificate of incorporation authorizes the board of directors to create and issue rights, warrants and options entitling the holders of them to purchase from us shares of any class or classes of our capital stock or other securities or property upon such terms and conditions as the board of directors may deem advisable.

## LISTING

Our common stock has been approved for listing on the New York Stock Exchange under the trading symbol "LII," subject to official notice of issuance.

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the common stock is ChaseMellon Shareholder Services, L.L.C.

## SHARES ELIGIBLE FOR FUTURE SALE

Prior to the offering, there has been no public market for our common stock. Future sales of substantial amounts of common stock in the public market could adversely affect prevailing market prices.

Upon completion of the offering, we will have shares of common stock issued and outstanding, or shares if the underwriters' over-allotment option is exercised in full. Of these shares, the shares of common stock to be sold in the offering will be freely tradable without restrictions or further registration under the Securities Act of 1933, except that shares purchased by an "affiliate" of ours, as that term is defined in Rule 144 under the Securities Act of 1933, will be subject to the resale limitations of Rule 144. The remaining shares of common stock outstanding will be "restricted securities" as that term is defined by Rule 144.

In general, under Rule 144 as currently in effect, if a period of at least one year has elapsed after the later of the date on which "restricted" shares were acquired from us or the date on which they were acquired from an "affiliate," then the holder of these shares, including an affiliate, is entitled to sell a number of shares within any three-month period that does not exceed the greater of:

- one percent of the then outstanding shares of the common stock; or
- the average weekly reported volume of trading of the common stock during the four calendar weeks preceding such sale.

Sales under Rule 144 are also subject to requirements pertaining to the manner of such sales, notices of such sales and the availability of current public information concerning Lennox. Affiliates may sell shares not constituting "restricted" shares in accordance with the above volume limitations and other requirements but without regard to the one-year period. Under Rule 144(k), if a period of at least two years has elapsed between the later of the date on which "restricted" shares were acquired from us and the date on which they were acquired from an affiliate, a holder of such shares who is not an affiliate at the time of the sale and has not been an affiliate for at least three months prior to the sale would be entitled to sell the shares immediately without regard to the volume limitations and other conditions described above. This description of Rule 144 is not intended to be a complete description thereof.

Sales of significant amounts of the common stock, or the perception that such sales could occur, could have an adverse impact on the market price of the common stock. We, our directors and executive officers, the selling stockholders and a number of other stockholders have agreed, subject to certain exceptions, not to sell any common stock for a period of 180 days from the date of this prospectus without the prior written consent of Morgan Stanley & Co. Incorporated. See "Underwriters" for a discussion of these prohibitions.

## MATERIAL FEDERAL INCOME TAX CONSEQUENCES FOR NON-U.S. HOLDERS

The following is a summary of the material U.S. federal income and estate tax consequences expected to result under current law from the purchase, ownership and taxable disposition of common stock by a Non-U.S. Holder. For this purpose, a "Non-U.S. Holder" is defined as a person or entity other than:

(a) a citizen or resident of the U.S.;

(b) a corporation, partnership or other entity created or organized in or under the laws of the U.S. or of any state thereof;

(c) an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

(d) a trust whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust.

This summary deals only with purchasers of common stock who hold common stock as capital assets and does not address all of the U.S. federal income and estate tax considerations that may be relevant to a Non-U.S. Holder in light of its particular circumstances or to Non-U.S. Holders that may be subject to special treatment under U.S. federal income tax laws, such as insurance companies, tax-exempt organizations, financial institutions, brokers, dealers in securities, regulated investment companies, common trust funds, or persons that hold common stock as part of a hedge, conversion or constructive sale transaction, straddle or other risk reduction transaction. Furthermore, this summary does not discuss any aspects of state, local or foreign taxation. This summary is based on current provisions of the Internal Revenue Code of 1986, Treasury regulations, judicial opinions, published positions of the U.S. Internal Revenue Service and other applicable authorities, all of which are subject to change, possibly with retroactive effect. Each prospective purchaser of common stock is advised to consult its tax advisor with respect to the tax consequences of acquiring, holding and disposing of common stock.

### DIVIDENDS

Dividends paid to a Non-U.S. Holder of common stock generally will be subject to withholding of U.S. federal income tax at a 30 percent rate or a lower rate that is specified by an applicable income tax treaty. However, if dividends are effectively connected with the conduct of a trade or business by the Non-U.S. Holder in the U.S. they may be taxed at ordinary U.S. federal income tax rates and will not be subject to the withholding tax described above. In order for this treatment to apply, the Non-U.S. Holder must provide the dividend payor with proper documentation, consisting generally of I.R.S. Form 4224 and, if an income tax treaty is applicable, must maintain a U.S. permanent establishment to which the dividends are attributable. If the Non-U.S. Holder is a corporation, such effectively connected income may also be subject to an additional "branch profits tax" which is imposed, under certain circumstances, at a rate of 30% or a lower rate that is specified by an applicable treaty of the Non-U.S. corporation's "effectively connected earnings and profits," subject to certain adjustments.

### SALE OR DISPOSITION OF COMMON STOCK

A Non-U.S. Holder generally will not be subject to U.S. federal income tax in respect of any gain recognized on the sale or other taxable disposition of common stock unless:

- the gain is effectively connected with a trade or business of the Non-U.S. Holder in the U.S.;
- in the case of a Non-U.S. Holder who is an individual and holds the common stock as a capital asset, the holder is present in the U.S. for 183 or more days in the taxable year of the disposition and either (a) the individual has a "tax home" for U.S. federal income tax purposes in the U.S. or (b) the gain is attributable to an office or other fixed place of business maintained by the individual in the U.S.;
- the Non-U.S. Holder is subject to tax pursuant to the provisions of U.S. federal income tax law applicable to certain U.S. expatriates; or

- Lennox is or has been during certain periods preceding the disposition a U.S. real property holding corporation and either (a) the common stock ceases to be "regularly traded on an established securities market" for U.S. federal income tax purposes or (b) the Non-U.S. Holder has held, directly or indirectly, at any time during the five-year period ending on the date of disposition, more than 5 percent of all of Lennox's outstanding common stock. Lennox is not, and does not anticipate becoming, a U.S. real property holding corporation.

BACKUP WITHHOLDING AND INFORMATION REPORTING

Lennox must report annually to the IRS and to each Non-U.S. Holder the amount of dividends paid to such holder and the amount, if any, of tax withheld with respect to such dividends. This information may also be made available to the tax authorities in the Non-U.S. Holder's country of residence.

U.S. backup withholding is a withholding tax imposed at the rate of 31% on certain payments to persons that fail to furnish certain information under the U.S. information reporting requirements. Generally it will not apply to dividends paid to Non-U.S. Holders if such dividends are subject to the 30% or lower treaty rate withholding discussed above. In the case of dividends which are not described in the preceding sentence, backup withholding would still not apply (a) under current law, if such dividends are paid before January 1, 2001 to a Non-U.S. Holder at an address outside the U.S. or (b) under recently promulgated final U.S. Treasury regulations which are to become effective as of January 1, 2001, if certain certification procedures or documentation requirements are satisfied.

Upon the sale or other taxable disposition of common stock by a Non-U.S. Holder to or through a U.S. office of a broker, the broker must backup withhold at a rate of 31 percent and report the sale to the IRS, unless the holder certifies its non-U.S. status under penalties of perjury or otherwise establishes an exemption. Upon the sale or other taxable disposition of common stock by a Non-U.S. Holder to or through the foreign office of a U.S. broker, or a foreign broker with certain types of relationships to the U.S., the broker must report the sale to the IRS unless the broker has documentary evidence in its files that the seller is a Non-U.S. Holder and certain other conditions are met, or the holder otherwise establishes an exemption, but, prior to January 1, 2001, the broker need not withhold. A sale or other taxable disposition of common stock by a Non-U.S. Holder to or through the foreign office of a foreign broker that does not have certain types of relationships to the U.S. is generally not subject to either information reporting or backup withholding.

Backup withholding is not an additional U.S. federal income tax. Amounts withheld under the backup withholding rules are generally allowable as a refund or credit against such Non-U.S. Holder's U.S. federal income tax liability, if any, provided that the required information is furnished to the IRS.

FEDERAL ESTATE TAXES

Common stock owned or treated as owned by an individual who is not a citizen or resident for U.S. federal estate tax purposes of the U.S. at the time of death will be included in such individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

## UNDERWRITERS

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the U.S. underwriters named below, for whom Morgan Stanley & Co. Incorporated, Credit Suisse First Boston Corporation and Warburg Dillon Read LLC are acting as U.S. representatives, and the international underwriters named below, for whom Morgan Stanley & Co. International Limited, Credit Suisse First Boston (Europe) Limited and UBS AG, acting through its division Warburg Dillon Read, are acting as international representatives, have severally agreed to purchase, and Lennox and the selling stockholders have agreed to sell to them, severally, the number of shares indicated below:

| NAME | NUMBER OF SHARES |
|---|---|
| U.S. Underwriters: | |
| Morgan Stanley & Co. Incorporated | |
| Credit Suisse First Boston Corporation | |
| Warburg Dillon Read LLC, a subsidiary of UBS AG | |
| Subtotal | |
| International Underwriters: | |
| Morgan Stanley & Co. International Limited | |
| Credit Suisse First Boston (Europe) Limited | |
| UBS AG, acting through its division Warburg Dillon Read | |
| Subtotal | |
| Total | |

The U.S. underwriters and the international underwriters, and the U.S. representatives and the international representatives, are collectively referred to as the "underwriters" and the "representatives", respectively. The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and the selling stockholders and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock

offered

by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus, other than those covered by the U.S. underwriters' over-allotment option described below, if any such shares are taken.

In the agreement between U.S. and international underwriters, each U.S. underwriter has represented and agreed that:

- it is not purchasing any shares for the account of anyone other than a U.S. or Canadian person; and

- it has not offered or sold, and will not offer or sell, directly or indirectly, any shares or distribute any prospectus relating to the shares outside the U.S. or Canada or to anyone other than a U.S. or Canadian person.

In the agreement between U.S. and international underwriters, each international underwriter has represented and agreed that:

- it is not purchasing any shares for the account of any U.S. or Canadian person; and

- it has not offered or sold, and will not offer or sell, any shares or distribute any prospectus relating to the shares in the U.S. or Canada or to any U.S. or Canadian person.

For any underwriter that is both a U.S. underwriter and an international underwriter, the representations and agreements made by it in its capacity as a U.S. underwriter apply only to it in its capacity as a U.S. underwriter and made by it in its capacity as an international underwriter apply only to it in its capacity as an international underwriter. The limitations described above do not apply to stabilization transactions or to certain other transactions specified in the agreement between U.S. and international underwriters. As used in this section, "U.S. or Canadian person" means any national or resident of the U.S. or Canada, or any corporation, pension, profit-sharing or other trust or other entity organized under the laws of the U.S. or Canada, or of any political subdivision of the U.S. or Canada (other than a branch located outside the U.S. and Canada of any U.S. or Canadian person). U.S. or Canadian person includes any U.S. or Canadian branch of a person who is otherwise not a U.S. or Canadian person.

In the agreement between U.S. and international underwriters, sales may be made between U.S. underwriters and international underwriters of any number of shares as may be mutually agreed. The per share price of any shares sold by the underwriters shall be the public offering price listed on the cover page of this prospectus, in U.S. dollars, less an amount not greater than the per share amount of the concession to dealers described below.

In the agreement between U.S. and international underwriters, each U.S. underwriter has represented that it has not offered or sold, and has agreed not to offer or sell, any shares, directly or indirectly, in any province or territory of Canada or to, or for the benefit of, any resident of any province or territory of Canada in contravention of the securities laws of Canada. Each U.S. underwriter has represented that any offer or sale of shares in Canada will be made only pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which the offer or sale is made. Each U.S. underwriter has further agreed to send to any dealer who purchases from it any of the shares a notice stating that, by purchasing such shares, the dealer represents and agrees that it has not offered or sold, and will not offer or sell, directly or indirectly, any shares in any province or territory of Canada or to, or for the benefit of, any resident of any province or territory of Canada in contravention of the securities laws thereof and that any offer or sale of shares in Canada will be made only pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which the offer or sale is made. Each dealer will deliver to any other dealer to whom it sells any of the shares a notice containing substantially the same Canadian restrictions.

In the agreement between U.S. and international underwriters, each international underwriter has represented and agreed that:

- it has not offered or sold and, prior to the date six months after the closing date for the sale of the shares to the international underwriters, will not offer or sell, any shares to persons in the United

Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments, as principal or agent, for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

- it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom; and

- it has and will distribute any document relating to the shares in the United Kingdom only to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

In the agreement between U.S. and international underwriters, each international underwriter has further represented that it has not offered or sold, and has agreed not to offer or sell in Japan or to or for the account of any resident of Japan, any of the shares. This limitation does not apply to offers or sales to Japanese international underwriters or dealers and to offers and sales pursuant to any exemption from the registration requirements of the Securities and Exchange Law and otherwise in compliance with applicable provisions of Japanese law. Each international underwriter has further agreed to send to any dealer who purchases from it any of the shares a notice stating in substance that, by purchasing the shares, the dealer agrees that any offer or sales of shares in Japan will be made only to Japanese international underwriters or dealers or under an exemption from the registration requirements of the Securities and Exchange Law and otherwise in compliance with applicable provisions of Japanese law. Each dealer will send to any other dealer to whom it sells any shares a notice containing substantially the same Japanese selling restrictions.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the public offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of $ a share under the public offering price. Any underwriter may allow, and such dealers may reallow, a concession not in excess of $ a share to other underwriters or to certain dealers. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives.

Lennox has granted to the U.S. underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The U.S. underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each U.S. underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to such U.S. underwriter's name in the preceding table bears to the total number of shares of common stock listed next to the names of all U.S. underwriters in the preceding table. If the U.S. underwriters' option is exercised in full, the total price to the public would be $ , the total underwriters' discounts and commissions would be $ and total proceeds to Lennox would be $ .

At the request of Lennox, the underwriters have reserved for sale, at the initial public offering price, up to shares for directors, officers, employees, business associates and related persons of Lennox. The number of shares of common stock available for sale to the general public will be reduced to the extent these persons purchase reserved shares. Any reserved shares which are not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered under this prospectus.

The underwriters have informed Lennox that they do not intend sales to discretionary accounts to exceed five percent of the total number of shares of common stock offered by them.

Our common stock has been approved for listing on the New York Stock Exchange under the trading symbol "LII," subject to official notice of issuance.

Each of Lennox and the directors, executive officers, the selling stockholders and certain other stockholders of Lennox has agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, it will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or

- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock;

whether any transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. However, any such person or entity may make a bona fide gift of shares during the restricted period if the person or entity delivers to Morgan Stanley & Co. Incorporated an agreement substantially similar to the above executed by the donee.

The restrictions described in the previous paragraph do not apply to:

- the sale of shares to the underwriters;

- transactions by any person other than Lennox relating to shares of common stock or other securities acquired in open market transactions after the completion of the offering of the shares;

- the issuance or sale of shares of common stock pursuant to Lennox stock option plans existing on the date of completion of the offering; or

- the issuance of up to shares of common stock in connection with acquisitions.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may over-allot in connection with the offering, creating a short position in the common stock for their own account. In addition, to cover over-allotments or to stabilize the price of the common stock, the underwriters may bid for, and purchase, shares of common stock in the open market. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the common stock in the offering, if the syndicate repurchases previously distributed common stock in transactions to cover syndicate short positions, in stabilization transactions or otherwise. The underwriters have reserved the right to reclaim selling concessions in order to encourage underwriters and dealers to distribute the common stock for investment, rather than for short-term profit taking. Increasing the proportion of the offering held for investment may reduce the supply of common stock available for short-term trading. Any of these activities may stabilize or maintain the market price of the common stock above independent market levels. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

Lennox, the selling stockholders and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act of 1933.

An affiliate of Credit Suisse First Boston Corporation was a participant bank in Lennox's revolving credit facility which expired in June 1998. Such affiliate currently has issued approximately $20 million in letters of credit on behalf of Lennox, all but $1 million of which expired in December 1998. Such affiliate has received customary banking fees for such services. In addition, Warburg Dillon Read LLC has provided certain investment banking services and has acted as placement agent for Lennox's private placements of debt securities in 1993 and 1998, for which services they received customary fees in connection therewith.

PRICING OF THE OFFERING

Prior to this offering, there has been no public market for the common stock. The initial public offering price will be determined by negotiations between Lennox and the U.S. representatives. Among the factors to

be considered in determining the initial public offering price will be the future prospects of Lennox and its industry in general, sales, earnings and certain other financial operating information of Lennox in recent periods, and the price-earnings ratios, price-sales ratios, market prices of securities and certain financial and operating information of companies engaged in activities similar to those of Lennox. The estimated initial public offering price range set forth on the cover page of this prospectus is subject to change as a result of market conditions and other factors.

## LEGAL MATTERS

The validity of the issuance of the shares of common stock offered by this prospectus will be passed upon for us by Baker & Botts, L.L.P., Dallas, Texas. Certain legal matters in connection with the offering will be passed upon for the underwriters by Fulbright & Jaworski L.L.P., Houston, Texas.

## EXPERTS

Our financial statements and schedule as of December 31, 1997 and 1998 and for each of the three years in the period ended December 31, 1998 included in this prospectus and elsewhere in the registration statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report which is included in this prospectus, and are included in this prospectus in reliance upon the authority of said firm as experts in giving said reports.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission, Washington, D.C. 20549, a registration statement on Form S-1 under the Securities Act of 1933 for the common stock offered by this prospectus. This prospectus does not contain all of the information included in the registration statement and the exhibits and schedules of the registration statement. Certain items are omitted in accordance with the rules and regulations of the SEC. For further information with respect to Lennox and the common stock, reference is made to the registration statement and the exhibits and any schedules filed with the registration statement. Statements contained in this prospectus as to the contents of any contract or other document that is required to be summarized or outlined in the prospectus are not necessarily complete and in each instance, if such contract or document is filed as an exhibit, reference is made to the copy of such contract or other documents filed as an exhibit to the registration statement, each statement being qualified in all respects by such reference. A copy of the registration statement, including its exhibits and schedules, may be read and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov, from which interested persons can electronically access the registration statement, including its exhibits and schedules.

As a result of the offering, we will become subject to the full informational requirements of the Securities Exchange Act of 1934. We will fulfill our obligations under such requirements by filing periodic reports and other information with the SEC. We intend to furnish our shareholders with annual reports containing consolidated financial statements certified by an independent public accounting firm.

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 1998 AND MARCH 31, 1999

(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS

| | DECEMBER 31, 1998 | MARCH 31, 1999 (UNAUDITED) |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 28,389 | $ 30,262 |
| Accounts and notes receivable, net | 318,858 | 374,574 |
| Inventories | 274,679 | 323,962 |
| Deferred income taxes | 37,426 | 36,953 |
| Other assets | 36,183 | 31,454 |
| Total current assets | 695,535 | 797,205 |
| INVESTMENTS IN JOINT VENTURES | 17,261 | 12,848 |
| PROPERTY, PLANT, AND EQUIPMENT, net | 255,125 | 265,903 |
| GOODWILL, net | 155,290 | 186,630 |
| OTHER ASSETS | 29,741 | 29,948 |
| TOTAL ASSETS | $1,152,952 | $1,292,534 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Short-term debt | $ 56,070 | $ 189,766 |
| Current maturities of long-term debt | 18,778 | 26,660 |
| Accounts payable | 149,824 | 175,308 |
| Accrued expenses | 207,040 | 188,473 |
| Income taxes payable | 534 | 1,719 |
| Total current liabilities | 432,246 | 581,926 |
| LONG-TERM DEBT | 242,593 | 233,495 |
| DEFERRED INCOME TAXES | 11,628 | 12,179 |
| POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS | 16,511 | 16,706 |
| OTHER LIABILITIES | 60,845 | 61,318 |
| Total liabilities | 763,823 | 905,624 |
| MINORITY INTEREST | 12,689 | 12,591 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, $.01 par value, 25 million shares authorized, no shares issued or outstanding | -- | -- |
| Common stock, $.01 par value, 200 million shares authorized, 1,077,180 shares and 1,077,629 shares issued and outstanding for 1998 and 1999, respectively | 11 | 11 |
| Additional paid-in capital | 33,233 | 33,431 |
| Retained earnings | 350,851 | 354,444 |
| Currency translation adjustments | (7,655) | (13,567) |
| Total stockholders' equity | 376,440 | 374,319 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $1,152,952 | $1,292,534 |

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 1998 AND 1999

(UNAUDITED, IN THOUSANDS, EXCEPT SHARE DATA)

| | FOR THE THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 1998 | 1999 |
| NET SALES | $379,646 | $489,059 |
| COST OF GOODS SOLD | 261,802 | 337,481 |
| Gross profit | 117,844 | 151,578 |
| OPERATING EXPENSES: | | |
| Selling, general and administrative | 97,255 | 129,268 |
| Other operating expense, net | 2,612 | 2,518 |
| Income from operations | 17,977 | 19,792 |
| INTEREST EXPENSE, net | 2,620 | 6,558 |
| OTHER | 230..... | (211) |
| MINORITY INTEREST | (502) | (516) |
| Income before income taxes | 15,629 | 13,961 |
| PROVISION FOR INCOME TAXES | 7,323 | 7,331 |
| Net income | $ 8,306 | $ 6,630 |
| EARNINGS PER SHARE: | | |
| Basic | $ 7.96 | $ 6.16 |
| Diluted | $ 7.81 | $ 6.02 |

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 1998 AND 1999

(UNAUDITED, IN THOUSANDS)

| | FOR THE THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 1998 | 1999 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 8,306 | $ 6,630 |
| Adjustments to reconcile net income to net cash used in operating activities -- | | |
| Minority interest | (502) | (516) |
| Joint venture losses | 1,158 | 1,088 |
| Depreciation and amortization | 9,787 | 13,502 |
| Loss on disposal of equipment | 27 | 18 |
| Other | 6,457 | 1,969 |
| Changes in assets and liabilities, net of effects of acquisitions -- | | |
| Accounts and notes receivable | (11,272) | (45,900) |
| Inventories | (37,466) | (38,763) |
| Other current assets | 1,706 | (2,660) |
| Accounts payable | 30,385 | 22,004 |
| Accrued expenses | (35,136) | (16,540) |
| Deferred income taxes | (718) | 1,145 |
| Income taxes payable and receivable | 5,281 | 7,048 |
| Long-term warranty, deferred income and other liabilities | (9,702) | (6,269) |
| Net cash used in operating activities | (31,689) | (57,244) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from the disposal of property, plant and equipment | 8 | 35 |
| Purchases of property, plant and equipment | (12,316) | (20,050) |
| Acquisitions, net of cash acquired | (1,360) | (51,145) |
| Net cash used in investing activities | (13,668) | (71,160) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Short-term borrowings | 2,575 | 134,536 |
| Repayments of long-term debt | (4,723) | (701) |
| Long-term borrowings | 75,000 | -- |
| Sales of common stock | 932 | 249 |
| Repurchases of common stock | (2,050) | (131) |
| Cash dividends paid | (2,569) | (3,038) |
| Net cash provided by financing activities | 69,165 | 130,915 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 23,808 | 2,511 |
| EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS | 14 | (638) |
| CASH AND CASH EQUIVALENTS, beginning of period | 147,802 | 28,389 |
| CASH AND CASH EQUIVALENTS, end of period | $171,624 | $ 30,262 |
| Supplementary disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 2,238 | $ 2,487 |
| Income taxes | $ 2,760 | $ 38 |

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

LENNOX INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 1998 AND 1999

(UNAUDITED)

## 1. BASIS OF PRESENTATION AND OTHER ACCOUNTING INFORMATION

The accompanying unaudited consolidated balance sheet as of March 31, 1999, and the consolidated statements of income and cash flows for the three months ended March 31, 1998 and 1999 should be read in conjunction with Lennox International Inc.'s (the "Company") consolidated financial statements and accompanying footnotes as of December 31, 1997 and 1998 and for each of the three years in the period ended December 31, 1998 included elsewhere herein. In the opinion of management, the accompanying consolidated financial statements contain all material adjustments, consisting principally of normal recurring adjustments, necessary for a fair presentation of the Company's financial position, results of operations, and cash flows. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to applicable rules and regulations, although the Company believes that the disclosures herein are adequate to make the information presented not misleading. The operating results for the interim periods are not necessarily indicative of the results to be expected for a full year.

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

## 2. PRODUCT INSPECTION CHARGE

During 1997, the Company recorded a pre-tax charge of $140.0 million to provide for projected expenses of the product inspection program related to its Pulse furnace. The Company has offered the owners of all Pulse furnaces installed between 1982 and 1990 a subsidized inspection and a free carbon monoxide detector. The inspection includes a severe pressure test to determine the serviceability of the heat exchanger. If the heat exchanger does not pass the test, the Company will either replace the heat exchanger or offer a new furnace and subsidize the labor costs for installation. The cost required for the program depends on the number of furnaces located, the percentage of those located that do not pass the pressure test, and the replacement option chosen by the homeowner.

As of March 31, 1999, the Company had incurred approximately $126.4 million in costs related to the product inspection program. Consequently, there is a current liability of $13.6 million recorded on the accompanying consolidated balance sheet as of March 31, 1999 to accrue for the estimated remaining costs of the program. The product inspection program ends in June 1999 and the Company believes its current liability of $13.6 million is adequate to cover the remaining costs of the program.

## 3. REPORTABLE BUSINESS SEGMENTS

As of December 31, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 131, which requires disclosure of business segment data in accordance with the "management approach." The management approach is based on the way segments are organized within the Company for

making operating decisions and assessing performance. The Company's business operations are organized within the following four reportable business segments as follows (in thousands):

| NET SALES | FOR THE THREE MONTHS ENDED MARCH 31, 1998 | 1999 |
|---|---|---|
| North American residential | $203,646 | $284,924 |
| Commercial air conditioning | 81,800 | 92,468 |
| Commercial refrigeration | 47,900 | 61,598 |
| Heat transfer* | 46,300 | 50,069 |
| | $379,646 | $489,059 |

- ---

* The Heat Transfer segment had intersegment sales of $6,662 and $6,587 in 1998 and 1999, respectively.

| INCOME (LOSS) FROM OPERATIONS | FOR THE THREE MONTHS ENDED MARCH 31, 1998 | 1999 |
|---|---|---|
| North American residential | $20,900 | $24,589 |
| Commercial air conditioning | (3,400) | (1,934) |
| Commercial refrigeration | 4,100 | 2,306 |
| Heat transfer | 3,400 | 3,239 |
| Corporate and other | (7,023) | (8,408) |
| | $17,977 | $19,792 |

| IDENTIFIABLE ASSETS | AS OF DECEMBER 31, 1998 | AS OF MARCH 31, 1999 |
|---|---|---|
| North American residential | $ 528,660 | $ 625,411 |
| Commercial air conditioning | 198,982 | 218,521 |
| Commercial refrigeration | 194,601 | 198,755 |
| Heat transfer | 88,633 | 102,875 |
| Corporate and other | 142,076 | 146,972 |
| | $1,152,952 | $1,292,534 |

4. INVENTORIES:

Components of inventories are as follows (in thousands):

| | DECEMBER 31, 1998 | MARCH 31, 1999 |
|---|---|---|
| Finished goods | $177,490 | $226,258 |

| | | |
|---|---|---|
| Repair parts | 31,674 | 31,093 |
| Work in process | 15,574 | 17,431 |
| Raw materials | 102,876 | 97,747 |
| | 327,614 | 372,529 |
| Reduction for last-in, first-out | 52,935 | 48,567 |
| | $274,679 | $323,962 |

5. LONG-TERM DEBT AND LINES OF CREDIT:

Long-term debt consists of the following (in thousands):

| | DECEMBER 31, 1998 | MARCH 31, 1999 |
|---|---|---|
| 6.73% promissory notes, payable $11,111 annually 2000 through 2008 | $100,000 | $100,000 |
| 9.69% promissory notes, payable $4,900 annually 1998 through 2002 and $5,000 in 2003 | 24,600 | 24,600 |
| 5.75% promissory note, payable in 1999 | 951 | 876 |
| 5.84% promissory note, payable in 2000 | 2,275 | 2,113 |
| 4.80% promissory note, payable annually through 2004 | 1,119 | 1,031 |
| 6.50% promissory note, payable annually 1999 through 2005 | 1,382 | 1,259 |
| 5.50% promissory note, payable annually through 2004 | 639 | 582 |
| 6.50% promissory note, payable annually through 2003 | 371 | 341 |
| 9.53% promissory notes, payable $10,000 in 1999, $8,000 in 2000, and $3,000 in 2001 | 21,000 | 21,000 |
| 7.06% promissory note, payable $10,000 annually in 2004 and 2005 | 20,000 | 20,000 |
| 6.56% promissory note, payable in 2005 | 25,000 | 25,000 |
| 6.75% promissory note, payable in 2008 | 50,000 | 50,000 |
| 11.10% mortgage note, payable semiannually through 2000 | 7,547 | 7,135 |
| Texas Housing Opportunity Fund, Ltd. note, payable in 1999 | 109 | -- |
| Capitalized lease obligations and other | 6,378 | 6,218 |
| | 261,371 | 260,155 |
| Less current maturities | 18,778 | 26,660 |
| | $242,593 | $233,495 |

On March 16, 1999, the Company entered into a short-term loan agreement with a bank pursuant to which the Company may borrow up to $115 million. On March 31, 1999, the Company borrowed $40 million at LIBOR plus 1% (6.0%). The Company is required to use the net proceeds from the initial public offering to repay any amounts outstanding under the term loan agreement. The short-term loan agreement expires upon the earlier of the completion of the Company's initial public offering or December 31, 1999.

The Company has bank lines of credit and short-term loans aggregating $279 million, of which $190 million was outstanding at March 31, 1999. The unsecured promissory note agreements and lines of credit provide for restrictions with respect to additional borrowings, maintenance of minimum working capital and payment of dividends.

6. EARNINGS PER SHARE:

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

outstanding, if dilutive, under the Company's stock-based compensation plans. Diluted earnings per share are computed as follows (in thousands, except per share amounts):

| | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 1998 | 1999 |
| Net income | $8,306 | $6,630 |
| Weighted average shares outstanding | 1,044 | 1,077 |
| Effect of assumed exercise of options | 20 | 25 |
| Weighted average shares outstanding, as adjusted | 1,064 | 1,102 |
| Diluted earnings per share | $ 7.81 | $ 6.02 |

7. INVESTMENTS IN SUBSIDIARIES

SECURITY CHIMNEY

In January 1999, the Company acquired the outstanding stock of Security Chimney International LTD, a Canadian company engaged in the manufacture and sale of sheet metal products for the hearth products industry and also wood burning stoves. The purchase price of $13.0 million was paid in cash has been allocated to the acquired assets and liabilities based upon fair market value with $3.5 million allocated to goodwill. The goodwill will be amortized over 40 years. The acquisition was accounted for in accordance with the purchase method of accounting. The results of operations have been fully consolidated with those of the Company since the date of acquisition.

CANADIAN DEALERS

During the first quarter of 1999, the Company acquired the outstanding stock of 22 dealers (the "Dealers") in Canada that had been independent retail outlets of the Company's products. The aggregate purchase price of the Dealers was $34.1 million in cash. These acquisitions were accounted for in accordance with the purchase method of accounting. The purchase price of each Dealer has been allocated to the assets and liabilities of the Dealers based upon fair market value, and the excess of $24.8 million has been allocated to goodwill, which is being amortized over 40 years. The results of operations for the Dealers have been fully consolidated with those of the Company since the dates of acquisition.

HART-GREER

During January of 1999, the Company acquired the assets of Hart-Greer Ltd., Inc. which had been an independent distributor of the Company's products. The purchase price of $4.9 million in cash has been allocated to the assets and liabilities based upon fair market value, and there was no goodwill recorded in conjunction with the acquisition. This acquisition was accounted for in accordance with the purchase method of accounting. The results of operations have been fully consolidated with those of the Company since the date of acquisition.

The following table presents the pro forma results as if the above companies had been acquired on January 1, 1998 (in thousands, except per share data):

| | FOR THE THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 1998 | 1999 |
| Net sales | $416,346 | $493,259 |
| Net income | 10,306 | 6,730 |
| Basic earnings per share | 9.87 | 6.25 |
| Diluted earnings per share | 9.69 | 6.11 |

8. SUBSEQUENT EVENTS

The Company experienced a work stoppage at the Bellevue, Ohio factory for three weeks in May 1999. This factory manufactures the Company's "Armstrong Air" brand of residential heating and air conditioning products for the North American market. On May 20, 1999, the union at the Bellevue, Ohio factory ratified a new collective bargaining agreement that expires April 2002, and this factory resumed full production within two business days.

Subsequent to March 31, 1999, the Company acquired Livernois Engineering Holding Company and its licensed patents for approximately $21 million. Livernois produces heat transfer manufacturing equipment for the HVACR and automotive industries.

Between April 1, 1999, and May 18, 1999, the Company had acquired 7 dealers in Canada for an aggregate purchase price of approximately $5 million in cash. The Company also signed letters of intent to acquire ten additional Canadian dealers and two U.S. dealers for an aggregate purchase price of approximately $27 million.

The Company has entered into an agreement to buy the remaining 30% interest in Ets. Brancher for 102.5 million French francs (approximately $17 million) on March 31, 2000.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Lennox International Inc. (a Delaware corporation) and Subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lennox International Inc. and Subsidiaries as of December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Dallas, Texas,
February 18, 1999

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1997 AND 1998
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS

| | AS OF DECEMBER 31, | |
|---|---|---|
| | 1997 | 1998 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $147,802 | $ 28,389 |
| Accounts and notes receivable, net | 273,229 | 318,858 |
| Inventories | 183,077 | 274,679 |
| Deferred income taxes | 51,137 | 37,426 |
| Other assets | 15,260 | 36,183 |
| Total current assets | 670,505 | 695,535 |
| INVESTMENTS IN JOINT VENTURES | 14,803 | 17,261 |
| PROPERTY, PLANT, AND EQUIPMENT, net | 215,333 | 255,125 |
| GOODWILL, net | 42,620 | 155,290 |
| OTHER ASSETS | 27,631 | 29,741 |
| TOTAL ASSETS | $970,892 | $1,152,952 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Short-term debt | $ 6,021 | $ 56,070 |
| Current maturities of long-term debt | 8,926 | 18,778 |
| Accounts payable | 104,679 | 149,824 |
| Accrued expenses | 210,668 | 207,040 |
| Income taxes payable | 4,320 | 534 |
| Total current liabilities | 334,614 | 432,246 |
| LONG-TERM DEBT | 183,583 | 242,593 |
| DEFERRED INCOME TAXES | 2,690 | 11,628 |
| POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS | 17,288 | 16,511 |
| OTHER LIABILITIES | 92,471 | 60,845 |
| Total liabilities | 630,646 | 763,823 |
| MINORITY INTEREST | 14,768 | 12,689 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, $.01 par value, 25,000,000 shares authorized, no shares issued or outstanding | -- | -- |
| Common stock, $.01 par value, 200,000,000 shares authorized, 1,042,648 shares and 1,077,180 shares issued and outstanding for 1997 and 1998, respectively | 10 | 11 |
| Additional paid-in capital | 19,594 | 33,233 |
| Retained earnings | 309,610 | 350,851 |
| Currency translation adjustments | (3,736) | (7,655) |
| Total stockholders' equity | 325,478 | 376,440 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $970,892 | $1,152,952 |

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1997 | 1998 |
| NET SALES | $1,364,546 | $1,444,442 | $1,821,836 |
| COST OF GOODS SOLD | 961,696 | 1,005,913 | 1,245,623 |
| Gross profit | 402,850 | 438,529 | 576,213 |
| OPERATING EXPENSES: | | | |
| Selling, general and administrative | 298,049 | 326,280 | 461,143 |
| Other operating expense, net | 4,213 | 7,488 | 8,467 |
| Product inspection charge | -- | 140,000 | -- |
| Income (loss) from operations | 100,588 | (35,239) | 106,603 |
| INTEREST EXPENSE, net | 13,417 | 8,515 | 16,184 |
| OTHER | (943) | 1,955 | 1,602 |
| MINORITY INTEREST | -- | (666) | (869) |
| Income (loss) before income taxes | 88,114 | (45,043) | 89,686 |
| PROVISION (BENEFIT) FOR INCOME TAXES | 33,388 | (11,493) | 37,161 |
| Net income (loss) | $ 54,726 | $ (33,550) | $ 52,525 |
| EARNINGS (LOSS) PER SHARE: | | | |
| Basic | $ 53.60 | $ (32.64) | $ 49.65 |
| Diluted | $ 52.52 | $ (32.64) | $ 48.50 |

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998
(IN THOUSANDS, EXCEPT SHARE DATA)

| | COMMON STOCK | | | | | | |
|---|---|---|---|---|---|---|---|
| | SHARES ISSUED AND OUTSTANDING | AMOUNT | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS | CURRENCY TRANSLATION ADJUSTMENTS | TOTAL STOCKHOLDERS' EQUITY | COMPREHENSIVE INCOME |
| BALANCE AT DECEMBER 31, 1995..... | 998,665 | $ 10 | $ 4,078 | $313,044 | $(1,819) | $315,313 | $ -- |
| Net income..... | -- | -- | -- | 54,726 | -- | 54,726 | 54,726 |
| Dividends, $8.66 per share..... | -- | -- | -- | (8,845) | -- | (8,845) | -- |
| Stock dividend -- 2%..... | 19,991 | -- | 6,097 | (6,097) | -- | -- | -- |
| Foreign currency translation adjustments..... | -- | -- | -- | -- | (156) | (156) | (156) |
| Common stock repurchased..... | (4,177) | -- | (1,460) | -- | -- | (1,460) | -- |
| Common stock issued..... | 6,816 | -- | 1,886 | -- | -- | 1,886 | -- |
| Comprehensive income..... | -- | -- | -- | -- | -- | -- | 54,570 |
| BALANCE AT DECEMBER 31, 1996..... | 1,021,295 | 10 | 10,601 | 352,828 | (1,975) | 361,464 | -- |
| Net loss..... | -- | -- | -- | (33,550) | -- | (33,550) | (33,550) |
| Dividends, $9.38 per share..... | -- | -- | -- | (9,668) | -- | (9,668) | -- |
| Foreign currency translation adjustments..... | -- | -- | -- | -- | (1,761) | (1,761) | (1,761) |
| Common stock repurchased..... | (11,180) | -- | (4,892) | -- | -- | (4,892) | -- |
| Common stock issued..... | 32,533 | -- | 13,885 | -- | -- | 13,885 | -- |
| Comprehensive income (loss)..... | -- | -- | -- | -- | -- | -- | (35,311) |
| BALANCE AT DECEMBER 31, 1997..... | 1,042,648 | 10 | 19,594 | 309,610 | (3,736) | 325,478 | -- |
| Net income..... | -- | -- | -- | 52,525 | -- | 52,525 | 52,525 |
| Dividends, $10.62 per share..... | -- | -- | -- | (11,284) | -- | (11,284) | -- |
| Foreign currency translation adjustments..... | -- | -- | -- | -- | (3,919) | (3,919) | (3,919) |
| Common stock repurchased..... | (15,321) | -- | (8,510) | -- | -- | (8,510) | -- |
| Common stock issued..... | 49,853 | 1 | 22,149 | -- | -- | 22,150 | -- |
| Comprehensive income..... | -- | -- | -- | -- | -- | -- | $ 48,606 |
| BALANCE AT DECEMBER 31, 1998..... | 1,077,180 | $ 11 | $33,233 | $350,851 | $(7,655) | $376,440 | |

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, 1996, 1997 AND 1998
(IN THOUSANDS)

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1997 | 1998 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income (loss) | $ 54,726 | $(33,550) | $ 52,525 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Minority interest | -- | (666) | (869) |
| Joint venture losses | 1,118 | 1,782 | 3,111 |
| Depreciation and amortization | 34,149 | 33,430 | 43,545 |
| Loss (gain) on disposal of equipment | 1,315 | (251) | 570 |
| Other | (962) | 2,112 | (130) |
| Changes in assets and liabilities, net of effects of acquisitions: | | | |
| Accounts and notes receivable | 13,269 | (25,878) | (20,567) |
| Inventories | 28,539 | 17,258 | (52,445) |
| Other current assets | (3,239) | 3,622 | (4,739) |
| Accounts payable | (3,018) | (4,774) | 29,851 |
| Accrued expenses | 38,774 | 64,400 | (17,040) |
| Deferred income taxes | (5,103) | (42,195) | 26,424 |
| Income taxes payable and receivable | 4,166 | (2,361) | (18,610) |
| Long-term warranty, deferred income and other liabilities | (4,890) | 45,557 | (36,662) |
| Net cash provided by operating activities | 158,844 | 58,486 | 4,964 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Proceeds from the disposal of property, plant and equipment | 547 | 4,205 | 538 |
| Purchases of property, plant and equipment | (31,903) | (34,581) | (52,435) |
| Investments in joint ventures | (23,395) | (3,735) | (458) |
| Acquisitions, net of cash acquired | -- | (10,527) | (160,063) |
| Proceeds from the sale of businesses | 17,633 | -- | -- |
| Net cash used in investing activities | (37,118) | (44,638) | (212,418) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Short-term borrowings | -- | (3,732) | 36,724 |
| Repayments of long-term debt | (34,588) | (5,712) | (12,499) |
| Long-term borrowings | -- | 5,572 | 75,044 |
| Sales of common stock | 630 | 729 | 9,607 |
| Repurchases of common stock | (1,460) | (4,892) | (8,510) |
| Cash dividends paid | (8,560) | (9,312) | (10,820) |
| Net cash provided by (used in) financing activities | (43,978) | (17,347) | 89,546 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 77,748 | (3,499) | (117,908) |
| EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS | 318 | (576) | (1,505) |
| CASH AND CASH EQUIVALENTS, beginning of year | 73,811 | 151,877 | 147,802 |
| CASH AND CASH EQUIVALENTS, end of year | $151,877 | $147,802 | $ 28,389 |
| Supplementary disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | $ 18,481 | $ 15,016 | $ 20,351 |
| Income taxes | $ 34,198 | $ 33,938 | $ 29,347 |

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

1. NATURE OF OPERATIONS:

Lennox International Inc. and subsidiaries (the "Company"), a Delaware corporation, is a global designer, manufacturer, and marketer of a broad range of products for the heating, ventilation, air conditioning, and refrigeration ("HVACR") markets. The Company participates in four reportable business segments of the HVACR industry. The first is North American residential heating, air conditioning and hearth products in which the Company manufactures and markets a full line of these products for the residential replacement and new construction markets in North America. The second reportable segment is the global commercial air conditioning market in which the Company manufactures and sells rooftop products and applied systems for commercial applications. The third is the global commercial refrigeration market which consists of unit coolers, condensing units and other commercial refrigeration products. The fourth reportable segment is heat transfer products in which the Company designs, manufactures and sells evaporator and condenser coils, copper tubing, and related equipment to original equipment manufacturers ("OEMs") and other specialty purchasers on a global basis. See Note 4 for financial information regarding the Company's reportable segments.

The Company sells its products to numerous types of customers, including distributors, installing dealers, national accounts and OEMs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Lennox International Inc. and its subsidiaries. All intercompany transactions and balances have been eliminated. Investments in joint ventures where the Company has a 50% or less ownership interest are being accounted for using the equity method of accounting.

As discussed in Note 7, the Company increased its ownership in Ets. Brancher from 50% to 70% in September 1997. As a result, the Company assumed control of the venture and began consolidating the financial position and results of operations in the fourth quarter of 1997. Previously, the Company used the equity method of accounting for its investment in this entity.

CASH EQUIVALENTS

The Company considers all highly liquid temporary investments with original maturity dates of three months or less to be cash equivalents. Cash equivalents consist of investment grade securities and are stated at cost which approximates fair value. The Company earned interest income of $4.8 million, $6.4 million and $4.5 million for the years ended December 31, 1996, 1997 and 1998, respectively, which is included in interest expense, net on the accompanying consolidated statements of income.

ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable have been shown net of an allowance for doubtful accounts of $16.9 million and $18.5 million as of December 31, 1997 and 1998, respectively. The Company has no significant credit risk concentration among its diversified customer base.

INVENTORIES

Inventory costs include applicable material, labor, depreciation, and plant overhead. Inventories of $125.5 million and $169.6 million in 1997 and 1998, respectively, are valued at the lower of cost or market using the last-in, first-out (LIFO) cost method. The remaining portion of the inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) basis.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost. Expenditures for renewals and betterments are capitalized, and expenditures for maintenance and repairs are charged to expense as incurred. Gains and losses resulting from the dispositions of property, plant and equipment are included in other operating expense. Depreciation is computed using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Buildings and improvements | 10 to 39 years |
| Machinery and equipment | 3 to 10 years |

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets have been recorded based on their fair value at the date of acquisition and are being amortized on a straight-line basis over periods generally ranging from thirty to forty years. As of December 31, 1997 and 1998, accumulated amortization was $26.5 million and $34.4 million, respectively.

The Company periodically reviews long-lived assets and identifiable intangibles for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In order to assess recoverability, the Company compares the estimated expected future cash flows (undiscounted and without interest charges) identified with each long-lived asset or related asset grouping to the carrying amount of such assets. For purposes of such comparisons, portions of goodwill are attributed to related long-lived assets and identifiable intangible assets based upon relative fair values of such assets at acquisition. 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. As a result of these periodic reviews, there have been no adjustments to the carrying value of long-lived assets, identifiable intangibles, or goodwill in 1996, 1997 and 1998.

PRODUCT WARRANTIES

A liability for estimated warranty expense is established by a charge against operations at the time products are sold. The subsequent costs incurred for warranty claims serve to reduce the product warranty liability. The Company recorded warranty expense of $14.6 million, $17.7 million and $15.6 million for the years ended December 31, 1996, 1997, and 1998, respectively.

The Company's estimate of future warranty costs is determined for each product line. The number of units that are expected to be repaired or replaced is determined by applying the estimated failure rate, which is generally based on historical experience, to the number of units that have been sold and are still under warranty. The estimated units to be repaired under warranty are multiplied by the average cost (undiscounted) to repair or replace such products to determine the Company's estimated future warranty cost. The Company's estimated future warranty cost is subject to adjustment from time to time depending on actual experience.

Total liabilities for estimated warranty expense are $155.7 million and $83.2 million as of December 31, 1997 and 1998, respectively, and are included in the following captions on the accompanying consolidated balance sheets (in thousands):

| | DECEMBER 31, | |
|---|---|---|
| | 1997 | 1998 |
| Current accrued expenses | $ 94,042 | $48,467 |
| Other non-current liabilities | 61,617 | 34,707 |
| | $155,659 | $83,174 |

Liabilities for estimated warranty expense as of December 31, 1997 and 1998, include approximately $113.4 million and $27.3 million, respectively, in remaining estimated liabilities associated with a product inspection program initiated in 1997 (see Note 3).

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized 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 carryforwards. 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 on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

REVENUE RECOGNITION

Sales are recorded when products are shipped or when services are rendered.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development costs are expensed as incurred. The Company expended approximately $23.2 million, $25.4 million, and $33.3 million for the years ended December 31, 1996, 1997, and 1998, respectively, for research and product development activities. Research and development costs are included in selling, general and administrative expense on the accompanying consolidated statements of income.

ADVERTISING

Production costs of commercials and programming are charged to operations in the period first aired. The costs of other advertising, promotion and marketing programs are charged to operations in the period incurred. Advertising expense was $36.4 million, $37.9 million, and $50.2 million for the years ended December 31, 1996, 1997, and 1998, respectively.

TRANSLATION OF FOREIGN CURRENCIES

All assets and liabilities of foreign subsidiaries and joint ventures are translated into United States dollars using rates of exchange in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates during the respective years. The unrealized translation gains and losses are accumulated in a separate component of stockholders' equity. Transaction gains (losses) included in the accompanying statements of income were $943,000, $(1,955,000), and $(1,602,000) for the years ended December 31, 1996, 1997, and 1998, respectively.

FOREIGN CURRENCY CONTRACTS

The Company has entered into foreign currency exchange contracts to hedge its investment in Ets. Brancher S.A. (see Note 7) and not to engage in currency speculation. These contracts do not subject the Company to risk from exchange rate movements because the gains or losses on the contracts offset the losses or gains, respectively, on the assets and liabilities of the subsidiary. The Company has entered into contracts to sell 165.5 million French francs on May 7, 2003 for $31.7 million. The fair value of these contracts was approximately $4.1 million and $2.1 million as of December 31, 1997 and 1998, respectively.

These contracts require the Company to exchange French francs for U.S. dollars at maturity (May 2003), at rates agreed to at inception of the contracts. If the counterparty to the exchange contracts does not fulfill their obligations to deliver the contracted currencies, the Company could be at risk for any currency related fluctuations. The gains and losses associated with these contracts, net of tax, are recorded as a component of currency translation adjustments on the accompanying 1996, 1997 and 1998 consolidated statements of stockholders' equity.

The Company from time to time enters into foreign currency exchange contracts to hedge receivables from its foreign subsidiaries, and not to engage in currency speculation. These contracts do not subject the Company to risk from exchange rate movements because the gains or losses on the contracts offset losses or gains, respectively, on the receivables being hedged. As of December 31, 1998, the Company had obligations to deliver $33.2 million of various foreign currencies within the next three months, for which the counterparties to the contracts will pay fixed contract amounts. The fair values of such contracts were insignificant as of December 31, 1998.

PURCHASE COMMITMENTS

The Company has contracts with various suppliers to purchase copper and aluminum for use in its manufacturing processes. As of December 31, 1998, the Company had contracts to purchase 19.8 million pounds of copper over the next 24 months at fixed prices that average $0.76 per pound ($15.1 million) and contracts to purchase 6 million pounds of copper at a variable price equal to the COMEX copper price ($0.72 per pound at December 31, 1998) over the next 12 months. The Company also had contracts to purchase 23.4 million pounds of aluminum at $0.68 per pound ($15.9 million) over the next 12 months. The fair value of the copper and aluminum purchase commitments was insignificant as of December 31, 1997 and was a liability of $2.6 million at December 31, 1998.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. PRODUCT INSPECTION CHARGE

During 1997, the Company recorded a pre-tax charge of $140.0 million to provide for projected expenses of the product inspection program related to its Pulse furnace. The Company has offered the owners of Pulse furnaces installed between 1982 and 1990 a subsidized inspection and a free carbon monoxide detector. The inspection includes a severe pressure test to determine the serviceability of the heat exchanger. If the heat exchanger does not pass the test, the Company will either replace the heat exchanger or offer a new furnace and subsidize the labor costs for installation. The cost required for the program depends on the number of

furnaces located, the percentage of those located that do not pass the pressure test, and the replacement option chosen by the homeowner.

As of December 31, 1998, the Company had incurred approximately $112.7 million in costs related to the product inspection program. Consequently, there is a current liability of $27.3 million recorded on the accompanying consolidated balance sheet as of December 31, 1998, to accrue for the estimated remaining costs of the program. The product inspection program ends in June 1999 and the Company believes its current liability of $27.3 million is adequate to cover the remaining costs of the program.

4. REPORTABLE BUSINESS SEGMENTS:

As of December 31, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 131, which requires disclosure of business segment data in accordance with the "management approach." The management approach is based on the way segments are organized within the Company for making operating decisions and assessing performance. The Company's business operations are organized within the following four reportable business segments as follows (in thousands):

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1997 | 1998 |
| Net Sales | | | |
| North American residential | $ 857,131 | $ 865,147 | $1,013,747 |
| Commercial air conditioning | 228,935 | 278,837 | 392,053 |
| Commercial refrigeration | 135,566 | 154,247 | 237,264 |
| Heat transfer(1) | 142,914 | 146,211 | 178,772 |
| | $1,364,546 | $1,444,442 | $1,821,836 |
| Income (Loss) from Operations | | | |
| North American residential(2) | $ 99,658 | $ (47,516) | $ 123,426 |
| Commercial air conditioning | (9,477) | 4,521 | (6,579) |
| Commercial refrigeration | 13,717 | 15,407 | 20,383 |
| Heat transfer | 17,311 | 16,857 | 12,700 |
| Corporate and other(3) | (20,621) | (24,508) | (43,327) |
| | $ 100,588 | $ (35,239) | $ 106,603 |

| | AS OF DECEMBER 31, | |
|---|---|---|
| | 1997 | 1998 |
| Identifiable Assets | | |
| North American residential | $330,864 | $ 528,660 |
| Commercial air conditioning | 175,748 | 198,982 |
| Commercial refrigeration | 146,118 | 194,601 |
| Heat transfer | 69,272 | 88,633 |
| Corporate and other(4) | 248,890 | 142,076 |
| | $970,892 | $1,152,952 |

- ---

(1) The Heat transfer segment had intersegment sales of $34,911, $23,571, and $32,307 in 1996, 1997, and 1998, respectively.

(2) Includes a $140.0 million charge in 1997 related to a product inspection program (see Note 3).

(3) The increase in corporate and other from 1997 to 1998 is primarily due to $7.1 million of expense for the settlement of a lawsuit in 1998 and $4.6

million associated with increased expenses of the Company's Performance Plan.

(4) The decrease in corporate and other is primarily due to a reduction in cash and cash equivalents of approximately $120 million.

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1997 | 1998 |
| Capital Expenditures | | | |
| North American residential | $18,561 | $12,914 | $14,942 |
| Commercial air conditioning | 2,577 | 5,677 | 6,180 |
| Commercial refrigeration | 3,779 | 6,798 | 7,367 |
| Heat transfer | 6,453 | 6,907 | 12,136 |
| Corporate and other(1) | 533 | 2,285 | 11,810 |
| | $31,903 | $34,581 | $52,435 |

- ---

(1) The increase in corporate and other is primarily due to an increase in expenditures related to the implementation of SAP.

| | | | |
|---|---|---|---|
| Depreciation and Amortization | | | |
| North American residential | $15,170 | $14,892 | $15,437 |
| Commercial air conditioning | 4,447 | 4,048 | 5,802 |
| Commercial refrigeration | 6,428 | 6,390 | 9,376 |
| Heat transfer | 3,963 | 3,991 | 5,912 |
| Corporate and other | 4,141 | 4,109 | 7,018 |
| | $34,149 | $33,430 | $43,545 |

The following table sets forth certain financial information relating to the Company's operations by geographic area (in thousands):

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1997 | 1998 |
| Net Sales to External Customers | | | |
| United States | $1,252,515 | $1,274,875 | $1,472,342 |
| International | 112,031 | 169,567 | 349,494 |
| Total net sales to external customers | $1,364,546 | $1,444,442 | $1,821,836 |

| | AS OF DECEMBER 31, | |
|---|---|---|
| | 1997 | 1998 |
| Long-Lived Assets | | |
| United States | $246,133 | $344,137 |
| International | 54,254 | 113,280 |
| Total long-lived assets | $300,387 | $457,417 |

5. INVENTORIES:

Components of inventories are as follows (in thousands):

| | AS OF DECEMBER 31, | |
|---|---|---|
| | 1997 | 1998 |
| Finished goods | $116,052 | $177,490 |
| Repair parts | 37,248 | 31,674 |
| Work in process | 15,755 | 15,574 |
| Raw materials | 70,223 | 102,876 |
| | 239,278 | 327,614 |
| Reduction for last-in, first-out | 56,201 | 52,935 |
| | $183,077 | $274,679 |

6. PROPERTY, PLANT AND EQUIPMENT:

Components of property, plant and equipment are as follows (in thousands):

| | AS OF DECEMBER 31, | |
|---|---|---|
| | 1997 | 1998 |
| Land | $ 9,478 | $ 18,531 |
| Buildings and improvements | 150,866 | 162,916 |
| Machinery and equipment | 325,392 | 404,848 |
| Total | 485,736 | 586,295 |
| Less -- accumulated depreciation | (270,403) | (331,170) |
| Property, plant and equipment, net | $ 215,333 | $ 255,125 |

7. INVESTMENTS IN JOINT VENTURES AND SUBSIDIARIES:

ALLIANCE

In 1994, the Company acquired a 50% interest in a joint venture, Alliance Compressors, with American Standard Inc.'s Trane subsidiary ("Trane") to develop, manufacture, and market both reciprocating and scroll compressor products.

In December 1996, Alliance Compressors was restructured to admit a new partner, Copeland Corporation, and to focus solely on the development, manufacturing, and marketing of scroll compressors. In connection with the restructuring, the net assets associated with the reciprocating compressor business were distributed equally to the Company and Trane. The Company subsequently sold its share of the reciprocating compressor net assets to Trane. In addition, the Company and Trane sold portions of their interests in Alliance Compressors to Copeland Corporation. As a result, Alliance Compressors is now owned 51% by Copeland Corporation, 24.5% by the Company, and 24.5% by Trane. During 1996, the Company recognized a pretax gain of $4.6 million as a result of the restructuring, which is included in other operating expense, net on the accompanying 1996 consolidated statement of income. The Company's investment in Alliance Compressors at December 31, 1998, is $6.1 million and is being accounted for using the equity method of accounting.

ETS. BRANCHER

In May 1996, the Company's subsidiary, Lennox Global Ltd., acquired a 50% interest in HCF-Lennox, a manufacturer of air conditioning and refrigeration equipment. In addition to acquiring an interest in HCF-Lennox, the Company increased its ownership of an existing joint venture, Friga-Bohn, from 20% to

50%. The aggregate purchase price for these acquisitions was approximately $22 million in cash. The aggregate purchase price exceeded the Company's interests in the underlying equity in the ventures at the date of acquisition. As a result, the Company recorded goodwill of approximately $2.9 million, which is being amortized on a straight-line basis over a 30-year period.

Effective September 30, 1997, Lennox Global Ltd. acquired an additional 20% interest in HCF-Lennox and Friga-Bohn. In conjunction with the purchase, the stock of HCF-Lennox and Friga-Bohn was combined into an existing holding company, Ets. Brancher S.A. Ets. Brancher also owns certain land and buildings that were leased to HCF-Lennox and Friga-Bohn. As a result of the acquisition, Lennox Global Ltd. owns 70% of HCF-Lennox and Friga-Bohn as well as a 70% interest in the land and buildings through its ownership of 70% of the stock of Ets. Brancher S.A. The aggregate purchase price for this acquisition was $18.4 million, of which $10 million was in cash and $8.4 million was in Company stock (19,133 shares). The acquisition was accounted for in accordance with the purchase method of accounting. Accordingly, the purchase price has been allocated to the assets and liabilities based upon their estimated fair values at the date of acquisition. As a result, the Company recorded additional goodwill of approximately $6.4 million, which is being amortized on a straight-line basis over a 30-year period.

The Company has entered into an agreement to acquire the remaining 30% interest in Ets. Brancher S.A. on March 31, 2000 for 102.5 million French francs, or approximately $17 million.

The Company obtained control of Ets. Brancher S.A. on September 30, 1997, and, accordingly, began consolidating the financial position and operating results of the subsidiary. The 30% interest in Ets. Brancher S.A. not owned by the Company is reflected as minority interest on the accompanying consolidated balance sheets and statements of income.

The following table presents the pro forma results as if the Company's 70% interest in Ets. Brancher had been consolidated beginning January 1, 1996 (in thousands, except per share data).

| | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | 1996 | 1997 |
| Net sales | $1,576,418 | $1,588,985 |
| Net income (loss) | 54,605 | (33,381) |
| Basic earnings per share | 53.48 | (32.47) |
| Diluted earnings per share | 52.40 | (32.47) |

CANADIAN DEALERS

In the fourth quarter of 1998, the Company's Lennox Industries (Canada) Ltd. subsidiary, which is included in the North American residential segment, purchased for cash fourteen dealers (the "Dealers") in Canada that had been independent retail outlets of the Company's products. The aggregate purchase price of the Dealers was $22.9 million in cash. These acquisitions were accounted for in accordance with the purchase method of accounting. The purchase price of each Dealer has been allocated to the assets and liabilities of the Dealers, and the excess of $19.0 million has been allocated to goodwill, which is being amortized on a straight-line basis over 40 years. The results of operations of the Dealers, including sales of $8.2 million and net income of $139,000, have been fully consolidated with those of the Company since the dates of acquisition.

HEARTH COMPANIES

During June and July 1998, the Company's Hearth Products Inc. subsidiary, which is included in the North American residential segment, purchased substantially all of the assets and certain liabilities of Superior Fireplace Co. and all of the outstanding stock of Marco Mfg. Inc. and Pyro Industries Inc. The aggregate purchase price for these acquisitions was $102.9 million, of which $99.1 million was in cash and $3.8 million

was in the form of a note payable. These acquisitions were accounted for in accordance with the purchase method of accounting. Accordingly, the aggregate purchase price has been allocated to assets totaling $131.5 million and to liabilities totaling $28.6 million of the acquired companies based upon the fair value of those assets and liabilities. As a result, the Company recorded goodwill of approximately $73.8 million which is being amortized on a straight-line basis over 40 years. The results of operations of the acquired Hearth companies, including sales of $68.6 million and net income of $1.9 million, have been fully consolidated with those of the Company since the dates of acquisition.

MCQUAY DO BRASIL

During August 1998, the Company's Lennox Global Ltd. subsidiary purchased 84% of the outstanding stock of McQuay do Brasil, a Brazilian company engaged in the manufacture and sale of refrigeration, automotive air conditioning equipment, and heat transfer products. The purchase price of $20.5 million in cash has been allocated to the acquired assets and liabilities based upon the fair value of those assets and liabilities, and the excess of $11.3 million has been allocated to goodwill, which is being amortized on a straight-line basis over 40 years. The results of operations of McQuay do Brasil have been consolidated with those of the Company since the date of acquisition.

The following table presents the pro forma results as if the Dealers, the Hearth companies, and McQuay do Brasil had been acquired on January 1, 1997 (in thousands, except per share data).

| | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | 1997 | 1998 |
| Net Sales | $1,648,642 | $1,944,036 |
| Net income (loss) | (37,750) | 47,325 |
| Basic earnings per share | (36.72) | 44.73 |
| Diluted earnings per share | (36.72) | 43.70 |

8. LONG-TERM DEBT AND LINES OF CREDIT:

Long-term debt at December 31 consists of the following (in thousands):

| | 1997 | 1998 |
|---|---|---|
| 6.73% promissory notes, payable $11,111 annually 2000 through 2008 | $100,000 | $100,000 |
| 9.69% promissory notes, payable $4,900 annually 1998 through 2002 and $5,000 in 2003 | 29,500 | 24,600 |
| 5.75% promissory note, payable in 1999 | 1,596 | 951 |
| 5.84% promissory note, payable in 2000 | 2,146 | 2,275 |
| 4.80% promissory note, payable annually through 2004 | 1,197 | 1,119 |
| 6.50% promissory note, payable annually 1999 through 2005 | 1,334 | 1,382 |
| 5.50% promissory note, payable annually through 2004 | -- | 639 |
| 6.50% promissory note, payable annually through 2003 | -- | 371 |
| 9.53% promissory notes, payable $10,000 in 1999, $8,000 in 2000, and $3,000 in 2001 | 21,000 | 21,000 |
| 7.06% promissory note, payable $10,000 annually in 2004 and 2005 | 20,000 | 20,000 |
| 6.56% promissory note, payable in 2005 | -- | 25,000 |
| 6.75% promissory note, payable in 2008 | -- | 50,000 |
| 11.10% mortgage note, payable semiannually through 2000 | 8,306 | 7,547 |
| Texas Housing Opportunity Fund, Ltd. note, payable in 1999 | 205 | 109 |
| Capitalized lease obligations and other | 7,225 | 6,378 |
| | 192,509 | 261,371 |
| Less current maturities | 8,926 | 18,778 |
| | $183,583 | $242,593 |

At December 31, 1998, the aggregate amounts of required payments on long-term debt are as follows (in thousands):

| | |
|---|---|
| 1999 | $ 18,778 |
| 2000 | 35,354 |
| 2001 | 20,712 |
| 2002 | 17,534 |
| 2003 | 17,424 |
| Thereafter | 151,569 |
| | $261,371 |

The Company has bank lines of credit aggregating $164 million, of which $56 million was outstanding at December 31, 1998. Included in the bank lines is a $135 million revolving credit facility. The revolving credit facility provides for both "standby loans" and "offered rate loans." Standby loans are made ratably by all lenders under the revolving credit facility, while offered rate loans are, subject to the terms and conditions of the credit facility, separately negotiated between the Company and one or more members of the lending syndicate. Standby loans bear interest at a rate equal to either (a) the London Interbank Offered Rate plus a margin equal to 0.150% to 0.405% depending on the ratio of debt to total capitalization, or (b) the greater of (1) the Federal Funds Effective Rate plus 0.5%, and (2) the Prime Rate. Offered rate loans bear interest at a fixed rate negotiated with the lender or lenders making such loans. Under the revolving credit facility, the Company is obligated to pay certain fees, including (a) a quarterly facility fee to each lender under the credit facility equal to a percentage, varying from 0.100% to 0.220% (depending on the ratio of debt to total capitalization), of each lender's total commitment, whether used or unused, under the revolving credit facility

and (b) certain administrative fees to the administrative agent and documentation agent under the revolving credit facility. The revolving credit facility will expire on July 13, 2001, unless earlier terminated pursuant to its terms and conditions. The unsecured promissory note agreements and lines of credit provide for restrictions with respect to additional borrowings, maintenance of minimum working capital and payment of dividends.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The estimated fair values of the Company's financial instruments approximate their respective carrying amounts at December 31, 1997 and 1998, except as follows (in thousands):

| | AS OF DECEMBER 31, | | | | | |
|---|---|---|---|---|---|---|
| | 1997 | | | 1998 | | |
| | CARRYING AMOUNT | FAIR VALUE | INTEREST RATE | CARRYING AMOUNT | FAIR VALUE | INTEREST RATE |
| 9.69% promissory notes | $29,500 | $32,068 | 6.75% | $24,600 | $26,601 | 6.75% |
| 9.53% promissory notes | 21,000 | 22,375 | 6.75% | 21,000 | 21,923 | 6.75% |
| 11.10% mortgage note | 8,306 | 8,498 | 9.00% | 7,547 | 7,739 | 9.00% |

The fair values presented above are based on the amount of future cash flows associated with each instrument, discounted using the Company's current borrowing rate for similar debt instruments of comparable maturity. The fair values are estimates as of December 31, 1997 and 1998, and are not necessarily indicative of amounts for which the Company could settle currently or indicative of the intent or ability of the Company to dispose of or liquidate such instruments.

10. INCOME TAXES:

The income tax provision (benefit) consisted of the following (in thousands):

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1997 | 1998 |
| Current -- | | | |
| Federal | $33,615 | $ 24,673 | $15,820 |
| State | 3,950 | 790 | 944 |
| Foreign | 926 | 5,239 | (6,027) |
| Total current | 38,491 | 30,702 | 10,737 |
| Deferred -- | | | |
| Federal | (5,135) | (31,144) | 30,946 |
| State | 32 | (1,917) | 2,237 |
| Foreign | -- | (9,134) | (6,759) |
| Total deferred | (5,103) | (42,195) | 26,424 |
| Total income tax provision (benefit) | $33,388 | $(11,493) | $37,161 |

The difference between the income tax provision (benefit) computed at the statutory federal income tax rate and the financial statement provision (benefit) for taxes is summarized as follows (in thousands):

| | 1996 | 1997 | 1998 |
|---|---|---|---|
| Provision (benefit) at the U.S. statutory rate of 35% | $30,840 | $(15,765) | $31,390 |
| Increase (reduction) in tax expense resulting from -- | | | |
| State income tax, net of federal income tax benefit | 2,437 | (350) | 705 |
| Foreign losses not providing a current benefit | -- | 1,044 | 3,572 |
| Other | (111) | 3,578 | 1,494 |
| Total income tax provision (benefit) | $33,388 | $(11,493) | $37,161 |

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 are reflected as current or noncurrent depending on the timing of the expected realization. The deferred tax provision (benefit) for the periods shown represents the effect of changes in the amounts of temporary differences during those periods.

Deferred tax assets (liabilities), as determined under the provisions of SFAS No. 109, "Accounting for Income Taxes," were comprised of the following at December 31 (in thousands):

| | 1997 | 1998 |
|---|---|---|
| Gross deferred tax assets -- | | |
| Warranties | $ 60,421 | $ 28,281 |
| Foreign operating losses | 14,537 | 12,652 |
| Postretirement and pension benefits | 7,799 | 7,852 |
| Inventory reserves | 4,907 | 6,383 |
| Receivable allowance | 3,420 | 3,950 |
| Other | 3,518 | 9,253 |
| Total deferred tax assets | 94,602 | 68,371 |
| Valuation allowance | (14,543) | (12,652) |
| Net deferred tax assets | 80,059 | 55,719 |
| Gross deferred tax liabilities -- | | |
| Depreciation | (19,241) | (17,999) |
| Intangibles | (1,873) | (1,674) |
| Other | (10,498) | (10,248) |
| Total deferred tax liabilities | (31,612) | (29,921) |
| Net deferred tax asset | $ 48,447 | $ 25,798 |

The Company has net foreign operating loss carryforwards, mainly in Europe, which expire at various dates in the future. All such loss carryforwards have a full valuation allowance. The net change in the deferred tax asset valuation reserve for the year ended December 31, 1998, was a decrease of $1,891. The decrease is a result of operating loss carryforwards which have expired.

No provision has been made for income taxes which may become payable upon distribution of the foreign subsidiaries' earnings since management considers substantially all of these earnings permanently invested. As of December 31, 1998, the unrecorded deferred tax liability related to the undistributed earnings of the Company's foreign subsidiaries was insignificant.

11. CURRENT ACCRUED EXPENSES:

Significant components of current accrued expenses are as follows (in thousands):

| | DECEMBER 31, | |
|---|---|---|
| | 1997 | 1998 |
| Accrued product inspection charge | $ 71,956 | $ 27,336 |
| Accrued wages | 46,685 | 52,915 |
| Accrued warranties | 22,086 | 21,131 |
| Other | 69,941 | 105,658 |
| Total current accrued expenses | $210,668 | $207,040 |

12. EMPLOYEE BENEFIT PLANS:

PROFIT SHARING PLANS

The Company maintains noncontributory profit sharing plans for its salaried employees. These plans are discretionary as the Company's contributions are determined annually by the Board of Directors. Provisions for contributions to the plans amounted to $12.0 million, $11.5 million, and $13.6 million in 1996, 1997, and 1998, respectively.

401(K) PLAN

The Company provides a 401(k) plan to substantially all eligible hourly and salary employees of the Company, as defined. Participants may contribute up to 12% of their compensation to a 401(k) plan under Internal Revenue Code Section 401(k).

LONG-TERM INCENTIVE PLAN

The Company provided a long-term incentive plan, the Lennox International Inc. Performance Share Plan (the "Performance Plan") to certain employees. During 1998, the Company terminated the Performance Plan. Under the Performance Plan, participants earned shares of the Company's common stock in accordance with a discretionary formula established by the Board of Directors based on the Company's performance over a three-year period. The value of the shares earned was determined using an independent appraisal. Under the Performance Plan 2,009 shares, 7,243 shares, and 5,293 shares earned in fiscal 1995, 1996, and 1997, respectively, were issued in 1996, 1997, and 1998, respectively. During 1998, 10,878 shares were earned and issued in the same year. Compensation expense recognized under the Performance Plan was $1,900,000, $2,259,616, and $6,876,335 for the years ended December 31, 1996, 1997, and 1998, respectively, based on the fair value of the shares earned.

EMPLOYEE BENEFITS TRUST

The Company also has an Employee Benefits Trust (the "Trust") to provide eligible employees of the Company, as defined, with certain medical benefits. Trust contributions are made by the Company as defined by the Trust agreement.

PENSION AND POSTRETIREMENT BENEFIT PLANS

The Company has domestic and foreign pension plans covering substantially all employees. The Company makes annual contributions to the plans equal to or greater than the statutory required minimum. The Company also maintains an unfunded postretirement benefit plan which provides certain medical and life insurance benefits to eligible employees. The pension plans are accounted for under provisions of SFAS No. 87, "Employers' Accounting for Pensions." The postretirement benefit plan is accounted for under the

provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." The following table sets forth amounts recognized in the Company's financial statements and the plans' funded status (in thousands):

| | PENSION BENEFITS | | OTHER BENEFITS | |
|---|---|---|---|---|
| | 1997 | 1998 | 1997 | 1998 |
| Change in benefit obligation -- | | | | |
| Benefit obligation at beginning of year | $113,942 | $119,835 | $ 15,679 | $ 16,055 |
| Service cost | 3,439 | 3,875 | 457 | 494 |
| Interest cost | 8,411 | 9,128 | 1,166 | 1,128 |
| Plan participants' contributions | 304 | 189 | 1,274 | 1,452 |
| Amendments | 93 | 2,132 | -- | -- |
| Actuarial (gain)/loss | 993 | 7,471 | 40 | (449) |
| Exchange rate changes | -- | 83 | -- | -- |
| Benefits paid | (7,347) | (7,892) | (2,561) | (2,382) |
| Benefit obligation at end of year | $119,835 | $134,821 | $ 16,055 | $ 16,298 |
| Changes in plan assets -- | | | | |
| Fair value of plan assets at beginning of year | $112,588 | $131,376 | $ -- | $ -- |
| Actual return on plan assets | 21,510 | 17,466 | -- | -- |
| Employer contribution | 4,610 | 3,792 | 1,287 | 930 |
| Plan participants' contributions | 304 | 189 | 1,274 | 1,452 |
| Expenses | (664) | (549) | (79) | (34) |
| Benefits paid | (6,972) | (7,405) | (2,482) | (2,348) |
| Fair value of plan assets at end of year | 131,376 | 144,869 | -- | -- |
| Funded status | 11,541 | 10,048 | (16,055) | (16,298) |
| Unrecognized actuarial (gain)/loss | (16,151) | (14,420) | (2,158) | (1,311) |
| Unrecognized prior service cost | 747 | 641 | -- | -- |
| Unrecognized net obligation/(asset) | 6,248 | 7,420 | (520) | (347) |
| Net amount recognized | $ 2,385 | $ 3,689 | $(18,733) | $(17,956) |
| Amounts recognized in the consolidated balance sheets consist of -- | | | | |
| Prepaid benefit cost | $ 13,588 | $ 13,303 | $ -- | $ -- |
| Accrued benefit liability | (12,742) | (12,540) | (18,733) | (17,956) |
| Intangible assets | 1,539 | 2,926 | -- | -- |
| Net amount recognized | $ 2,385 | $ 3,689 | $(18,733) | $(17,956) |
| Weighted-average assumptions as of December 31 -- | | | | |
| Discount rate | 7.50% | 7.25% | 7.50% | 7.25% |
| Expected return on plan assets | 9.50 | 9.50 | -- | -- |
| Rate of compensation increase | 4.00 | 4.00 | -- | -- |

For measurement purposes, an 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1998. The rate was assumed to decrease gradually to 5.0% by 2003 and remain at that level thereafter.

| | PENSION BENEFITS | | | OTHER BENEFITS | | |
|---|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1996 | 1997 | 1998 |
| | (IN THOUSANDS) | | | (IN THOUSANDS) | | |
| Components of net periodic benefit cost -- | | | | | | |
| Service cost | $ 3,344 | $ 3,439 | $ 3,875 | $ 268 | $ 457 | $ 494 |
| Interest cost | 8,153 | 8,411 | 9,128 | 1,161 | 1,166 | 1,128 |
| Expected return on plan assets | (8,655) | (9,844) | (10,931) | -- | -- | -- |
| Amortization of prior service cost | 716 | 716 | 880 | (173) | (173) | (173) |
| Recognized actuarial loss | -- | -- | -- | (961) | (1,129) | (1,297) |
| Net periodic benefit cost | $ 3,558 | $ 2,722 | $ 2,952 | $ 295 | $ 321 | $ 152 |

The benefit obligation and fair value of plan assets for the pension plans with benefit obligations in excess of plan assets were approximately $10,770,000 and $0, respectively, as of December 31, 1997, and $12,478,000 and $3,607,000, respectively, as of December 31, 1998.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands):

| | 1-PERCENTAGE-POINT INCREASE | 1-PERCENTAGE-POINT DECREASE |
|---|---|---|
| Effect on total of service and interest cost components | $ 230 | $ (187) |
| Effect on the post-retirement benefit obligation | 1,882 | (1,605) |

13. COMMITMENTS AND CONTINGENCIES:

OPERATING LEASES

The Company has various leases relating principally to the use of operating facilities. Rent expense for 1996, 1997 and 1998 was approximately $18.6 million, $23.2 million and $28.2 million, respectively.

The approximate minimum commitments under all noncancelable leases at December 31, 1998, are as follows (in thousands):

| | |
|---|---|
| 1999 | $ 22,244 |
| 2000 | 18,825 |
| 2001 | 13,241 |
| 2002 | 10,977 |
| 2003 | 10,049 |
| Thereafter | 33,386 |
| | $108,722 |

LITIGATION

The Company is involved in various claims and lawsuits incidental to its business. In the opinion of management, these claims and suits in the aggregate will not have a material adverse effect on the Company's business, financial condition or results of operations.

14. STOCK-BASED COMPENSATION PLAN:

The Company has a Stock Option and Restricted Stock Plan, which was amended in September 1998 (the "1998 Incentive Plan"). The 1998 Incentive Plan is accounted for under APB Opinion No. 25, under which no compensation cost has been recognized. If the 1998 Incentive Plan had been accounted for under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income (loss) would have been adjusted to the following pro forma amounts (in thousands, except per share data):

| | | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|---|
| | | 1996 | 1997 | 1998 |
| Net income (loss): | As reported..... | $54,726 | $(33,550) | $52,525 |
| | Pro forma..... | 52,557 | (35,595) | 52,525 |
| Basic earnings (loss) per share: | As reported..... | $ 53.60 | $ (32.64) | $ 49.65 |
| | Pro forma..... | 51.48 | (34.63) | 49.65 |
| Diluted earnings (loss) per share: | As reported..... | $ 52.52 | $ (32.64) | $ 48.50 |
| | Pro forma..... | 50.44 | (34.63) | $ 48.50 |

Because the method of accounting under SFAS No. 123 has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

Under the 1998 Incentive Plan, the Company is authorized to issue options for 248,987 shares of common stock. As of December 31, 1998, options for 165,529 shares of common stock have been granted and options for 24,892 shares have been cancelled or repurchased. Consequently, as of December 31, 1998, there are options for 108,350 shares available for grant. Under the 1998 Incentive Plan, the option exercise price equals the stock's fair value on the date of grant. 1998 Incentive Plan options granted prior to 1998 vest on the date of grant. 1998 Incentive Plan options granted in 1998 vest over three years. All 1998 Incentive Plan options expire after ten years.

The Plan's status is as follows:

| | YEARS ENDED DECEMBER 31, | | | | | |
|---|---|---|---|---|---|---|
| | 1996 | | 1997 | | 1998 | |
| | SHARES | WEIGHTED AVERAGE EXERCISE PRICE | SHARES | WEIGHTED AVERAGE EXERCISE PRICE | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
| Outstanding at beginning of year..... | 67,204 | $237.35 | 92,099 | $297.55 | 115,828 | $334.33 |
| Granted..... | 28,675 | 430.50 | 26,570 | 458.04 | 32,450 | 622.84 |
| Exercised..... | (3,680) | 235.29 | (2,141) | 253.02 | (31,751) | 298.20 |
| Forfeited..... | (100) | 253.35 | (700) | 439.35 | (1,434) | 285.11 |
| Outstanding at end of year..... | 92,099 | $297.55 | 115,828 | $334.33 | 115,093 | $426.30 |
| Exercisable at end of year..... | 92,099 | $297.55 | 115,828 | $334.33 | 82,943 | $426.30 |
| Fair value of options granted..... | | $127.48 | | $124.15 | | $192.49 |

The following table summarizes information about stock options outstanding at December 31, 1998:

| | OPTIONS OUTSTANDING | | |
|---|---|---|---|
| RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING AT DECEMBER 31, 1998 | WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE(YEARS) | WEIGHTED-AVERAGE EXERCISE PRICE |
| $240.28 to $248.38 | 40,534 | 6 | $245.71 |
| $436.01 to $458.82 | 42,409 | 7 | 448.74 |
| $514.55 to $627.90 | 32,150 | 9.5 | 624.37 |
| | 115,093 | 8 | $426.30 |

As of December 31, 1998, options to purchase 40,534 shares of common stock with exercise prices ranging from $240.28 to $248.38 and options to purchase 42,409 shares of common stock with exercise prices ranging from $436.01 to $458.82 were exercisable. The fair value of each option is estimated on the date of grant based on a risk-free interest rate of 6%, expected life of ten years, and an expected dividend yield of 2% in 1996, 1997 and 1998.

15. EARNINGS PER SHARE:

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

| | 1996 | 1997 | 1998 |
|---|---|---|---|
| Net income (loss)..... | $54,726 | $(33,550) | $52,525 |
| Weighted average shares outstanding..... | 1,021 | 1,028 | 1,058 |
| Effect of assumed exercise of options..... | 21 | -- | 25 |
| Weighted average shares outstanding, as adjusted..... | 1,042 | 1,028 | 1,083 |
| Diluted earnings (loss) per share..... | $ 52.52 | $ (32.64) | $ 48.50 |

Options to purchase 27,400 shares of common stock at $439.35 per share, 115,828 shares of common stock at prices ranging from $169.49 per share to $458.82 per share and 31,450 shares of common stock at $627.90 per share were outstanding for the years ended December 31, 1996, 1997, and 1998, respectively, but were not included in the diluted earnings per share calculation because the assumed exercise of such options would have been antidilutive.

16. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including certain derivatives embedded in other contracts (collectively referred to as derivatives) and for hedging activities. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company does not believe that the adoption of this pronouncement will have a significant impact on the Company's financial statements.

17. RELATED PARTY TRANSACTIONS

John W. Norris, Jr., the Company's Chairman and Chief Executive Officer, and David H. Anderson, Richard W. Booth, David V. Brown, Loraine B. Millman, Robert W. Norris and Lynn B. Storey, directors of

the Company, as well as certain stockholders, are members of AOC Land Investment, LLC. AOC Land Investment, LLC owns 70% of AOC Development II, LLC. AOC Development II, LLC is building a new office building and the Company has agreed to lease part of it for use in conjunction with the Company's corporate headquarters. The lease will have a term of 25 years and the annual lease payments are expected to be approximately $2.1 million per year for the first five years. The Company believes that the terms of the lease with AOC Development II, LLC are at least as favorable as could be obtained from unaffiliated third parties.

18. SUBSEQUENT EVENTS (UNAUDITED):

The Company is filing a registration statement for an initial public offering of its common stock, the proceeds of which will be used for general corporate purposes, including regularly scheduled debt payments and for any possible future acquisitions.

[LENNOX INTERNATIONAL INC. LOGO]

STRENGTH THROUGH
BRANDS AND PEOPLE

[Inside of back cover]
[Graphics depicting pictures of employees of the Company]

[LENNOX LOGO]
[HEARTH PRODUCTS INC. LOGO]
[MARCO LOGO]
[SUPERIOR, THE FIREPLACE COMPANY LOGO]
[WHITFIELD HEARTH PRODUCTS LOGO]
[AIR-EASE LOGO]
[ARMSTRONG LOGO]
[MAGIC-PAK LOGO]
[HEATCRAFT LOGO]
[ADVANCED DISTRIBUTOR PRODUCTS LOGO]
[ALCAIR LOGO]
[APPLIED PRODUCTS LOGO]
[BOHN LOGO]
[CHANDLER REFRIGERATION LOGO]
[CLIMATE CONTROL LOGO]
[CONCORD LOGO]
[FRIGA-BOHN LOGO]
[LARKIN LOGO]

[LENNOX LOGO]

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND WE ARE NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

[ALTERNATE COVER PAGE FOR INTERNATIONAL PROSPECTUS]

PROSPECTUS (Subject to Completion)

Issued May 27, 1999

Shares

[LENNOX INTERNATIONAL INC. LOGO]

COMMON STOCK

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LENNOX INTERNATIONAL INC. IS OFFERING SHARES OF COMMON STOCK AND THE SELLING STOCKHOLDERS ARE OFFERING SHARES OF COMMON STOCK. THIS IS OUR INITIAL PUBLIC OFFERING AND NO PUBLIC MARKET CURRENTLY EXISTS FOR THE COMMON STOCK. WE ANTICIPATE THAT THE INITIAL PUBLIC OFFERING PRICE WILL BE BETWEEN $ AND $ PER SHARE.

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OUR COMMON STOCK HAS BEEN APPROVED FOR LISTING ON THE NEW YORK STOCK EXCHANGE UNDER THE TRADING SYMBOL "LII," SUBJECT TO OFFICIAL NOTICE OF ISSUANCE.

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INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 9.

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PRICE $ A SHARE

---

| | PRICE TO PUBLIC | UNDERWRITING DISCOUNTS AND COMMISSIONS | PROCEEDS TO LENNOX | PROCEEDS TO SELLING STOCKHOLDERS |
|---|---|---|---|---|
| Per Share..... | $ | $ | $ | $ |
| Total..... | $ | $ | $ | $ |

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The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Lennox International Inc. has granted the U.S. underwriters the right to purchase up to an additional shares of common stock to cover over-allotments. Morgan Stanley & Co. Incorporated expects to deliver the shares of common stock to purchasers on , 1999.

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MORGAN STANLEY DEAN WITTER

CREDIT SUISSE FIRST BOSTON

WARBURG DILLON READ

, 1999

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

All capitalized terms used and not defined in Part II of this Registration Statement shall have the meanings assigned to them in the prospectus which forms a part of this Registration Statement.

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following is a statement of estimated expenses incurred by Lennox in connection with the issuance and distribution of the securities being registered pursuant to this Registration Statement, other than underwriting discounts and commissions.

| | AMOUNT |
|---|---|
| Securities Act registration fee | $2,780 |
| NASD filing fee | 1,500 |
| Blue sky qualification fees and expenses | * |
| Printing and engraving fees and expenses | * |
| Legal fees and expenses | * |
| Accounting fees and expenses | * |
| Transfer agent and registrar fees and expenses | * |
| New York Stock Exchange listing fee | * |
| Miscellaneous | * |
| Total | $ |

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* To be completed by amendment.

All of the foregoing estimated costs, expenses and fees will be borne by Lennox.

ITEM 14. INDEMNIFICATION OF OFFICERS AND DIRECTORS.

DELAWARE GENERAL CORPORATION LAW

Section 145(a) of the Delaware General Corporation Law (the "DGCL") provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful.

Section 145(b) of the DGCL provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the

adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

Section 145(c) of the DGCL provides that to the extent that a present or former director or officer of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 145(a) and (b), or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Section 145(d) of the DGCL provides that any indemnification under Section 145(a) and (b) (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 145(a) and (b). Such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (1) by a majority vote of the directors who were not parties to such action, suit or proceeding, even though less than a quorum, or (2) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by the stockholders.

Section 145(e) of the DGCL provides that expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the corporation as authorized in Section 145. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the corporation deems appropriate.

Section 145(f) of the DGCL provides that the indemnification and advancement of expenses provided by, or granted pursuant to, Section 145 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office.

Section 145(g) of the DGCL provides that a corporation shall have the power to 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 serving at the request of the corporation as 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 the power to indemnify such person against such liability under Section 145.

Section 102(b)(7) of the DGCL provides that the liability of a director may not be limited or eliminated for the breach of such director's duty of loyalty to the corporation or its stockholders, for such director's intentional acts or omissions not in good faith, for such director's concurrence in or vote for an unlawful payment of a dividend or unlawful stock purchase or redemption or for any improper personal benefit derived by the director from any transaction.

RESTATED CERTIFICATE OF INCORPORATION

Article Eighth of Lennox's restated certificate of incorporation provides that a director of Lennox shall not be liable to Lennox 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 Article Eighth shall not adversely affect any right or protection of a director of Lennox existing thereunder with respect to any act or omission occurring prior to such repeal or modification.

BYLAWS

Article VI of Lennox's bylaws provides that each person who at any time shall serve or shall have served as a director or officer of Lennox, or any person who, while a director or officer of Lennox, is or was serving at the request of Lennox 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 Lennox as, and to the fullest extent, permitted by Section 145 of the DGCL or any successor statutory provision, as from time to time amended. Lennox 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 Lennox or another corporation, partnership, joint venture, trust or other enterprise.

The indemnification and advancement of expenses provided by, or granted pursuant to, Article VI shall not be deemed exclusive of any other rights to which any person seeking indemnification or advancement of expenses may be entitled under any bylaw of Lennox, agreement, vote of stockholders or disinterested directors 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 Article VI shall be deemed to be provided by a contract between Lennox and the director, officer, employee or agent who served in such capacity at any time while the bylaws of Lennox and other relevant provisions of the DGCL and other applicable law, if any, are in effect. Any repeal or modification thereof shall not affect any rights or obligations then existing. Without limiting the provisions of Article VI, Lennox is authorized from time to time, without further action by the stockholders of Lennox, to enter into agreements with any director or officer of Lennox providing such rights of indemnification as Lennox may deem appropriate, up to the maximum extent permitted by law. Any agreement entered into by Lennox 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.

Lennox may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of Lennox, or is or was serving at the request of Lennox as 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 Lennox would have the power to indemnify such person against such liability under the applicable provisions of Article VI or the DGCL.

UNDERWRITING AGREEMENT

The Underwriting Agreement, the form of which is filed as Exhibit 1.1 to this Registration Statement, provides for the indemnification of the directors and officers of Lennox against certain liabilities, including liabilities arising under the Securities Act of 1933, as amended (the "Securities Act").

The above discussion of the restated certificate, bylaws and Underwriting Agreement, and Section 145 of the DGCL is not intended to be exhaustive and is respectively qualified in its entirety by the restated certificate, bylaws, Underwriting Agreement and such statute.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Pursuant to the several Note Purchase Agreements, dated as of April 3, 1998, by and among Lennox International Inc. and The Prudential Insurance Company of America, Teachers Insurance and Annuity Association of America, Connecticut General Life Insurance Company, Connecticut General Life Insurance Company on Behalf of One or More Separate Accounts, CIGNA Property and Casualty Insurance Company and U.S. Private Placement Fund, United of Omaha Life Insurance Company and Companion Life Insurance Company (collectively, the "Note Purchasers"), Lennox sold an aggregate of $25,000,000 of its 6.56% Senior Notes due April 3, 2005, and an aggregate of $50,000,000 of its 6.75% Senior Notes due April 3, 2008 to the Note Purchasers at the purchase price of 100% of the principal amount thereof in reliance upon the exemption from the registration requirements of the Securities Act set forth in Section 4(2) thereof.

Between May 27, 1996 and May 27, 1999, Lennox sold the following securities pursuant to its various benefit programs: (a) 39,343 shares of common stock issued upon the exercise of options granted to directors and employees of Lennox pursuant to Lennox's benefit programs and (b) 443 shares of common stock to directors of Lennox. The exercise prices of the options referred to in clause (a) ranged from $130.71 to $469.59 per share. The sale prices of shares referred to in clause (b) ranged from $266.65 to $702.12 per share. Lennox issued the securities referred to in clauses (a) and (b) above in reliance upon the exemption from the registration requirements of the Securities Act set forth in Section 4(2) and Regulation 701 thereof. During the same three-year period, Lennox sold 3,045 shares of common stock to certain existing stockholders of Lennox at sales prices ranging from $299.01 per share to $707.12 per share in reliance upon the exemption from the registration requirements of the Securities Act set forth in Section 4(2) thereof.

In November 1997, Lennox issued 2,500 shares of common stock to Ray Strong, an individual, in connection with the purchase of a 50% interest in Strong LGL International, L.L.C. The value allocated to such shares of common stock was approximately $1.2 million. In addition, in September 1997, Lennox issued 19,133 shares of common stock to Jean Jacques Brancher, an individual, or his designated assigns, in connection with Lennox's acquisition of an additional 20% interest in the Ets. Brancher joint venture. The value allocated to such shares of common stock was approximately $8.3 million. In May 1999, Lennox issued 9,241 shares of common stock to nine individuals and five trusts in connection with the acquisition of Livernois Engineering Holding Company. The value allocated to such shares of common stock was approximately $7.4 million. The shares issued in all of the foregoing transactions were issued in reliance upon the exemption from the registration requirements of the Securities Act set forth in Section 4(2) thereof.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 1.1* | -- Form of Underwriting Agreement. |
| 3.1** | -- Restated Certificate of Incorporation of Lennox. |
| 3.2** | -- Amended and Restated Bylaws of Lennox. |
| 4.1* | -- Specimen Stock Certificate for the Common Stock, par value $.01 per share, of Lennox. |
| 5.1* | -- Opinion of Baker & Botts, L.L.P. regarding legality of securities being registered. |
| 10.1** | -- Agreement of Assumption and Restatement, dated as of December 1, 1991 between Lennox and identified Noteholders relating to Lennox's 9.53% Series F Promissory Notes due 2001 and 9.69% Promissory Notes due 2003. |
| 10.2** | -- Note Purchase Agreement, dated as of December 1, 1993, between Lennox and identified Noteholders relating to Lennox's 6.73% Senior Promissory Notes due 2008. |
| 10.3** | -- Note Purchase Agreement, dated as of July 6, 1995, between Lennox and Teachers Insurance and Annuity Association of America relating to Lennox's 7.06% Senior Promissory Notes due 2005. |
| 10.4** | -- Note Purchase Agreement, dated as of April 3, 1998, between Lennox and identified Noteholders relating to Lennox's 6.56% Senior Notes due 2005 and 6.75% Senior Notes due 2008. |
| 10.5** | -- Note Amendment Agreement, dated as of April 3, 1998, between Lennox and identified Noteholders relating to Lennox's 9.53% Senior Promissory Notes due 2001, 9.69% Senior Promissory Notes due 2003, 7.06% Senior Promissory Notes due 2005 and 6.73% Senior Promissory Notes due 2008. |

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 10.6** | -- Revolving Credit Facility Agreement, dated as of July 13, 1998, among Lennox, identified Lenders, Chase Bank of Texas, N.A., as Administrative Agent, and Wachovia Bank, N.A., as Documentation Agent. |
| 10.7** | -- Advance Term Credit Agreement, dated as of March 16, 1999, among Lennox, Chase Bank of Texas, National Association, as Administrative Agent, and Wachovia Bank, N.A., as Documentation Agent. |
| 10.8** | -- 1998 Incentive Plan of Lennox International Inc. |
| 10.9** | -- Lennox International Inc. Profit Sharing Restoration Plan. |
| 10.10** | -- Lennox International Inc. Supplemental Executive Retirement Plan. |
| 10.11** | -- Letter of Intent, dated as of June 23, 1998, between Jean-Jacques Brancher and Lennox Global Ltd. |
| 10.12 | -- First Amendment to the Amended and Restated Venture Agreement, dated as of December 27, 1997, between Ets. Brancher S.A. and Lennox Global Ltd. |
| 10.13 | -- Amended and Restated Venture Agreement, dated as of November 10, 1997, by and among Lennox Global Ltd., Lennox International Inc., Ets. Brancher S.A. and Fibel S.A. |
| 10.14 | -- Shareholder Restructure Agreement, dated as of September 30, 1997, by and among Jean Jacques Brancher, Ets. Brancher S.A., AFIBRAL S.A., Parifri S.A. and Lennox International Inc. |
| 10.15 | -- Form of Indemnification Agreement entered into between Lennox and certain executive officers and directors (includes a schedule identifying the various parties to such agreement and the applicable dates of execution). |
| 10.16 | -- Form of Employment Agreement entered into between Lennox and certain executive officers (includes a schedule identifying the various parties to such agreement and the applicable dates of execution). |
| 10.17 | -- Form of Change of Control Employment Agreement entered into between Lennox and certain executive officers (includes a schedule identifying the various parties to such agreement and the applicable dates of execution). |
| 10.18 | -- Stock Disposition Agreement, dated as of June 2, 1997, among Lennox, A.O.C. Corporation and Compass Bank. |
| 10.19 | -- Stock Disposition Agreement, dated as of January 22, 1998, among Lennox, A.O.C. Corporation and Compass Bank. |
| 10.20 | -- Stock Disposition Agreement, dated as of May 7, 1998, among Lennox and Northern Trust Bank of Florida, N.A. |
| 10.21 | -- Master Stock Disposition Agreement, dated as of August 10, 1998, among Lennox, Chase Bank of Texas, N.A., and various executive officers and directors. |
| 10.22 | -- Stock Disposition Agreement, dated as of November 19, 1998, among Lennox, John E. Major and Harry Trust & Savings Bank. |
| 10.23 | -- Stock Disposition Agreement, dated as of November 19, 1998, among Lennox, John E. Major and Susan M. Major and Harry Trust & Savings Bank. |
| 10.24 | -- Stock Disposition Agreement, dated as of February 10, 1999, among Lennox, David H. Anderson and Northern Trust Bank of Texas, N.A. |
| 21.1** | -- Subsidiaries of Lennox. |
| 23.1 | -- Consent of Arthur Andersen LLP |
| 23.2 | -- Consent of Baker & Botts, L.L.P. (included in the opinion filed as Exhibit 5.1 to this Registration Statement). |

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 24.1** | -- Powers of Attorney. |
| 27.1 | -- Financial Data Schedule. |

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* To be filed by amendment.

** Previously filed.

(b) Financial Statement Schedule

Schedule II Valuation and Qualifying Accounts and Reserves and report of Arthur Andersen LLP thereon.

ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant also undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of the registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 1 to this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Richardson, State of Texas, on May 27, 1999.

LENNOX INTERNATIONAL INC.

By: /s/ JOHN W. NORRIS, JR.

---

John W. Norris, Jr.
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /s/ JOHN W. NORRIS, JR.<br>John W. Norris, Jr. | Chairman of the Board and Chief Executive Officer (Principal Executive Officer) | May 27, 1999 |
| /s/ CLYDE W. WYANT<br>Clyde W. Wyant | Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer) | May 27, 1999 |
| /s/ JOHN J. HUBBUCH<br>John J. Hubbuch | Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer) | May 27, 1999 |
| *<br>Linda G. Alvarado | Director | May 27, 1999 |
| *<br>David H. Anderson | Director | May 27, 1999 |
| *<br>David V. Brown | Director | May 27, 1999 |
| *<br>Richard W. Booth | Director | May 27, 1999 |
| Thomas W. Booth | Director | |
| *<br>James J. Byrne | Director | May 27, 1999 |
| Janet K. Cooper | Director | |

| SIGNATURE | TITLE | DATE |
|---|---|---|
| * | Director | May 27, 1999 |
| Thomas B. Howard, Jr. | | |
| * | Director | May 27, 1999 |
| John E. Major | | |
| * | Director | May 27, 1999 |
| Donald E. Miller | | |
| * | Director | May 27, 1999 |
| Terry D. Stinson | | |
| * | Director | May 27, 1999 |
| Richard L. Thompson | | |
| *By: /s/ JOHN W. NORRIS, JR.<br>John W. Norris, Jr.<br>Attorney-in-Fact for such persons<br>pursuant to the powers of attorney<br>dated April 6, 1999 filed as an<br>exhibit to the Registration Statement | | |

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited in accordance with generally accepted auditing standards the consolidated financial statements of Lennox International Inc. and subsidiaries included in this registration statement on Form S-1 and have issued our report thereon dated February 18, 1999. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Schedule II, Valuation and Qualifying Accounts and Reserves, is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Dallas, Texas
February 18, 1999

LENNOX INTERNATIONAL INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

| | BALANCE AT BEGINNING OF YEAR | ADDITIONS CHARGED TO COST AND EXPENSES | DEDUCTIONS(1) | BALANCE AT END OF YEAR |
|---|---|---|---|---|
| | | (IN THOUSANDS) | | |
| 1996: | | | | |
| Allowance for doubtful accounts | $ 9,611 | $7,041 | $(4,537) | $12,115 |
| 1997: | | | | |
| Allowance for doubtful accounts | $12,115 | $8,997 | $(4,164) | $16,948 |
| 1998: | | | | |
| Allowance for doubtful accounts | $16,948 | $6,224 | $(4,647) | $18,525 |

- ---

(1) Uncollectable accounts charged off, net of recoveries.

EXHIBIT INDEX

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 1.1* | -- Form of Underwriting Agreement. |
| 3.1** | -- Restated Certificate of Incorporation of Lennox. |
| 3.2** | -- Amended and Restated Bylaws of Lennox. |
| 4.1* | -- Specimen Stock Certificate for the Common Stock, par value $.01 per share, of Lennox. |
| 5.1* | -- Opinion of Baker & Botts, L.L.P. regarding legality of securities being registered. |
| 10.1** | -- Agreement of Assumption and Restatement, dated as of December 1, 1991 between Lennox and identified Noteholders relating to Lennox's 9.53% Series F Promissory Notes due 2001 and 9.69% Promissory Notes due 2003. |
| 10.2** | -- Note Purchase Agreement, dated as of December 1, 1993, between Lennox and identified Noteholders relating to Lennox's 6.73% Senior Promissory Notes due 2008. |
| 10.3** | -- Note Purchase Agreement, dated as of July 6, 1995, between Lennox and Teachers Insurance and Annuity Association of America relating to Lennox's 7.06% Senior Promissory Notes due 2005. |
| 10.4** | -- Note Purchase Agreement, dated as of April 3, 1998, between Lennox and identified Noteholders relating to Lennox's 6.56% Senior Notes due 2005 and 6.75% Senior Notes due 2008. |
| 10.5** | -- Note Amendment Agreement, dated as of April 3, 1998, between Lennox and identified Noteholders relating to Lennox's 9.53% Senior Promissory Notes due 2001, 9.69% Senior Promissory Notes due 2003, 7.06% Senior Promissory Notes due 2005 and 6.73% Senior Promissory Notes due 2008. |
| 10.6** | -- Revolving Credit Facility Agreement, dated as of July 13, 1998, among Lennox, identified Lenders, Chase Bank of Texas, N.A., as administrative agent, and Wachovia Bank, N.A., as documentation agent. |
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| 10.14 | -- Shareholder Restructure Agreement, dated as of September 30, 1997, by and among Jean Jacques Brancher, Ets. Brancher S.A., AFIBRAL S.A., Parifri S.A. and Lennox International Inc. |
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| 23.1 | -- Consent of Arthur Andersen LLP |
| 23.2 | -- Consent of Baker & Botts, L.L.P. (included in the opinion filed as Exhibit 5.1 to this Registration Statement). |
| 24.1** | -- Powers of Attorney (included in the signature pages of this Registration Statement). |
| 27.1 | -- Financial Data Schedule. |

- ---

* To be filed by amendment.

** Previously filed.

EXHIBIT 10.12

Ets. Brancher S.A.
11, rue d'Alsace-Lorraine
69500 Bron, France

Lennox Global Ltd.
2100 Lake Park Blvd.
Richardson, Texas 75080 U.S.A.

This is the First Amendment to the Amended and Restated Venture Agreement (the "Amendment") entered into by and between Lennox Global Ltd. and Lennox International Inc. (collectively referred to as "Lennox") and Ets. Brancher S.A. and its subsidiary, Fibel S.A. (collectively referred to as "Brancher") (Lennox and Brancher collectively referred to as "Shareholders"), dated 11 October 1997 (the "Prior Agreement").

The effective date of the Amendment is 27 December 1997.

This Amendment is to amend and modify the Prior Agreement as set forth below:

1. In the Prior Agreement, the Shareholders agreed to sell the assets of Lennox Industries ("Lennox UK") to HCF Lennox S.A., a subsidiary of Brancher ("HCF"), on or about 31 December 1997, for a purchase price of Thirty Million French Francs (30,000,000Ffs) and subject to the condition that Lennox UK will have a net book value of at least Thirty Million French Francs (30,000,000Ffs) at the time of the transfer.

2. The Shareholders have agreed to further modify the Prior Agreement as follows:

   a. the purchase price for Lennox UK is agreed to be Twenty-Five Million, Ten Thousand, Eight Hundred and Eighty Eight French Francs (25,010,888Ffs) which will be paid to Lennox as agreed by the parties to be completed no later than 1 May 1998;

   b. the Shareholders have further agreed that the transfer will be to Brancher rather than HCF;

   c. with respect to the tax loss carried forward of Lennox UK, the Shareholders further agree as follows:

      (i) no portion of the losses, expenses or deductions incurred by Lennox UK prior to 1 January 1998 shall be used to offset income for non-U.S. foreign tax purposes for any entity or person other than Lennox UK, under the laws of any country other than the U.S. at any time after 1 January 1998;

      (ii) Brancher agrees that the agreements set out above in subparagraph 2.c(i) shall remain in effect until the year 2010 and that it will supply Lennox, or any third party, any documentation requested by Lennox to substantiate the terms of this Amendment;

(iii) Brancher further agrees that the failure of Brancher to comply with the terms of the agreements set out above in subparagraph 2.c(i) may result in substantial damage, and Brancher agrees to indemnify or otherwise provide any remedies available under the applicable law to any party damaged as a result of this noncompliance.

3. The Shareholders agree that all remaining terms of the Prior Agreement shall remain in full force and effect as written.

Lennox and Brancher agree to act and vote as Shareholders of Ets. Brancher S.A. consistent with the terms of this Amendment and the Prior Agreement.

| | |
|---|---|
| Ets. Brancher S.A. | Lennox Global Ltd. |
| By:/s/ Jean-Jacques Brancher | By:/s/ Clyde Wyant |
| Title: President | Title: Executive Vice President |

EXHIBIT 10.13

# AMENDED AND RESTATED VENTURE AGREEMENT

This Amended and Restated Venture Agreement (the "Amended Agreement") is entered into by and between Lennox Global Ltd., a Delaware corporation and Lennox International Inc., a Delaware corporation (to the extent necessary to bind its subsidiaries and affiliates to the terms of this Agreement), with principal offices at 2100 Lake Park Blvd., Richardson, Texas 75080 (collectively referred to as "Lennox"), and Ets. Brancher S.A. and its subsidiary, Fibel S.A., both French corporations with their principal place of business at 11 rue d'Alsace Lorraine, 69500 Bron, France (collectively referred to as "Brancher Co."), to amend and restate the Venture Agreement entered into by and among the Parties as of the 13th day of May, 1996 which was amended by letter agreement of 13 May 1996 and the amendment of 24 May 1996 (the "Original Agreement").

WITNESSETH:

WHEREAS, Brancher Co. and Mr. Jean-Jacques Brancher ("Brancher"), and Lennox, entered into the Original Agreement to form a joint venture by combining the designated assets of a company owned by Lennox and certain companies owned, in whole or in part, by Brancher for the purpose of creating a heating, ventilating, air conditioning and refrigeration ("HVAC/R") business headquartered in France (the "Venture"); and

WHEREAS, the Parties have agreed to amend the Original Agreement to restructure the Venture as described in the Restructure Agreement ("Restructure Agreement") by and among the Parties which is entered into on the same date as this Amended Agreement.

NOW, THEREFORE, in consideration of the covenants set forth in this Amended Agreement, the Parties hereby agree as follows:

I. DEFINITIONS: When capitalized and used in this Amended Agreement and on any attached schedules or exhibits hereto, the following terms and phrases shall have the following meanings:

"Amended Agreement" shall refer to this Amended and Restated Venture Agreement and all its attached schedules and exhibits.

"Applicable Law" shall mean any statute or law or any judgment, order, decree, rule, or regulation of any Governmental Entity to which a specified person or property is subject.

"Brancher Companies" shall mean the companies owned, in whole or in part, by Brancher to be included in the Venture consisting of HCF Lennox S.A. and all subsidiaries ("HCF") and Friga-Bohn S.A. and all subsidiaries ("Friga-Bohn).

"Closing" and "Closing Date" shall have the meanings assigned to such terms in Section 9.2.

"Company Statutes" shall mean the bylaws, articles of incorporation or statutes which under the laws of the jurisdiction of a company prescribe the rules of its operation and governance.

"Company Stock", with respect to any one of the Venture Company, Brancher Companies or Lennox U.K. (as hereafter defined), shall mean all of the issued and outstanding shares of all stock, common or otherwise, representing the entire ownership interest in and control of such company.

"Encumbrances" shall mean liens, charges, pledges, options, mortgages, security interests, claims, restrictions (whether on voting, sale, transfer or disposition or otherwise) and other encumbrances of every type and description, whether imposed by law, agreement, understanding or otherwise.

"Ets. Brancher" shall mean Ets. Brancher S.A. which shall include the subsidiaries HCF, Friga-Bohn and all subsidiaries of each along with Frinotec S.A., SCI Geraval and SCI Groupe Brancher.

"Financial Statements" shall have the meaning set forth in Section 8.1.C. with respect to the Brancher Companies and Section V.E.2. of Exhibit 3.2.A. with respect to Lennox U.K. (as hereafter defined).

"Governmental Entity" shall mean any court or tribunal in any jurisdiction (domestic or foreign) or any federal, state, municipal, domestic, foreign or other administrative agency, department, commission, board, bureau or other governmental authority or instrumentality.

"Intellectual Property" shall mean patents, trademarks, service marks, trade names, copyrights, trade secrets, know-how and similar rights, and all registrations, applications, licenses, and rights with respect to any of the foregoing, foreign or domestic.

"Inventory" shall mean all of a company's finished goods, work in process and raw materials.

"Latest Balance Sheet" shall have the meaning assigned to such term in Section 8.1.C. with respect to the Venture Company and in Section V.E.2. of Exhibit 3.2.A. with respect to Lennox U.K.

"Lennox U.K." shall mean that corporation organized under the laws of the United Kingdom which has been created to contain the assets of Lennox Industries which is to be sold to the Venture.

"Material Adverse Effect" shall mean any adverse change in the financial condition, business or operations of a company which is material to such company.

"Net Book Value" shall mean the net book value as reflected in the applicable Latest Balance Sheet as defined by conventional accounting practices in effect on the Closing Date; provided however, in the event of extraordinary events which distort Net Book Value, the Parties agree to adjust year-ending Net Book Value so as to remove such distortion.

"New Companies" shall mean the Brancher Companies and all related subsidiaries combined with Lennox U.K. as provided herein.

"Original Agreement" shall mean the Venture Agreement entered into by the Parties as of 13 May 1996 which was amended by letter agreement dated 13 may 1996 and amendment dated 24 September 1996.

"Permitted Encumbrances" means those certain Encumbrances, easements, rights of way, encroachments, conflicts, protrusions or other exceptions to title to the Real Property accepted by the Parties hereto.

"Permits" shall mean licenses, permits, franchises, consents, approvals and other authorizations obtained or to be obtained from Governmental Entities.

"Party" or "Parties" shall mean the parties to this Amended Agreement.

"Proceedings" shall mean all proceedings, actions, suits, investigations or inquiries in or before any arbitrator or Governmental Entity.

"Real Property" shall mean the real property owned by or leased to the Venture Company more particularly described in Sections 8.1.F. and 8.1.G. and Sections V.E.5. and V.E.6. of Exhibit 3.2.A. with respect to Lennox U.K., together with all buildings and other improvements situated thereon, all fixtures and other property affixed thereto and all and singular the rights and appurtenances pertaining to the property, including any right, title and interest of the owner of such property in and to adjacent streets, alleys or rights of way.

"Securities Act" shall mean the any laws of France, the United States or the United Kingdom which apply to the transfer of stock or assets or other securities pursuant to the terms of this Amended Agreement.

"Shareholders" shall mean Brancher and Lennox or the designee of either.

"Venture Company" shall mean Ets. Brancher S.A. which shall include the subsidiaries of Frinotec S.A., SCI Geraval and SCI Groupe Brancher (with the Ets. Brancher ownership of SCI Groupe Brancher being transferred from Ets. Brancher to Friga-Bohn); but not HCF, Friga-Bohn and all subsidiaries of each.

## II. NAME AND BASIC PRINCIPLES

### SECTION 2.1. NAMES

Pursuant to the terms of this Amended Agreement, the Parties will conduct the business of the Venture through companies with such names as the Parties may from time to time select.

### SECTION 2.2. BASIC PRINCIPLES

The Parties have agreed to form the Venture to consist of the Brancher Companies and Lennox U.K. for the purpose of conducting an HVAC/R business in a defined geographic area. The Venture will operate with Brancher and Lennox sharing the ownership of a holding company which will own all the interests of each party in the participating companies. Lennox will ultimately acquire all of the ownership of Ets. Brancher as described in this Amended Agreement. For the conduct of the Venture, the Parties have established by mutual agreement certain basic principles which will govern the formation of the Venture and its operations and include the following:

A. OBJECTIVE. Ets. Brancher will be managed with the fundamental objective of profitable growth of Ets. Brancher through the production, marketing and sales of products within the HVAC/R industry with a geographic focus of operations in Europe, Africa, and the Middle East including Iran (the "Territory"). The existing products and markets of Ets. Brancher will be the focus for the products and markets of the Venture. Lennox agrees, as the majority partner, to use its best efforts to maintain and increase the profitability of Ets. Brancher consistent with reasonable business judgment with due regard to its other business interests.

B. EXCHANGE OF TECHNOLOGY. The technology of Ets. Brancher will be made available to Lennox and the technology of Lennox will be made available to Ets. Brancher under mutually agreed upon terms; except that no license fee shall be charged or sublicense granted unless agreed upon by the Parties. Also, the products manufactured by Ets. Brancher will be supplied for resale to Lennox and the products manufactured by Lennox will be supplied for resale to Ets. Brancher, where appropriate, within the Territory and outside the Territory, as agreed from time to time subject to the Parties agreement regarding competition.

C. NON-COMPETITION. Throughout the term of this Amended Agreement, the Parties agree that neither shall participate, directly or indirectly, in the businesses of Ets. Brancher within the Territory other than through participation in Ets. Brancher as described in this Amended Agreement. Lennox further agrees not to compete, directly or indirectly, with Ets. Brancher within the Territory and Brancher and Ets. Brancher agrees not to compete, directly or indirectly, with Lennox outside the Territory. Each Party acknowledges that neither Party can control any third party who purchases such products; however, both Parties agree to take those reasonable steps to prevent a third party from violating the intent of this Section 2.2.C. where not prohibited by law.

## III. ACQUISITION OF OWNERSHIP BY LENNOX

### SECTION 3.1. OWNERSHIP OF BRANCHER COMPANIES STOCK

Lennox has purchased and Brancher owns certain shares of the Brancher Companies which constitute essentially one hundred percent (100%) of all interests in the Brancher Companies. Lennox and Brancher have transferred or will transfer all such interests, not already owned by Ets. Brancher, such that it now owns essentially one hundred percent (100%) of all interests in the Brancher Companies. Brancher and Lennox now own or will own Ets. Brancher in proportions set forth in the Restructure Agreement. The Parties further agree that all obligations of each Party as required by the Agreement relating to the transfer of ownership of the Brancher Companies have been completed except as specifically set out in this Amended Agreement.

### SECTION 3.2. TRANSFER OF LENNOX U.K.

Lennox and Brancher have agreed to the following with respect to the purchase by Ets. Brancher of Lennox U.K.:

A. PURCHASE OF LENNOX U.K. HCF has agreed to purchase from Lennox and Lennox shall sell all of its ownership interests in Lennox U.K. in accordance with the principles set forth on Exhibit 3.2.A. The purchase price for this purchase shall equal Twenty Nine Million Nine Hundred Ninety-Nine Thousand Nine Hundred Seventy French Francs ("Ffs") (29,999,970Ffs).

B. SCOPE OF LENNOX U. K. PURCHASE. The parties have agreed that Lennox U.K. shall consist of one hundred percent (100%) of the ownership interests in Lennox Industries (including all of its assets and liabilities), which company will have a net book value of at least Thirty Million Ffs (30,000,000.00 Ffs) at the time of the transfer.

C. TIMING OF THE TRANSFER. The parties have further agreed that the transfer shall occur on or before 1 January 1998 ("Transfer Date"). Until the transfer, Lennox shall be responsible for the profits and losses of Lennox U.K. although it will be operated as though it were integrated with HCF. The purchase price referenced above shall be paid upon the transfer specified above at time agreed upon by the Parties.

### SECTION 3.3. PHASED ACQUISITION OF REMAINING OWNERSHIP OF ETS. BRANCHER.

At the times specified below for a change in the Lennox percentage ownership in Ets. Brancher, Lennox will purchase the amount of additional Company Stock of Ets. Brancher prescribed below using the Company Stock Price defined below.

A. STOCK PRICE. The stock price for any specified purchase shall be calculated by dividing the Ets. Brancher yearly Company Value for the applicable year by the number of shares of Ets. Brancher Company Stock issued and outstanding at time of the calculation (the "Stock Price").

(i) Yearly Ets. Brancher Company Value. The yearly Ets. Brancher Company value (Ets. Brancher Company Value or "CV") shall be calculated using its consolidated Net Book Value as defined below at the close of each business year ("Yearly Book Value" or "YBV") . The Yearly Book Value will be the consolidated Net Book Value of Ets. Brancher as of 30 September 1997 (this value is 233,662,837 Ffs before restructuring adjustments described below and as described in more detail on Schedule 3.3.A(i)) after taking into account all restructuring steps and as adjusted for any consolidated profits or losses accumulated through the business year just ended. The Ets. Brancher Company Value is computed as follows:

CV = [YBV + 9*{(Y(-2)+2 * Y(-1)+3 * Y(-0)) /6}]/2

Where:

YBV = its Yearly Book Value for the business year just ended.

Y(-2) = its consolidated Net Income or loss for the business year two years before the year just ended.

Y(-1) = its consolidated Net Income or loss for the business year one year before the year just ended.

Y(-0) = its consolidated Net Income or loss for the business year just ended.

CV = the Company Value will never be less than its Yearly Book Value for any business year.

(ii) The Effect of Goodwill on Ets. Brancher Company Value. In the event assets or companies are acquired by Ets. Brancher for a cost greater than their net book value, the amortization of goodwill will be over a period of not less than thirty (30) years or in the event changes in generally accepted accounting practices, the goodwill will be accounted for so as not to materially damage the CV of Ets. Brancher.

B. SALE OF ETS. BRANCHER COMPANY STOCK. The further sale of Ets. Brancher Company Stock shall take place using the stock price (as defined above) within thirty (30) days after adequate audited financial data is available in the year of purchase to calculate the Ets. Brancher Company Value, Lennox will pay to Brancher an amount equal to the Ets. Brancher Company Stock Price defined above times the number of additional shares necessary for Lennox to achieve the

Lennox Percentage of Ownership applicable at that time. In exchange for this payment, Brancher agrees to transfer to Lennox sufficient shares of the Ets. Brancher Company Stock to represent the Additional Percentage of Ownership (as defined below) being acquired by Lennox for that specified year.

C. ADDITIONAL PERCENTAGE OF OWNERSHIP AND SCHEDULE. In the event that Brancher has not sold and Lennox has not purchased at least 74% of Ets. Brancher by the end of calendar year 2005, Lennox will acquire sufficient additional ownership of the Ets. Brancher to allow the percentage then owned by Lennox to equal 74%. Further, in the event that Brancher has not sold and Lennox has not purchased all the remaining ownership of Ets. Brancher by the end of calendar year 2006, Lennox will acquire all the remaining ownership of the Ets. Brancher. These purchases may be accelerated as described below.

D. ACCELERATION OF PURCHASE. The Lennox purchases described above may be accelerated in any of the following circumstances:

(i) Death of Jean-Jacques Brancher. In the event of the death of Jean-Jacques Brancher, Lennox will purchase and Brancher shall sell all of the remaining Additional Percentage of Ownership of Ets. Brancher for a purchase price equal to the greater of (1) the number of shares representing the remaining Additional Percentage of Ownership times the applicable Ets. Brancher Company Stock Price or (2) the minimum company value described in Section 3.3.A(ii). Jean-Jacques Brancher agrees to comply with any reasonable request of Lennox to take any action which, under French Law, will increase the enforceability of the agreement to sell Ets. Brancher Company Stock as described in this Section 3.3.D(i). The purchase will be completed within three (3) months of the notice to Lennox of the date of the death of Jean-Jacques Brancher.

(ii) Option of Brancher. In addition, Brancher shall have the right but not the obligation, at any time, to require Lennox to purchase all or any portion of the remaining shares in Ets. Brancher at a purchase price per share equal to Stock Price. The accelerated purchase will be completed within ninety (90) days of the date of the exercise of this option in writing by Brancher.

SECTION 3.4. ISSUANCE OR TRANSFER OF SHARES

A. SHARES OF STOCK. Brancher agrees that all shares of Ets. Brancher Company Stock either issued or transferred to Lennox hereunder shall be shares of the common stock which possess the highest form of voting power, preferences, dividends or other rights.

B. ISSUANCE OR TRANSFER OF SHARES TO LENNOX. Brancher agrees to issue or transfer or have issued or transferred to Lennox or its nominee sufficient shares of the Ets. Brancher Company Stock under the terms of Section 3.3.B(ii), to reflect the Lennox percentage of ownership acquired by Lennox pursuant to the terms and conditions of this Amended Agreement. This issuance will be completed within thirty (30) days of the date specified for any Lennox acquisition of Ets.
Brancher Company Stock.

SECTION 3.5. EXPENSES OF RESTRUCTURE (PROFESSIONAL FEES, TAXES OR OTHER FEES)

The Shareholders shall bear individually the costs and expenses incurred in connection with the consummation of the transactions contemplated under this Amended Agreement related to that Shareholder incurred prior to 30 September 1997 including, but not limited to, all professional fees, costs or any taxes or fees levied on or in respect of the transactions contemplated hereunder, however designated and whenever or wherever levied, including by way of example but not limited to ad valorem, sales, excise, purchase or use taxes, stock transfer, mortgage registration, deed recording or other property transfer fees, but not including income taxes of any kind. Thereafter, all such expenses will be borne by Ets. Brancher except as the expenses relate to a capital reduction of Ets.
Brancher will be borne by Brancher.

SECTION 3.6. RESTRICTION ON THE SALE OF SHARES OF COMPANY STOCK

The Shareholders each agree that neither shall sell shares of Ets. Brancher Company Stock except as specifically provided for in this Amended Agreement except as each may transfer ownership to other affiliates of Brancher or Lennox.

SECTION 3.7. FINDING OF AN UNLAWFUL STOCK PRICE FOR THE SALE OF SHARES OF COMPANY STOCK

In the event that a determination by any court of competent jurisdiction that the Stock Price or Ets. Brancher Company Stock Price defined in this Amended Agreement is null and void, the Shareholders agree that a new Stock Price or Company Stock Price will be determined by an expert appointed by the Commercial Court in France.

IV. FUTURE CAPITAL CONTRIBUTIONS

SECTION 4.1. FUTURE CAPITAL CONTRIBUTIONS

Contributions of capital to Ets. Brancher that have not been anticipated at the date of this Amended Agreement, and therefore not scheduled, shall be made by the Shareholders as follows:

A. FUTURE CAPITAL CALLS. The Parties acknowledge and agree that it is anticipated, assuming satisfactory business performance, that Ets. Brancher may expand its operations in a manner and at a time to be determined by the Committee (as defined below), and

additional capital contributions may be required for the expansion of Ets. Brancher. The Parties hereby agree that the Committee may evaluate the circumstances of the Ets. Brancher Company and approve a proposal for a capital contribution from the Shareholders. If the Committee fails to agree on the necessity of such a capital contribution, it shall constitute a dispute under the terms of Section 7.1. and shall be resolved under such terms. Further, should any Shareholder not make any contribution approved by the Committee and the Parties, within twenty (20) days of the date of the formal decision, the other Shareholder, at its sole discretion, shall have the option to pay the Expansion Capital Contribution of the nonpaying Shareholder; provided, the Shareholder contributing additional capital shall be entitled to additional shares of Company Stock of the requesting company sufficient such that the percentage of ownership of stock of the requesting company held by such Shareholder shall equal the percentage that the total capital contributions made by such Shareholder to such company bears to the sum of the then applicable Net Book Value of Ets. Brancher and such total capital contributions. It is further agreed that all further capital increases will be based on the Ets. Brancher Stock Price defined in Section 3.3.B(i). In the event Jean-Jacques Brancher elects not to make any approved capital contribution and his contribution is offered by Lennox as provided above which would cause the ownership of Jean-Jacques Brancher in the Venture Company to fall below Twenty Five Percent (25%), the Parties agree that Jean- Jacques Brancher may also elect to sell the balance of his shares in the Ets. Brancher Company to Lennox as provided for in Section 3.3.D(ii). It is further agreed that Lennox may utilize any other means of financing in Ets. Brancher or pursue the business venture sought to be financed by the capital contribution outside the Venture notwithstanding the terms of this Amended Agreement under Section 2.2.C, without limitation.

B. SPECIAL CAPITAL CALLS. If Ets. Brancher, for any period of time greater than thirty (30) consecutive days, shall experience a cash deficit sufficient to place the continued operations of Ets. Brancher in jeopardy, then the management of the Ets. Brancher Company shall immediately notify the Committee and request that it immediately take any and all steps necessary to cure the cash deficit. Within ten (10) days of receiving such a request, the Committee, at its sole discretion, may elect to: (i) attempt to arrange for an emergency loan to the company, such loan to be made by any lender acceptable to the Committee (including either or both Shareholders) upon such terms as the Committee in its sole discretion shall approve; (ii) propose a Special Capital Call upon the Shareholders in an amount sufficient to cure the cash deficit; or (iii) decline to act on the request. If the Committee for any reason shall not elect one of the actions specified above within ten (10) days of the receipt of such request, it shall give rise to a dispute and the remedies available under Section 7.1. Further, should any Shareholder not make any contribution approved by the Committee and the Parties, within twenty (20) days of the date of the formal decision, the other Shareholder, at its sole discretion, shall have the option to pay the capital contribution of the nonpaying Shareholder; provided, the Shareholder contributing additional capital shall be entitled to additional shares of Company Stock of Ets. Brancher sufficient such that the percentage of ownership of stock of Ets. Brancher held by such Shareholder shall equal the percentage that the total capital contributions made by such Shareholder to Ets. Brancher bears to the Ets. Brancher Company Value as described in Section 3.3.A(i) and such total capital contributions. It is further agreed that

all further capital increases will be based on the Ets. Brancher Stock Price defined in Section 3.3.B(i).

SECTION 4.2. RETURN OF PAYMENTS OF CAPITAL

In the event either Shareholder shall make a capital contribution to Ets. Brancher which fails to be completed as specified by the Board of Directors of such company, that Shareholder shall be entitled to a return of such contribution as provided by the applicable law.

SECTION 4.3. RETURN OR WITHDRAWAL OF CAPITAL

To the extent allowed by the applicable laws, the Shareholders agree that no capital shall be returned to any Shareholder unless agreed upon by the Parties.

V. MANAGEMENT AND STAFF

SECTION 5.1. NEW COMPANIES STAFF

A. JOINT OWNERSHIP PHASE. For so long as Ets. Brancher is jointly owned, its activities shall be conducted by the personnel serving as its officers or in key positions selected from time to time by the Committee. It is understood and agreed that if the Committee selects a President Director General of Ets. Brancher over the formal objection of Jean-Jacques Brancher, the selection by the Committee shall be suspended for fourteen (14) days to allow Jean-Jacques Brancher the opportunity to present reasons for such objection to the Chief Executive Officer of Lennox. The Chief Executive Officer may either overrule the selection of the Committee or sustain its selection with reasons provided for the decision. In the event Jean-Jacques Brancher continues to object to the selection, he shall have all of the remedies otherwise available under the terms of this Amended Agreement. The staff of any company may include employees of either Shareholder who may be temporarily or permanently assigned to any one of Ets. Brancher. The Committee may decide that any such employee shall be made available for such period of time as to meet the needs of the company. For administrative convenience, the Committee may, at its discretion, request that payroll, benefit and related employment matters with respect to Ets. Brancher staff be handled through the respective Shareholder for those employees selected from that Shareholder. Upon such request, such payroll, benefits and related employment matters shall be handled by such Shareholder pursuant to a general services agreement to be entered into between Ets. Brancher and such Shareholder. The duties of the staff for Ets. Brancher shall be defined by the Committee.

B. PHASE OF SOLE OWNERSHIP BY LENNOX. In the event Lennox assumes sole ownership of Ets. Brancher, the respective Boards of Directors of Ets. Brancher shall solely determine staffing Ets. Brancher.

SECTION 5.2. VENTURE COMPANY PLANNING AND OPERATING COMMITTEE

A. NATURE, FUNCTIONS AND PROCEDURES OF COMMITTEES. The Shareholders agree that the existing Committee may continue or a new Committee or Committees established for Ets. Brancher or its subsidiary companies to perform such functions, using such procedures as the Shareholders' may from time to time elect. The nature of the Committee or Committee's, its functions and procedures will be decided by the Shareholders by majority vote

B. THE APPLICATION OF COMMITTEE DECISIONS TO ETS. BRANCHER OR THE NEW COMPANIES. The Parties acknowledge and agree that each will participate, either directly or indirectly through its authorized representatives on the Boards of Directors or as officers of or in other capacities with Ets. Brancher or the New Companies. The Parties further agree that, limited only by obligations imposed on such Party by Law, each Party in that capacity shall act consistent with the decisions of the Committee as those decisions apply to the operations and Policies of Ets.
Brancher or the New Companies.

SECTION 5.3. BOARDS OF DIRECTORS

A. DESIGNATION OF MEMBERS; POWERS OF REVIEW. The Boards of Directors shall consist of: for Ets. Brancher four (4) members, for Friga-Bohn eight (8) members, and for the Boards of HCF ten (10) members, with each Party designating a number of members in its sole discretion equivalent to its percentage of ownership of Ets. Brancher. The Shareholders agree to reduce restructure the membership of the respective Boards to provide the smallest number of members who can be available to attend meetings and respond to the requirements of each company as soon as practical giving due consideration for the expiration of the terms of the existing directors. The Shareholders further agree that so long as Jean-Jacques Brancher shall remain a Shareholder with at least Twenty-Five Percent (25%) interest in Ets. Brancher, he shall be elected a director of Ets. Brancher and its subsidiaries or serve as the representative of a director.

B. BOARD MEETINGS; VOTING; ACTION OF THE BOARD. All actions of each Board of Directors shall be taken in accordance with the procedures set forth in the applicable Company Statutes. All provisions in such Company Statutes shall govern notice of the meetings to such Board, quorum requirements, votes and voting, and the conduct of the meetings.

C. CURRENT MEMBERS OF THE FRIGA-BOHN BOARD OF DIRECTORS.

| | | |
|---|---|---|
| (i) | INDIVIDUAL REPRESENTATIVES: | Term Ends: |
| | Robert Moulin, | |
| | President Director General | 31-12-1999 |
| | Ets. Brancher S.A. | 31-12-1999 |
| | Representative: | Jean-Jacques Brancher |
| | M. Roger Stocker | 31-12-1997 |
| | M. Jean-Jacques Blanchedeau | 31-12-1997 |
| (ii) | REPRESENTATIVES OF LENNOX: | Term Ends: |

| | | |
|---|---|---|
| | Lennox Global Ltd. | 31-12-2001 |
| | Representative: | John W. Norris, Jr. |
| | Heatcraft Inc. | 31-12-2001 |
| | Representative: | Robert L. Jenkins |
| | Heatcraft Technologies Inc. | 31-12-2001 |
| | Representative: | H.E. (Ed) French |
| | Lennox International Inc. | 31-12-2001 |
| | Representative: | Clyde Wyant |

D. CURRENT MEMBERS OF THE HCF BOARD OF DIRECTORS:

| | | |
|---|---|---|
| (i) | INDIVIDUAL REPRESENTATIVES: | Term Ends: |
| | Jean-Pierre Boutier, | |
| | President Director General | 31-12-1997 |
| | Jean-Jacques Brancher | 31-12-1996 |
| | Ets. Brancher S.A. | 31-12-1996 |
| | Representative: | Hartmut Schmied |
| | M. Roger Stocker | 31-12-1998 |
| | M. Roland De Vignon | 31-12-1999 |
| (ii) | REPRESENTATIVES OF LENNOX: | Term Ends: |
| | Lennox International Inc. | 31-12-2001 |
| | Representative: | Harry J Ashenhurst |
| | Lennox Global Ltd. | 31-12-2001 |
| | Representative: | John W. Norris Jr. |
| | Heatcraft Inc. | 31-12-2001 |
| | Representative: | Clyde Wyant |
| | Heatcraft Technologies Inc. | 31-12-2001 |
| | Representative: | Carl E. Edwards, Jr. |
| | Lennox Industries Inc. | 31-12-1998 |
| | Representative: | Robert L. Jenkins |

E. MEMBERS OF THE ETS. BRANCHER BOARD OF DIRECTORS.

| | | |
|---|---|---|
| (i) | REPRESENTATIVES OF BRANCHER: | Term Ends: |
| | Jean-Jacques Brancher | 31-12-2002 |
| (ii) | REPRESENTATIVES OF LENNOX: | Term Ends: |
| | Robert L. Jenkins | 31-12-2002 |
| | Lennox Global Ltd. | 31-12-2002 |
| | Representative: | John W. Norris Jr. |
| | Lennox International Inc. | 31-12-2002 |
| | Representative: | Clyde Wyant |

F. LENGTH OF SERVICE OF BOARD MEMBERS. Each Board member shall serve until the term of his or her election shall expire unless re-elected by the shareholders at any duly constituted meeting or until such member is removed by the action of the shareholders as provided for on the Company Statutes or applicable law.

G. BOARD DUTIES. Each Board shall meet periodically to do those functions specified in the applicable Company Statutes, and such other things as may from time to time be necessary for the conduct of Ets. Brancher or the New Companies' businesses.

G. REIMBURSEMENT OF DIRECTORS' EXPENSES. Each company in the New Companies shall reimburse its directors for travel, food and lodging expenses incurred in attending directors' meetings and otherwise in conducting the affairs of the Board.

## VI. TERM, TERMINATION AND PHASE OUT

### SECTION 6.1. TERM

The term of this Amended Agreement shall be for as long as any of the Parties remain shareholders or their respective successors or assigns own stock in Ets. Brancher. Sections 6.3. and 13.5. shall survive termination of this Amended Agreement.

### SECTION 6.2. TERMINATION

A. NORMAL TERMINATION. Upon completion of the purchase by Lennox of all remaining interests of Brancher in Ets. Brancher, this Amended Agreement shall be deemed terminated. It is expressly understood and agreed that such purchase may be completed through the exercise by Jean- Jacques Brancher of his option to accelerate the purchase as provided under Section 3.3.D(ii). Brancher shall provide written notice to Lennox as provided under Section 6.2.E(i).

B. TERMINATION BY THE DEATH OF JEAN-JACQUES BRANCHER. Upon the death of Jean-Jacques Brancher, Lennox shall purchase all remaining interest in Ets. Brancher from Brancher as provided under Section 3.3.D(i). Brancher's estate shall provide written notice to Lennox as provided under Section 6.2.E(i).

C. TERMINATION BY PURCHASE OR SALE AT BUYOUT PRICE PER SHARE. Upon the occurrence of one (1) or more of the following events, Brancher or Lennox may, at its sole discretion as a terminating Party, by giving notice to the other Party as provided under Section 6.2.E(ii) within thirty (30) days after the occurrence of such event, terminate this Amended Agreement and cause the other Party, at the terminating Party's sole discretion, to either: (A) sell all of such other Party's

shares in Ets. Brancher to the terminating Party, or (B) to purchase all of the shares in Ets. Brancher held by the terminating Party:

(i) breach of this Amended Agreement by the other Party; provided, however, that no Party may terminate this Amended Agreement pursuant to this clause until after the notice and cure provisions set forth in Sections 12.1. and 12.2. and the dispute resolution mechanism set forth in Section 7.1. have been exhausted.

(ii) either Party shall file or have filed against it, under the laws of the appropriate jurisdiction, declaration of bankruptcy or insolvency or enter into any agreement which acts as an assignment of its assets for the satisfaction of its debts; provided, however, the terminating Party may only purchase the shares of the other Party in accordance with the terms of this Section 6.2.C. unless otherwise permitted under the applicable laws under which such insolvency or bankruptcy event occurs.

The price of any shares in Ets. Brancher purchased or sold as provided under this Section 6.2.C. shall be as specified below, and the terms of such purchase and the closing thereof shall be as set forth in Section 6.2.F.

(iii) If Lennox is the terminating Party, the purchase price shall be the lesser of Ets. Brancher Stock Price per share determined under Section 3.3.B(i). or a price determined using the minimum Venture Company values under Section 3.3.A(ii) and the sale price shall be the aggregate purchase price paid by Lennox to acquire its interest; or

(iv) If Brancher is the terminating Party, the purchase price shall be the aggregate purchase price paid by Lennox to acquire its interest, and the sale price shall be the greater of the Stock Price per share determined under Section 3.3.B(i) or a price determined using the Minimum Company Values under Section 3.3.A(ii).

D. TERMINATION BY REASON OF IMPASSE. Upon the occurrence of a dispute between the Parties which is not resolved by use of the procedures for dispute resolution set forth below in Section 7.1., the Dispute Committee shall be asked to propose a solution to the dispute. If the Dispute Committee is unable to agree on such a solution, each Party shall appoint a representative, which representative shall appoint a third representative to propose a solution. All such representatives shall not be members of the Committee or involved in any way with Ets. Brancher. Any Party may, at its sole discretion, reject the proposed solution by giving notice to the other Party as provided under Section 6.2.E(iii). In this event the dissenting Party shall sell its remaining interests in Ets. Brancher to the other Party at the then applicable Stock Price and the terms of such purchase and the closing thereof shall be as set forth in Section 6.2.F.

E. NOTICES.

(i) Notice of Termination under Sections 6.2.A. and 6.2.B. Any notice of termination by Brancher or his estate shall be given to Lennox in writing. Such notice shall state that the Amended Agreement is terminated by reason of Brancher's death or exercise of the option to accelerate the purchase of the remaining shares of Brancher by Lennox in accordance with Section 6.2.A. or 6.2.B. Lennox shall complete the purchase within ninety (90) days after receipt of such written notice, which period will be automatically extended to the extent necessary to comply with any requirements for completing such purchase.

(ii) Notice of Section 6.2.C. Termination and Buyout. Any notice of termination of this Amended Agreement and purchase or sale of shares of Ets. Brancher under the provisions of Section 6.2.C. shall be given by the terminating Party to the other Party in writing within thirty (30) days of the event causing such termination. Such notice shall clearly state that the Amended Agreement is being terminated under Section 6.2.C., the reason for such termination and that the terminating Party thereby elects to sell its interest or to purchase the other Party's interest, as the case may be, in Ets. Brancher. A binding contract shall exist between the Parties as to the termination and buyout as provided herein upon the receipt of such notice.

(iii) Notice of Section 6.2.D. Termination. Any notice of termination of this Amended Agreement under the provisions of Section 6.2.D., shall be given by the terminating Party to the other Party in writing. Such notice shall clearly state that the Amended Agreement is being terminated under Section 6.2.D., the reason for such termination being the existence of a dispute which, after exhaustion of the dispute resolution procedures in Section 7.1., has failed to be resolved and that the terminating Party, having reject the proposed solution of the dispute, thereby elects to terminate the Amended Agreement under Section 6.2.D.

F. TERMS OF PURCHASE AND CLOSING OF SECTION 6.2.C. OR SECTION 6.2.D. The terms of any purchase or sale under Section 6.2.C. or Section 6.2.D. shall be as follows:

(i) There shall be a closing of any transfer of shares in Ets. Brancher no later than thirty (30) days following the notice given under Section 6.2.E(ii) or Section 6.2. E(iii).

(ii) The purchase price specified in Section 6.2.C. or Section 6.2.D. shall be paid in full to the selling Party at the closing.

(iii) The purchasing Party shall provide a representation and warranty to the selling Party that the shares of Ets. Brancher are being purchased for investment purposes only and not with a view toward the offer, sale or other distribution thereof without being in compliance with Applicable Law.

(iv) The selling Party shall provide the following representations and warranties:

(A) It has good and marketable title to the shares of Ets. Brancher being transferred, free and clear of all liens and encumbrances;

(B) It has taken all steps and complied with all corporate formalities required to transfer the shares of Ets. Brancher to the purchasing Party; and

(C) It is legally empowered to transfer the shares of Ets. Brancher to the purchasing Party.

SECTION 6.3. PHASE OUT OF TECHNOLOGY AND PRODUCTS.

In the event the selling Party has a material requirement for the use of the technology and/or products of the Company existing at the time of termination hereunder (other than a termination under Section 6.2.A. or 6.2.B.), the Parties shall arrange and agree upon the phase out of such use to be completed within one (1) year of the termination of this Amended Agreement.

VII. DISPUTE RESOLUTION

SECTION 7.1. DISPUTE RESOLUTION MECHANISM

Every dispute whatsoever that may arise between the Parties or their nominees, designees or other representatives with respect to the subject matter of this Amended Agreement shall be submitted for resolution as provided in this Section 7.1.

A. DISPUTE AMONG THE PARTIES; REFERRAL TO COMMITTEE. Any dispute arising with respect to the operation of the Venture or execution, application or interpretation of this Amended Agreement as it relates to any specific company in the Company shall be referred to the Committee for review and resolution. The Committee in good faith shall strive to resolve any dispute that may arise among the Parties as to any matter that is within the scope of its authority. If, however, the Committee shall fail for any reason to resolve, to the mutual satisfaction of the Brancher nominees and the Lennox nominees who serve on the Committee, any disputed matter, then the dissatisfied members of the Committee shall notify the Chairman of the Committee in writing that if such matter is not resolved in a satisfactory manner within thirty (30) days of such notice, then the Chairman of the Committee shall refer such matter to the Dispute Resolution Committee (referred to as the "Dispute Committee" in this Amended Agreement and shall consist of the Chief Executive or Chief Operating Officers of Brancher and Lennox) and request that the Dispute Committee immediately call a special meeting to resolve such disputed matter. If, for any reason, the Chairman of the Committee shall fail to refer such disputed matter to the Dispute

Committee and request a special meeting of the Committee to resolve such matter as required hereunder, then any Party shall have the right to call such meeting of the Dispute Committee.

B. REFERRAL TO DISPUTE COMMITTEE; MEDIATION. The Parties, through the Dispute Committee, in good faith shall strive to resolve any dispute that may arise between them as to any matter arising from or in any way connected with the Venture, or that is related to or otherwise connected with the subject matter of this Amended Agreement. If, however, the Dispute Committee shall fail to resolve any matter in dispute (including any matter referred to the Dispute Committee by the Chairman of the Committee) within sixty (60) days of its first meeting to consider the matter, then at the request of either or both Parties, the dispute shall be submitted for resolution depending on the nature of the dispute as described in Section 7.1.C. below.

C. FAILURE OF DISPUTE RESOLUTION; REMAINING REMEDIES. If the Dispute Resolution Committee shall fail to produce a resolution of the dispute within sixty (60) days of the commencement thereof, then, and only then, the Parties shall:

(i) For any dispute not involving a claim of the breach of any term of this Amended Agreement, resolve such dispute in accordance with Section 6.2.D., no later than thirty (30) days following the notice of a failure to resolve such dispute by any Party.

(ii) For any dispute involving a claim of the breach of any term of this Amended Agreement, the dispute shall be submitted for resolution under the International Chamber of Commerce Rules for arbitration in a location agreed to by the Parties or failing agreement, The Hague of the Netherlands. The result of such arbitration shall be binding on the parties and enforceable by application to a court of competent jurisdiction.

## VIII. REPRESENTATIONS AND WARRANTIES

### SECTION 8.1. REPRESENTATIONS OF BRANCHER.

Brancher hereby represents and warrants that to the best of its knowledge and belief all representations and warranties made in the Original Agreement remain true and accurate and with respect this Amended Agreement, it hereby represents and warrants as to the Venture Company:

A. DUE INCORPORATION, GOOD STANDING, POWER AND AUTHORITY. The Venture Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, with all necessary corporate power and authority to carry on its business as now being conducted and to own, operate and lease all properties owned, operated or leased by it, and is duly qualified to do business in all jurisdictions where such qualification is required, except where the failure to be so qualified will not result in a Material Adverse Effect.

Brancher has delivered to Lennox true, correct and complete copies of the Company Statutes of the Venture Company;

B. AUTHORIZATION OF AMENDED AGREEMENT. Brancher has taken all corporate action required or necessary for the authorization, execution, delivery and performance of this Amended Agreement and has full corporate power to enter into this Amended Agreement and to carry out its obligations hereunder, and the execution and delivery by Brancher of this Amended Agreement and the performance by Brancher of its obligations hereunder have been duly authorized by all necessary corporate action of Brancher. This Amended Agreement has been duly executed and delivered by Brancher and constitutes a valid and legally binding obligation of Brancher enforceable against Brancher in accordance with its terms (subject only to the limitations to enforceability that might result from bankruptcy, insolvency or other similar laws affecting creditors' rights generally). No actions or proceedings to dissolve Brancher or the Venture Company is pending.

C. FINANCIAL STATEMENTS. Brancher has delivered or will deliver as soon as available to Lennox, true, complete and correct copies of (i) the unaudited Balance Sheet of the Venture Company at June 30, 1997 (the "Latest Balance Sheet") and the related Statements of Operating Income, and the notes and schedules thereto, and (ii) the audited Balance Sheet of the Venture Company at December 31, 1996 and the related Statements of Operating Income for the year then ended, and the notes and schedules thereto (collectively, the Financial Statements"). The Venture Company Financial Statements have been prepared from the Venture Company's books and records in accordance with the Venture Company's accounting practices applied on a basis consistent with preceding years throughout the period involved. The Venture Company Financial Statements present fairly the Venture Company's financial condition at the respective dates thereof and their results of operations for the periods then ended. Brancher further agrees to provide any updates to such statement, including final 1997 audited Financial Statements, as soon as such statements become available.

D. CAPITALIZATION. The authorized capital stock of the Venture Company consists of the number of shares of common stock, of the indicated par value as set forth on Schedule 8.1.E. All outstanding shares of capital stock of the Venture Company--have been validly issued and are fully paid and nonassessable. No shares of capital stock of the Venture Company have been issued in violation of preemptive or similar rights, and there are no outstanding or contingent rights to acquire any of the capital stock of the Venture Company (whether or not outstanding), and no outstanding agreements or other arrangements by which the Venture Company is or may be bound to repurchase or otherwise acquire any shares of their capital stock have not been disclosed to Lennox.

E. TITLE TO SHARES. Brancher has, and at Closing Lennox will acquire, good and marketable title to the designated percentages, which may be less than One Hundred Percent (100%), of all of the authorized and issued shares of Company Stock of the Venture Company, HCF, Friga-Bohn, Frinotec S.A. and other related companies, free and clear of all Encumbrances except as listed on Schedule 8.1.E.

F. ASSETS AND PROPERTIES.

(i) Real Property. Lennox has been supplied a complete listing of all Real Properties, owned by the Venture Company. Those Real Properties will be owned by the Venture Company except as described on Schedule 8.1.F.

(ii) Personal Property. Except as set forth on Schedule 8.1.F. and except for Inventory and supplies disposed of or consumed and accounts receivables collected or written off and cash utilized, all in the ordinary course of business consistent with the past practices, the Venture Company owns all of its Inventory, equipment and other personal property (both tangible and intangible) reflected on the Latest Balance Sheet, free and clear of all Encumbrances.

(iii) Condition of Property. Except as set forth on Schedule 8.1.F., the Real Property and tangible personal property owned or leased by the Venture Company is in good operating condition and repair, ordinary wear and tear excepted; and the Venture Company has no knowledge of any condition or defect, not disclosed herein of the Real Property or such personal property that would materially affect its fair market values or otherwise have a Material Adverse Effect on the Venture Company or its operation.

(iv) Title to Properties. The Venture Company has good and indefeasible title to all properties (real, personal, tangible and intangible) it owns, as set forth in the Latest Balance Sheet, other than those sold or otherwise disposed of in the ordinary course of business, free and clear of all Encumbrances, except (a) as disclosed on Schedule 8.1.F, (b) as set forth in the Latest Balance Sheet as securing specific liabilities, (c) the Permitted Encumbrances, and (d) imperfections of title that are not substantial in character, amount or extent and do not materially detract from the value of the properties subject thereto.

(v) Utilities. To the best knowledge of the Venture Company , all utilities (water, sewer, gas, electricity, telephones, etc.) are available to its property to adequately service such property.

(vi) Compliance. To the best of knowledge of Venture Company, the continued ownership, operation, use, and occupancy of the Real Property, as currently operated, used or occupied, will not violate any zoning, building, health, flood control, fire or other law, ordinance or regulation or any restrictive covenant, except as set forth on Schedule 8.1.F or otherwise reported to Lennox

G. LEASES. Lennox has been provided a complete list of all real properties leased by the Venture Company which is used or required for use in the businesses of the New Companies. Except as specified on Schedule 8.1.G., all rights to such properties shall be retained by the Venture Company. The lessee under each such lease has been in peaceable possession (or remedied any claims relating thereto) of the Real Property, buildings, machinery, equipment, vehicles or other

tangible property or assets covered thereby since the commencement of the original term of such lease and such lessee is not in material default thereunder except as described in Schedule 8.1.G. hereof. There are no liens on the assets of the Venture Company except as set forth on Schedule 8.1.G.

H. INTELLECTUAL PROPERTY. Lennox has been provided a complete list of all Intellectual Property that is material to the conduct of the businesses of the Venture Company as currently being conducted and owned by the Venture Company or which it is licensed to use. The listed Intellectual Property constitutes all Intellectual Property necessary for the conduct of the businesses of the Venture Company as currently conducted and all rights to such Intellectual Property remain in the Venture Company except as set forth on Schedule 8.1.H. To the best knowledge of Brancher, there are no Proceedings pending or threatened in writing against the Venture Company asserting that the use by the Venture Company of any of such Intellectual Property infringes in any material respect the rights of any other person or seeking revocation, termination, or concurrent use of any of such Intellectual Property. To the best knowledge of Brancher, none of such Intellectual Property is being infringed upon by any other person.

I. LEGAL PROCEEDINGS. Lennox has been provided a complete listing of all pending and, to the best knowledge of Brancher, threatened in writing, Proceedings involving the Venture Company or any of their properties in which the damages sought to be imposed exceed Five Hundred Thousand Ffs (500,000Ffs) in any one case or which, individually or in the aggregate, might result in any Material Adverse Effect. There are no Proceedings pending or, to the best knowledge of Brancher, threatened in writing, seeking to restrain, prohibit or obtain damages or other relief in connection with this Amended Agreement or the consummation of the transactions contemplated herein except as set forth on Schedule 8.1.I.

J. GOVERNMENTAL CONSENTS, COMPLIANCE WITH LAW. Except for the approvals of Governmental Entities disclosed in Schedule 8.1.J., to the best knowledge of Brancher, there is no requirement applicable to Brancher to make any filing with, or to obtain any permit, authorization, consent or approval of, any Governmental Entity as a condition to the lawful consummation by Brancher of the transactions contemplated by this Amended Agreement.

K. INVENTORY. All Inventory (including raw materials, work-in-progress and finished goods) and related supplies reflected on the Brancher Latest Balance Sheet or thereafter acquired and not disposed of in the ordinary course of business is usable and salable in the ordinary course of business of the Venture Company.

L. CONTRACTS AND AGREEMENTS. Lennox has been provided a complete listing list of all material contracts or other agreements with a value greater than Five Hundred Thousand Ffs (500,000Ffs) (other than those listed on any other Schedule referred to in this Article), relating to the businesses of the Venture Company to which the Venture Company is a party or by which the Venture Company is bound, and Brancher has furnished or shall furnish prior to the Closing Date to Lennox complete and correct copies of all such contracts or other agreements, including all

amendments as of the date hereof. The Venture Company is not in default in any material respect, and no written notice of alleged default has been received by the Venture Company under any of these agreements, and, to the best of Brancher's knowledge, no other party thereto is in default or alleged in writing to be in default in any material respect other than defaults as to which requisite waivers or consents have been obtained and defaults which in the aggregate would not have a Material Adverse Effect except as set forth on the attached Schedule 8.1.L. Brancher makes no representations about the possibility or likelihood of renewal or extension of any such contract or other agreement unless otherwise noted on Schedule 8.1.L.

M. COMPLIANCE WITH LAW. To the best of Brancher's knowledge, the Venture Company is not in violation of (i) any applicable judgment, order, injunction, award or decree relating to the operation of its businesses or (ii) any Applicable Law except in the case of (i) and (ii) for such violation individually or in the aggregate which would not have a Material Adverse Effect.

N. PERMITS. Lennox has been provided a complete listing of all Permits which are material to or necessary in the conduct of the businesses of the Venture Company as they are currently being conducted. The Venture Company has conducted its businesses and operations substantially in accordance with the conditions and provisions of the Permits except for noncompliance as to which it has received requisite waivers or consents or which does not have a Material Adverse Effect except as set forth on Schedule 8.1.N. hereto. There is no other Permit the absence of which would have a Material Adverse Effect on the Venture Company's ability to carry on its businesses and operations. Except as set forth on Schedule 8.1.N.: (i) all such Permits are in full force and effect, (ii) no violations are known to Brancher or have been recorded (which have not been remedied) in respect of any such Permit, and (iii) no Proceeding is pending or threatened in writing to revoke or limit any such Permit.

O. NO CONFLICT WITH OTHER AGREEMENTS. Neither the execution nor delivery of this Amended Agreement, nor the consummation of the transactions contemplated hereunder, nor the fulfillment of or compliance with the terms and conditions hereof will conflict with the Company Statutes of the Venture Company, or will result in a breach of, or constitute a conflict or default under, any material contract, agreement or instrument to which it is a party or by which it or its assets or personnel are bound; and

P. ABSENCE OF CERTAIN EVENTS. Other than those events disclosed to Lennox, there has not been:

(i) Any Material Adverse Effect on the Venture Company or the assets and properties described in Section 8.1.F. which has not been disclosed to Lennox;

(ii) Any purchase, sale or transfer of assets in anticipation of this Amended Agreement, or which would contravene the intent of this Amended Agreement other than those necessary to complete the Restructure and this Amended Agreements;

(iii) Any illegal payment by the Venture Company and the Brancher Companies to foreign or domestic governmental or quasi-governmental officials, or payments to customers or suppliers for rebating of charges, or other reciprocal practices, in connection with the conduct of their businesses, other than normal price reductions allowed to customers in the ordinary course of business; or

(iv) Any damage, destruction or loss (whether or not covered by insurance) which has or would have a Material Adverse Effect on the Venture Company or the Brancher Companies.

Q. EMPLOYEES. Lennox has been provided a complete list of the collective bargaining agreements applicable to the facilities of the Venture Company, as well as, a list of all employment agreements between any employee and the Venture Company and the names and total compensation of all salaried employees who are employed by the Venture Company who have an annual salary in excess of Four Hundred Thousand Ffs (400,000Ffs). Except as set forth on Schedule 8.1.Q, there are no strikes, slow-downs, disputes, litigation, agency or other actions pending or threatened which are believed to be in excess of One Hundred Thousand Ffs (100,000Ffs) in liability or considered adverse to the operations of the Venture Company.

R. EMPLOYEE BENEFIT PLANS. Lennox has been provided a complete list of all of the pension, profit sharing, thrift, deferred compensation, bonus, incentive, stock purchase, severance, hospitalization, insurance or other similar plans, agreements or arrangements, which are maintained by or contributed to by the Venture Company for its employees. All obligations of the Venture Company to contribute to such plans on behalf of the employees employed for calendar years prior to 1997 have been paid, and all obligations of the Venture Company to contribute to such plans on behalf of such employees for the period beginning January 1, 1997 and ending on the Closing Date will be paid by the Venture Company except as listed on Schedule 8.1.R. The Venture Company has not incurred any liability under these plans or the laws governing them arising in connection with the termination of, or complete or partial withdrawal from, any plan covered or previously covered by Applicable Laws, and the Venture Company has paid and discharged when due all obligations and liabilities arising under Applicable Laws with respect to all employee benefit plans of a character which, if unpaid or unperformed might result in the imposition of a lien against any of the assets of the Venture Company. All employee benefit plans of the Venture Company (the "Brancher Plans") have been and are being maintained in compliance with each of their terms and with the requirements prescribed by any and all Applicable Laws. Brancher has furnished to Lennox a copy of the Brancher Plans and related documents, where applicable, and all amendments thereto and written interpretations thereof together with the any reports prepared in connection with the Brancher Plans. There are not now, nor have there been, any transactions with respect to the Plans which could result in material liability on the part of the Venture Company under Applicable Laws except as listed on Schedule 8.1.R. There are no threatened or pending claims by or on behalf of the Brancher Plans or by any employee participating therein alleging a breach of fiduciary duties or violations of Applicable Laws with respect to the Brancher Plans which could result in material liability on the part of the Venture Company or the Brancher Plans under Applicable Laws except as listed on Schedule 8.1.R.

S. INSURANCE. Lennox has been provided a true and complete list of all policies of fire, liability, casualty, life and all other forms of insurance owned or held by the Venture Company with a value in excess of Five Hundred Thousand Ffs (500,000Ffs). Such policies will remain in full effect subject to its term and not be altered as a result of this Amended Agreement except as Set forth on Schedule 8.1.S.

T. TAXES. The Venture Company has filed all necessary tax reports or returns required to be filed and have either discharged or adequately provided for the discharge of all taxes, costs, expenses, charges and debts of every kind and character, except those taxes, costs, expenses, charges and debts which are being protested in good faith by the Venture Company which are set forth on Schedule 8.1.T.

SECTION 8.2. REPRESENTATIONS OF LENNOX.

Lennox hereby represents and warrants that to the best of its knowledge and belief all representations and warranties made in the Original Agreement remain true and accurate and with respect this Amended Agreement, it hereby represents and warrants:

A. DUE INCORPORATION, GOOD STANDING, POWER AND AUTHORITY. Lennox is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, United States of America.

B. AUTHORIZATION OF AMENDED AGREEMENT. Lennox has taken all corporate action required or necessary for the authorization, execution, delivery and performance of this Amended Agreement and has full corporate power to enter into this Amended Agreement and to carry out its obligations hereunder, and the execution and delivery by Lennox of this Amended Agreement and the performance by Lennox of its obligations hereunder have been duly authorized by all necessary corporate action of Lennox. This Amended Agreement has been duly executed and delivered by Lennox constitutes a valid and legally binding obligation of Lennox, enforceable against it in accordance with its terms (subject only to the limitations to enforceability that might result from bankruptcy, insolvency or other similar laws affecting creditors' rights generally). No actions or proceedings to dissolve Lennox or Lennox U.K. are pending or will be undertaken between now and the Transfer Date.

C. FINANCIAL STATEMENTS. Lennox has delivered to Brancher true, complete and correct copies of (i) the unaudited Balance Sheet of Lennox U.K. and Lennox International Inc. at July 31, 1997 and the related Statements of Operating Income for the year then ended, and the notes and schedules thereto, and (ii) the audited Balance Sheet of Lennox U.K. and Lennox International Inc. at December 31, 1996 (the "Latest Balance Sheet") and the related Statements of Operating Income for the year then ended, and the notes and schedules thereto (collectively, the "Lennox U.K. and Lennox International Inc. Financial Statements"). The Lennox U.K. and Lennox International Inc. Financial

Statements have been prepared from Lennox U.K. and Lennox International Inc. books and records in accordance with Lennox U.K. and Lennox International Inc. accounting practices applied on a basis consistent with preceding years throughout the period involved. The Lennox U.K. and Lennox International Inc. Financial Statements present fairly Lennox U.K. and Lennox International Inc.'s financial condition at the respective dates thereof and their results of operations for the periods then ended.

D. NO CONFLICT WITH OTHER AGREEMENTS. Neither the execution nor delivery of this Amended Agreement, nor the consummation of the transactions contemplated hereunder, nor the fulfillment of or compliance with the terms and conditions hereof will conflict with the Company Statutes of Lennox or Lennox U.K. and Lennox International Inc., or will result in a breach of, or constitute a conflict or default under, any material contract, agreement or instrument to which either of them is a party or by which either of them or any of their assets or personnel are bound.

E. GOVERNMENTAL CONSENTS, COMPLIANCE WITH LAW. Except for the approvals of Governmental Entities disclosed in writing to Brancher, to the best knowledge of Lennox, there is no requirement applicable to Lennox to make any filing with, or to obtain any permit, authorization, consent or approval of, any Governmental Entity as a condition to the lawful consummation by Lennox of the transactions contemplated by this Amended Agreement. The execution, delivery or performance by Lennox of this Amended Agreement will not violate any Applicable Law to which Lennox is subject.

F. INVESTMENT INTENT. Lennox is acquiring the shares of the Venture Company solely for investment purposes and not with a view to the distribution thereof.

## IX. CLOSING AND CONDITIONS PRECEDENT

### SECTION 9.1. CERTAIN PARTY ACTIONS TO BE COMPLETED PRIOR TO CLOSING

A. COMPLETION OF DUE DILIGENCE BY THE PARTIES. Prior to the Closing, the Parties shall have completed or caused to be completed, where required, such due diligence as deemed necessary or desirable by either Party, including, without limitation:

(i) review of any documents of the Venture Company or Lennox Industries;

(ii) conduct of any required surveys of facilities of either Lennox Industries or the Venture Company;

(iii) review by agents or consultants of Lennox and Brancher of any documents, materials or facilities; and

(iv) any other due diligence actions deemed appropriate by either Party.

B. SECURE REQUIRED PERMITS, CERTIFICATES AND LICENSES. Apply or cause either Party to apply, where necessary, prior to Closing, to obtain any and all permits, certificates and licenses required to be obtained from, or the approval or permission of, any and all agencies, instrumentalities, departments, regulatory authorities or political subdivisions of any government with authority to regulate any part or aspect of the businesses of the Venture Company or the transactions contemplated by this Amended Agreement, such that by obtaining said permits, certificates and licenses, the Venture Company legally shall be able to operate the Venture Company and the New Companies facilities and conduct the Venture Company and the New Companies businesses as contemplated hereunder.

SECTION 9.2. CLOSING

The closing of the transactions provided for herein (the "Closing") shall take place in a series of steps at various locations agreed to by the parties, to be completed on or before November 15, 1997 or at such other time as may be mutually agreed by the Parties (the "Closing Date"). At the Closing:

A. DELIVERY BY BRANCHER OF CERTAIN DOCUMENTS.

(i) An signed copy of this Amended Agreement;

(ii) Properly signed corporate documents reflecting the transfer of the Company Stock of the Venture Company as provided in this Amended Agreement.

B. DELIVERY BY LENNOX OF CERTAIN DOCUMENTS.

An signed copy of this Amended Agreement.

SECTION 9.3. CERTAIN PARTY ACTIONS TO BE TAKEN FOLLOWING CLOSING.

At or immediately following the Closing, Brancher and Lennox shall use their best efforts to:

A. SECURE PERMITS, CERTIFICATES AND LICENSES. Where not previously obtained under Section 9.1.C. above, apply or cause either Party to apply, where necessary, to obtain any and all permits, certificates and licenses required to be obtained from, or the approval or permission of, any and all agencies, instrumentalities, departments, regulatory authorities or political subdivisions of any government with authority to regulate any part or aspect of the businesses of the Venture Company and the New Companies or the transactions contemplated by this Amended Agreement, such that by obtaining said permits. certificates and licenses, the Venture Company and the New Companies legally shall be able to operate the Venture Company and the New Companies facilities and conduct the New Companies businesses as contemplated hereunder.

In addition, the Board of Directors of each Party shall adopt in writing such resolutions as may be necessary or advisable to implement the provisions hereof.

SECTION 9.4. CONDITIONS PRECEDENT TO BRANCHER'S OBLIGATION TO CLOSE.

The obligation of Brancher to close is subject to the fulfillment of each of the following conditions at the time of Closing:

A. REPRESENTATIONS AND WARRANTIES OF LENNOX. The representations and warranties of Lennox contained in this Amended Agreement shall be true and correct in all material respects;

B. FULFILLMENT OF CONDITIONS. Lennox shall have fully executed all agreements and other documents required by this Amended Agreement to be executed and delivered at the Closing, and shall have fulfilled or otherwise complied with all conditions required by this Amended Agreement to be performed or complied with by Lennox at or prior to the Closing;

C. ASSURANCE OF PERFORMANCE BY OFFICER'S CERTIFICATE. If requested by Brancher, Lennox shall have furnished to Brancher an officer's certificate stating that:

(i) Lennox is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, United States of America;

(ii) the execution, delivery and performance of this Amended Agreement by Lennox have been duly authorized by all requisite corporate action;

(iii) this Amended Agreement constitutes the valid and binding obligation of Lennox and is enforceable in accordance with its terms (subject only to the provisions of the United States Bankruptcy Code and to limitations on enforceability that might result from bankruptcy, insolvency or other similar laws affecting creditors' rights generally); and

(iv) all actions and proceedings required by law or by the provisions of this Amended Agreement do not require any action by the shareholders of Lennox, do not violate any of the provisions of Lennox's Company Statutes, and do not violate any of the provisions of any note of which Lennox is the maker or of any indenture, agreement or other instrument to which Lennox is a party or by which it is bound;

upon the understanding that the foregoing representations shall be made to and for the benefit of Brancher alone; and

D. CONSENTS AND APPROVALS. Lennox shall have obtained all consents and approvals from third parties that may be required to consummate and perform this Amended Agreement.

SECTION 9.5. CONDITIONS PRECEDENT TO LENNOX OBLIGATION TO CLOSE.

The obligation of Lennox to close is subject to the fulfillment of each of the following conditions at the time of Closing:

A. REPRESENTATIONS AND WARRANTIES OF BRANCHER. The representations and warranties of Brancher contained in this Amended Agreement shall be true and correct in all material respects;

B. FULFILLMENT OF CONDITIONS. Brancher shall have fully executed all agreements and other documents required by this Amended Agreement to be executed and delivered at the Closing, and shall have fulfilled or otherwise complied with all conditions required by this Amended Agreement to be performed or complied with by Brancher at or prior to the Closing;

C. ASSURANCE OF PERFORMANCE BY PRESIDENT DIRECTOR GENERAL'S CERTIFICATE. If requested by Lennox, Brancher shall have furnished to Lennox an officer's certificate stating that:

(i) The Venture Company is a corporation duly organized, validly existing and in good standing under the laws of France;

(ii) the execution, delivery and performance of this Amended Agreement by Brancher have been duly authorized by all requisite corporate action;

(iii) this Amended Agreement constitutes the valid and binding obligation of Brancher and is enforceable in accordance with its terms (subject only to the limitations on enforceability that might result from bankruptcy, insolvency or other similar laws affecting creditors' rights generally); and

(iv) all actions and proceedings required by law or by the provisions of this Amended Agreement do not require any action by the shareholders of Brancher, do not violate any of the provisions of Venture Company's Company Statutes, and do not violate any of the provisions of any note of which Brancher is the maker or of any indenture, agreement or other instrument to which Brancher is a party or by which it is bound;

upon the understanding that the foregoing representations shall be made to and for the benefit of Lennox alone; and

D. CONSENTS AND APPROVALS. Brancher shall have obtained all consents and approvals from third parties that may be required to consummate and perform this Amended Agreement.

X. RESTRICTIONS ON TRANSFER

SECTION 10.1. RESTRICTION ON TRANSFER TO THIRD PARTIES

No Party may transfer or permit to be transferred any of the Company Stock in Ets. Brancher or the New Companies other than as provided herein.

SECTION 10.2. SECURITIES LAW RESTRICTIONS ON TRANSFER

No Party shall attempt to transfer or permit to be transferred or consent to any transfer any of the Company Stock in Ets. Brancher and the New Companies where such transfer shall constitute a violation of any Securities Law.

XI. INDEMNIFICATION AND INSURANCE

SECTION 11.1. INDEMNIFICATION OF PARTIES.

Each Party hereto agrees to hold the other Party harmless and indemnify such Party from and against any and all claims against the other Party which are due to the actions or failure to act of the indemnifying Party, its officers, directors, employees, agents or assigns; including, without limitation, all damages, costs, and reasonable attorneys fees.

SECTION 11.2. INDEMNIFICATION OF PRIOR OPERATIONS OF ETS. BRANCHER AND THE NEW COMPANIES.

Lennox hereto agrees to hold Brancher harmless and indemnify Brancher, its officers, directors, employees, agents or assigns from and against any and all claims against Brancher; including, without limitation, all damages, costs, and reasonable attorneys fees which arise out of the operations of Lennox Industries prior to the Transfer Date as defined in Exhibit 3.2.A. , other than warranty claims arising in the normal and usual operations of the Lennox Industries.

Brancher hereto agrees to hold Lennox harmless and indemnify Lennox, its officers, directors, employees, agents or assigns from and against any and all claims against Lennox; including, without limitation, all damages, costs, and reasonable attorneys fees which arise out of the operations of Ets. Brancher and the Brancher Companies prior to the Closing Date, other than warranty claims arising in the normal and usual operations of Ets. Brancher and the Brancher Companies.

The parties agree that the reserves maintained by Ets. Brancher for the employee litigation (Jean Louis Bernard) (when and to the extent such reserves are released and no longer required) and payments made by the Blondell's as required under the terms of the Agreement dated in 1994 to the extent such payments are made to Ets. Brancher will be used for the purpose of satisfying all claims for indemnification against Brancher until such sums are exhausted.

SECTION 11.3. INSURANCE.

The Venture Company shall purchase and maintain at its expense such policy or policies of insurance with respect to the operations, products and personnel of the Venture Company as may be necessary or appropriate in the judgment of the respective Board of Directors, or as otherwise may be required by law.

XII. BREACH, NOTICE AND OPPORTUNITY TO CURE

SECTION 12.1. NOTICE OF BREACH

If either Party in good faith should conclude that the other Party has committed a breach of this Amended Agreement, the Party so concluding shall notify the other Party that it is in breach hereof.

SECTION 12.2. OPPORTUNITY TO CURE

Any Party receiving notice under Section 12.1. of this Amended Agreement shall have thirty (30) days to cure its breach, if any, or to begin those steps reasonably necessary to cure and diligently continue such steps and to notify the Party sending such notice that such breach has been cured or the steps to cure have been taken.

SECTION 12.3. RESOLUTION OF DISPUTED BREACH

Following the cure period specified in Section 12.2., if the notifying Party shall reject the cure or otherwise maintain that an uncured breach of this Amended Agreement exists, then such matter shall be referred to the Chairman of the Dispute Committee by the complaining Party, whereupon, the disputed matter shall be treated as a dispute to be resolved beginning under Section 7.1., as if the disputed matter had been referred to the Dispute Committee by either of the Parties.

SECTION 12.4. REMEDIES

Neither Party may pursue any remedy at law for a breach of this Amended Agreement until it first shall have exhausted the dispute resolution mechanism set forth in Section 7.1. Nothing in this Amended Agreement shall preclude or limit the right of any Party at any time or under any circumstances to seek injunctive relief hereunder.

XIII. GENERAL PROVISIONS

SECTION 13.1. ACCURACY OF RECITALS

The paragraphs contained in the recitals in this Amended Agreement are incorporated herein by this reference, and the Parties hereto acknowledge the accuracy thereof.

SECTION 13.2. AUDIT RIGHTS

Each Party at any time may inspect and audit the books and records of any of the Company and the New Companies, either through its own employees or through independent auditors, or both.

SECTION 13.3. PUBLIC STATEMENTS

Neither Party shall, without the permission of the other, release any public statement describing or in any way relating to the business or operations of any of the Company and the New Companies.

SECTION 13.4. WAIVER OF CONSEQUENTIAL DAMAGES

The Parties hereby waive any and all claims to incidental or consequential damages arising out of any breach of this Amended Agreement.

SECTION 13.5. TREATMENT OF CONFIDENTIAL OR PROPRIETARY INFORMATION

Neither Party, nor any of the Company or the New Companies, shall share with any other person any confidential or proprietary information obtained through or for any of the Company and the New Companies, or otherwise use such information to the detriment of either or both Parties or any of the Company or the New Companies.

SECTION 13.6. NOTICES

All notices, demands and other communications provided for hereunder shall be in writing and shall be mailed, communicated by means of facsimile transmission or delivered (by hand or courier service) to the Parties at their respective addresses set forth below:

Brancher: Ets. Brancher S.A.
Attention: President
11 rue d'Alsace-Lorraine
69500 Bron, France

Telephone: (33) 472 14 61 14
Fax: (33) 472 14 61 16

Jean Jacques Brancher
34 Route du Pont de Chene
69340 Francheville, France

Telephone: (33) 472 16 05 54

Lennox: Lennox Global Ltd.
Attention: President
2100 Lake Park Blvd.
Richardson, Texas 75080
U.S.A.

Telephone: 214-497-6868
Fax: 214-497-5159

or at such other address as the Party desiring to change the address set forth above under its name may direct by written notice to the other Party hereto. All such notices and communications, when mailed by certified mail or sent by courier or fax, shall be effective upon the earlier to occur actual receipt or three (3) business days after deposit in the mail, postage prepaid.

SECTION 13.7. FURTHER ASSURANCES

The Parties agree to execute such additional agreements and documents, and to take such other actions, as may be necessary to effect the purposes of this Amended Agreement.

SECTION 13.8. MODIFICATIONS

Any action or agreement by the Parties to modify this Amended Agreement, in whole or in part, shall be binding upon the Parties even though such agreement may lack legal consideration, so long as such modification agreement shall be in writing and shall be executed by both Parties with the same formality with which this Amended Agreement was executed.

SECTION 13.9. HEADINGS

The headings in this Amended Agreement are inserted for convenience only and shall not affect the meaning or interpretation of this Amended Agreement or of any section hereof.

SECTION 13.10. BINDING EFFECT

This Amended Agreement shall be binding upon, and shall inure to the benefit of, the Parties and their respective successors, assigns and legal representatives.

SECTION 13.11. COUNTERPARTS

This Amended Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same Amended Agreement. Each Party may execute this Amended Agreement by signing any such counterpart.

SECTION 13.12. GOVERNING LAW

This Amended Agreement shall be deemed to be a contract made under, and for all purposes shall be construed in accordance with and governed by, the laws of France.

SECTION 13.13. CONSTRUCTION

Wherever possible, this Amended Agreement, and all documents contemplated hereunder, shall be construed and interpreted so as to be effective and valid under Applicable Law. If any provision of this Amended Agreement, or any document contemplated hereunder, for any reason shall be deemed invalid or prohibited under Applicable Law, such provision shall be invalid or prohibited only to the extent of such invalidity or prohibition, which shall not invalidate the remainder of such provision or the remaining provisions of this Amended Agreement.

SECTION 13.14. DELAY OR PARTIAL EXERCISE NOT WAIVER

No failure or delay on the part of any Party to exercise any right or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy granted hereby or by any related document.

SECTION 13.15. INTERPRETATION

As used in this Amended Agreement, any singular noun shall include the plural and any plural the singular, and any reference to one gender shall include the other.

SECTION 13.16. COMMITMENTS FROM SUBSIDIARIES

Each Party shall cause its subsidiaries to act in such a manner as to give effect to the purposes, provisions and obligations of such Party under this Amended Agreement.

SECTION 13.17. ENTIRE AGREEMENT

This Amended Agreement and the Exhibits and Schedules attached or to be attached hereto constitute and express the entire agreement between the Parties with respect to the matters referred to herein. All previous discussions, promises, representations and understandings relative thereto are hereby merged in and superseded by this Amended Agreement; including specifically, the agreement between Ets. Brancher S.A. and Heatcraft Inc. dated November 1, 1990, the Letter of Intent between Lennox Global Ltd. and Ets. Brancher S.A. dated November 16, 1995 and the Venture agreement between the Parties dated 13 May 1996 as amended by the letter agreement dated 13 May 1996 and the amendment dated 24 September 1996. It is further agreed that the Restructure Agreement signed contemporaneously with this Amended Agreement is not superseded and remains independent from this Amended Agreement and of full force and effect.

SECTION 13.18. WAIVER

To be effective, any waiver of any right hereunder shall be in writing and be signed by a duly authorized officer or representative of the Party bound thereby.

SECTION 13.19. SIGNATORIES DULY AUTHORIZED

Each of the signatories to this Amended Agreement represents that he is duly authorized to execute this Amended Agreement on behalf of the Party for which he is signing, and that such signature is sufficient to bind the Party purportedly represented.

SECTION 13.20. INCORPORATION OF EXHIBITS AND SCHEDULES BY REFERENCE

Any reference herein to any Exhibit or Schedule to this Amended Agreement shall incorporate such Exhibit or Schedule herein, as if it were set out in full in the text of this Amended Agreement.

IN WITNESS WHEREOF, Brancher and Lennox have caused this Amended Agreement to be duly executed and delivered as of the date first written above.

ETS. BRANCHER S.A.
A French Corporation

By: /s/Jean-Jacques Brancher
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JEAN-JACQUES BRANCHER

/s/ Jean-Jacques Brancher
---
Jean-Jacques Brancher

FIBEL S.A.
A French Corporation

By: /s/Jean-Jacques Brancher
---
President

LENNOX GLOBAL LTD.
A Delaware Corporation

By: /s/Robert L. Jenkins
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LENNOX INTERNATIONAL INC.
A Delaware Corporation

By: /s/Clyde Wyant
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Executive Vice President

EXHIBIT 3.2.A

CONTRIBUTION OF LENNOX U.K. TO HCF

The following principles will be used to govern the contribution of Lennox U.K. to the New Company:

I. Lennox U.K., will consist of all the assets of Lennox Industries.

II. The parties will develop an inventory of assets; including, all equipment (at book value); all raw material inventory; all accounts payable; finished goods inventory; all other assets and liabilities; and accounts receivable. The assets will reflect an agreed upon net value of at least Twenty Nine Million Nine Hundred Ninety-Nine Thousand Nine Hundred Seventy Ffs (29,999,970.00Ffs).

III. The process to be used to complete the transfer is as follows:

A. All shares of Lennox U.K. will be transferred to HCF or HCF's designated subsidiary on or before 1 January 1998.

B. Lennox will be responsible for the financial results of the integrated operation for 1997.

V. The share transfer agreement shall consist of the following terms and conditions:

A. Agreement to Sell and Purchase Shares. Subject to the terms and conditions set forth in this share transfer agreement, the Parties agree that HCF will purchase and Lennox will sell all of the shares of Company Stock of Lennox U.K.

B. Purchase Price. At the Transfer Date, the Parties agree that HCF will pay or cause to be paid to Lennox the sum of Twenty Nine Million Nine Hundred Ninety-Nine Thousand Nine Hundred Seventy Ffs (29,999,970.00Ffs) as the purchase price for all of the shares of Company Stock Of Lennox U.K.

C. Delivery of Shares of Lennox U.K. Lennox agrees to deliver to HCF all of the shares of Company Stock of Lennox U.K., which shares represent One Hundred Percent (100%) of the ownership of Lennox U.K., on or before January 1, 1998 or such other date as the parties may agree ("Transfer Date"). Such shares shall be free of any lien, encumbrance or claim except as agreed upon by HCF.

D. Assets of Lennox U.K. Lennox agrees that the net book value, as provided under normal and usual accounting conventions, shall equal no less than Twenty Nine Million Nine Hundred Ninety-Nine Thousand Nine Hundred Seventy Ffs

(29,999,970.00Ffs) on the Date of Transfer. HCF shall have the right to have such book value audited by a third party. If there is a dispute as to the book value, then each party shall appoint an independent third party, which parties shall appoint a third party to constitute a panel (the "Panel") to determine the net book value of Lennox U.K. The Panel shall then determine, by a majority vote, the net book value of Lennox U.K. within thirty (30) days of their appointment. If the net book value is less than Twenty Nine Million Nine Hundred Ninety-Nine Thousand Nine Hundred Seventy Ffs (29,999,970.00Ffs), Lennox agrees to add sufficient assets such that the net book value, as determined by the Panel, shall equal or exceed Twenty Nine Million Nine Hundred Ninety-Nine Thousand Nine Hundred Seventy Ffs (29,999,970.00Ffs). If the net book value exceeds Twenty Nine Million Nine Hundred Ninety-Nine Thousand Nine Hundred Seventy Ffs (29,999,970.00Ffs) then Lennox shall have the option to remove any assets at its election so long as the remaining net book value remains equal to or greater than Twenty Nine Million Nine Hundred Ninety-Nine Thousand Nine Hundred Seventy Ffs (29,999,970.00Ffs).

E. Representations of Lennox. Lennox hereby represents and warrants that:

1. DUE INCORPORATION, GOOD STANDING, POWER AND AUTHORITY. Lennox U.K. is or will, at the Transfer Date, be a corporation duly organized, validly existing and in good standing under the laws of the United Kingdom, with all necessary corporate power and authority to carry on its business as being conducted on the Transfer Date and to own, operate and lease all properties owned, operated or leased by it, and it will, at the Transfer Date, be duly qualified to do business in all jurisdictions where such qualification is required, except where the failure to be so qualified will not result in a Material Adverse Effect. Lennox has delivered or will, at the Transfer Date, deliver to HCF true, correct and complete copies of the current Company Statutes or similar organizational documents of Lennox U.K.

2. FINANCIAL STATEMENTS. Lennox agrees to provide HCF, at least monthly or upon its request, unaudited Balance Sheets and the related Statements of Operating Income of Lennox U.K. for its operations from the Closing Date until the Transfer Date. In addition, Lennox agrees to deliver to HCF, as soon as available, true, complete and correct copies of (i) the unaudited Balance Sheet of Lennox U.K. at December 31, 1997. The Lennox U.K. Financial Statements have been prepared from Lennox U.K. books and records in accordance with Lennox U.K. accounting practices applied on a basis consistent with preceding years throughout the period involved. The Lennox U.K. Financial Statements present fairly Lennox U.K. 's financial condition at the respective dates thereof and their results of operations for the periods then ended.

3. CAPITALIZATION. The authorized capital stock of Lennox U.K. consists or 470,000 Redeemable Non-Cumulative Preference Shares of 1(pound)each and 15,000 Ordinary Shares of 1(pound)each. All outstanding capital stock of Lennox U.K. has been validly issued and is fully paid and nonassessable. No shares of capital stock of Lennox U.K. will have been issued in violation of preemptive or similar rights, and there will be no outstanding or contingent rights to acquire any of the capital stock of Lennox U.K. (whether or not outstanding), and no outstanding agreements or other arrangements by which Lennox U.K. is or may be bound to repurchase or otherwise acquire any shares of its capital stock.

4. TITLE TO SHARES OR PROPERTY. At the Transfer Date, HCF will acquire, good and marketable title to the shares of Company Stock of Lennox U.K. as provided herein, free and clear of all Encumbrances.

5. ASSETS AND PROPERTIES.

(i) Real Property. Lennox agrees to supply to HCF, on or before the Transfer Date, a list of all Real Property owned by or leased to Lennox U.K.;

(ii) Personal Property. Except for Inventory and supplies disposed of or consumed and accounts receivables collected or written off and cash utilized, all in the ordinary course of business consistent with the past practices of Lennox U.K., Lennox U.K. will own all of its Inventory, equipment and other personal property (both tangible and intangible) reflected on the Latest Balance Sheet as of the Transfer date, free and clear of all Encumbrances.

(iii) Condition of Property. Except as specifically identified to HCF on or before the Transfer Date, the Real Property and tangible personal property owned or leased by Lennox U. K. on the Transfer Date will be in good operating condition and repair, ordinary wear and tear excepted; and Lennox U.K. has no knowledge of any condition or defect, not disclosed to HCF, of the Real Property or such personal property that would materially affect its fair market values or otherwise have a Material Adverse Effect on Lennox U.K. or its operations.

(iv) Title to Properties. Lennox U. K. has or will have as of the Transfer Date, good and indefeasible title to all properties (real, personal, tangible and intangible) it owns other than those sold or otherwise disposed of in the ordinary course of business, free and

clear of all Encumbrances, except (i) as disclosed to HCF, (ii) as set forth in the Latest Balance Sheet as securing specific liabilities, (iii) the Permitted Encumbrances, and (iv) imperfections of title that are not substantial in character, amount or extent and do not materially detract from the value of the properties subject thereto.

(v) Utilities. To the best knowledge of Lennox U.K., all utilities (water, sewer, gas, electricity, telephones, etc.) are or will available to its property to adequately service such property as of the Transfer Date.

(vi) Compliance. To the best knowledge of Lennox U.K., as of the Transfer date, the continued operation, use or occupancy of the Real Property, as currently operated, used or occupied, will not violate any zoning, building, health, flood control, fire or other law, ordinance or regulation or any restrictive covenant, except as disclosed to HCF prior to the Transfer Date in writing.

6. LEASES. On or before the Transfer date, Lennox will provide to HCF a list of all real properties leased by Lennox U.K. and Lennox U.K. has or will have been in peaceable possession (or remedied any claims relating thereto) of the Real Property, buildings, machinery, equipment, vehicles or other tangible property or assets covered thereby since the commencement of the original term of such lease and is or will not be in material default thereunder as of the Transfer date. There will not be any liens on the assets of Lennox U.K. except as have been identified to HCF in writing on the Transfer Date.

7. INTELLECTUAL PROPERTY. On or before the Transfer date, Lennox will provide to HCF a list of all Intellectual Property that is material to the conduct of the businesses of Lennox U.K. as being conducted on the Transfer Date and owned by Lennox U.K. or which it is licensed to use. The listed Intellectual Property will constitute all Intellectual Property necessary for the conduct of the businesses of Lennox U.K. as being conducted as of the Transfer date. To the best knowledge of Lennox, there are no Proceedings pending or threatened in writing against Lennox U.K. asserting that the use by Lennox U.K. of any of such Intellectual Property infringes in any material respect the rights of any other person or seeking revocation, termination, or concurrent use of any of such Intellectual Property. Nor will such proceeding exist at the Transfer Date without prior written notice to HCF. To the best knowledge of Lennox, none of such Intellectual Property is being infringed upon by any other person.

8. LEGAL PROCEEDINGS. On or before the Transfer date, Lennox will provide to HCF a list, in writing, of all pending and, to the best knowledge of Lennox, threatened Proceedings involving Lennox U.K. or any of its properties in which the damages sought to be imposed exceed 500,000Ffs in any one case or which, individually or in the aggregate, might result in any Material Adverse Effect on the Transfer Date. There are no Proceedings pending or, to the best knowledge of Lennox, threatened in writing, seeking to restrain, prohibit or obtain damages or other relief in connection with this Amended Agreement or the consummation of the transactions contemplated herein.

9. GOVERNMENTAL CONSENTS, COMPLIANCE WITH LAW. Except for the approvals of Governmental Entities disclosed in writing to HCF, to the best knowledge of Lennox, there is no requirement applicable to Lennox or Lennox U.K. to make any filing with, or to obtain any permit, authorization, consent or approval of, any Governmental Entity as a condition to the lawful consummation by Lennox of the transactions contemplated by this share transfer agreement. The execution, delivery or performance by Lennox of this Amended Agreement will not violate any Applicable Law to which Lennox or Lennox U.K. is subject.

10. INVENTORY. As of the Transfer Date, all Inventory (including raw materials, work-in progress and finished goods) and related supplies reflected on the Lennox U.K. Latest Balance Sheet or thereafter acquired and not disposed of in the ordinary course of business will be usable and salable in the ordinary course of business of Lennox U.K.

11. CONTRACTS AND AGREEMENTS. On or before the Transfer date, Lennox will provide to HCF a list, in writing, of all material contracts or other agreements, relating to the businesses of Lennox U.K. to which Lennox U.K. is a party or by which Lennox U.K. is bound, and Lennox has furnished or shall furnish prior to the Transfer Date to HCF complete and correct copies of all such contracts or other agreements, including all amendments as of the date hereof. Lennox U.K. will not be in default in any material respect, and no written notice of alleged default will have been received by Lennox U.K. under any of these agreements, and, to the best of Lennox' knowledge, no other party thereto is in default or alleged in writing to be in default in any material respect other than defaults as to which requisite waivers or consents have been obtained and defaults which in the aggregate would not have a Material Adverse Effect which have not been identified to HCF, in writing. Lennox makes no representations about the possibility or likelihood of renewal or extension of any such contract or other agreement unless otherwise noted to HCF, in writing.

12. COMPLIANCE WITH LAW. To the best of Lennox' knowledge, Lennox U.K. will not, as of the Transfer Date, be in violation of (i) any applicable judgment, order, injunction, award or decree relating to the operation of its businesses or (ii) any Applicable Law except in the case of (i) and (ii) for such violation individually or in the aggregate which would not have a Material Adverse Effect which have not been identified to HCF, in writing.

13. PERMITS. On or before the Transfer date, Lennox will provide to HCF a list, in writing of all Permits which are material to or necessary in the conduct of the businesses of Lennox U.K. as they are being conducted as of the Transfer date. Lennox U.K. will have conducted its businesses and operations substantially in accordance with the conditions and provisions of the Permits except for noncompliance as to which it has received requisite waivers or consents or which does not have a Material Adverse Effect. There will be no other Permit the absence of which would have a Material Adverse Effect on Lennox U.K.'s ability to carry on its businesses and operations on the Transfer Date except as identified to HCF in writing. Except as identified to HCF in writing: (i) all such Permits will be in full force and effect, (ii) no violations are known to Lennox or have been recorded (which have not been remedied) in respect of any such Permit, and (iii) no Proceeding is pending or threatened in writing to revoke or limit any such Permit.

14. EMPLOYEES. On or before the Transfer date, Lennox will provide to HCF a list, in writing, a complete list of the collective bargaining agreements applicable to the facilities of Lennox U.K.; a list of all employment agreements between any employee and Lennox U.K. and the names and total compensation of all salaried employees who are employed by Lennox U.K. who have an annual salary in excess of $100,000. Except as identified to HCF in writing, there are no and will not have been strikes, slow-downs, disputes, litigation, agency or other actions pending or threatened which are considered adverse to the operations of Lennox U.K.

15. EMPLOYEE BENEFIT PLANS. On or before the Transfer date, Lennox will provide to HCF a list, in writing, of all of the pension, profit sharing, thrift, deferred compensation, bonus, incentive, stock purchase, severance, hospitalization, insurance or other similar plans, agreements or arrangements, which are maintained by or contributed to by Lennox U.K. for its employees. All obligations of Lennox U.K. to contribute to such plans on behalf of the employees employed for calendar years prior to 1996 have been paid, and all obligations of Lennox U.K. to contribute to such plans on behalf of such employees for the period beginning January 1, 1996 and ending on the Transfer Date will be paid by Lennox U.K. Lennox U.K. has not incurred any liability under these plans or the laws governing them arising in

connection with the termination of, or complete or partial withdrawal from, any plan covered or previously covered by Applicable Laws, and Lennox U.K. has paid and discharged when due all obligations and liabilities arising under Applicable Laws with respect to all employee benefit plans of a character which, if unpaid or unperformed might result in the imposition of a lien against any of the assets of Lennox U.K. All employee benefit plans of Lennox U.K. (the "Lennox U.K. Plans") have been, are being and will have been, at the Transfer Date, maintained in compliance with each of their terms and with the requirements prescribed by all Applicable Laws. Lennox has furnished or will furnish, on the Transfer Date, to HCF a copy of the Lennox U.K. Plans and related documents, where applicable, and all amendments thereto and written interpretations thereof together with any reports prepared in connection with the Lennox U.K. Plans. There are not now, nor will there have been prior to the Transfer Date, any transactions with respect to the Lennox U.K. Plans which could result in material liability on the part of Lennox U.K. under Applicable Laws. There are no threatened or pending claims by or on behalf of the Lennox U.K. Plans or by any employee participating therein alleging a breach of fiduciary duties or violations of Applicable Laws with respect to the Lennox U.K. Plans on or before the Transfer Date which could result in material liability on the part of Lennox U.K. or the Lennox U.K. Plans under Applicable Laws of which HCF will have not been notified in writing. The Parties further agree that HCF shall have the option to terminate all Lennox U.K. Plans upon the Closing or such mutually agreed upon date thereafter and any employees of Lennox U.K. transferred to shall be a participant in such employee benefit plans as are in force for other employees of the.

16. INSURANCE. On or before the Transfer date, Lennox will provide to HCF a list, in writing, of all policies of fire, liability, casualty, life and all other forms of insurance owned or held by Lennox U.K. As of the Transfer Date or the first policy renewal date thereafter, HCF shall have the option to terminate all Lennox U.K. coverages under said policies with respect to assets being transferred to the New Companies and the HCF will be responsible for obtaining any insurance it deems necessary and reasonable.

17. TAXES. Lennox U.K. has or will have filed all foreign, federal, state, local and other tax reports or returns required to be filed on or before the Transfer Date and has or will have either discharged or adequately provided for the discharge of all taxes, costs, expenses, charges and debts of every kind and character, except those taxes, costs, expenses, charges and debts which are being protested in good faith by Lennox U.K. which are identified to HCF in writing.

18. NO CONFLICT WITH OTHER AGREEMENTS. Neither the execution nor delivery of this Amended Agreement, nor the consummation of the transactions contemplated hereunder, nor the fulfillment of or compliance with the terms and conditions hereof will conflict with the Company Statutes of Lennox or Lennox U.K., or will result in a breach of, or constitute a conflict or default under, any material contract, agreement or instrument to which either of them is a party or by which either of them or any of their assets or personnel are bound.

19. ABSENCE OF CERTAIN EVENTS. Since December 31, 1995, there has not been:

(i) Any Material Adverse Effect on Lennox U.K. or the assets and properties described above which has not been disclosed to HCF;

(ii) Any purchase, sale or transfer of assets in anticipation of this Amended Agreement, or which would contravene the intent of this Amended Agreement;

(iii) Any illegal payment by Lennox U.K. to foreign or domestic governmental or quasi-governmental officials, or payments to customers or suppliers for rebating of charges, or other reciprocal practices, in connection with the conduct of its businesses, other than normal price reductions allowed to customers in the ordinary course of business; or

(iv) Any damage, destruction or loss (whether or not covered by insurance) which has or would have a Material Adverse Effect on Lennox U.K.

SCHEDULES

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|---|---|
| Schedule 3.3.A(i) | Consolidated Net Book Value of Ets. Brancher as of 30 September 1997. |
| Schedule 8.1.E. | Description of the Stock of the Venture Company |
| Schedule 8.1.F. | Assets and Properties of the Venture Company |
| Schedule 8.1.G. | Real Properties Leased by the Venture Company |
| Schedule 8.1.H. | Intellectual Property of the Venture Company |
| Schedule 8.1.I. | Legal Proceedings Involving the Venture Company |
| Schedule 8.1.J. | Governmental Consents of the Venture Company |
| Schedule 8.1.L. | Contracts & Agreements of the Venture Company |
| Schedule 8.1.N. | Permits of the Venture Company |
| Schedule 8.1.Q. | Labor Disputes of the Venture Company |
| Schedule 8.1.R. | Employee Benefit Plans Maintained or Contributed to by the Venture Company |
| Schedule 8.1.S. | Insurance Policies of the Venture Company |
| Schedule 8.1.T. | Taxes under Protest by the Venture Company |

EXHIBIT 10.14

# SHAREHOLDER RESTRUCTURE AGREEMENT

This Shareholder Restructure Agreement is entered into by and between Jean Jacques Brancher ("Brancher") , Ets. Brancher S.A. ("Ets. Brancher") , a French company, AFIBRAL S.A., a French company ("AFIBRAL") and Parifri S.A., a Belgium company ("Parifri"), both holding companies to be formed by Brancher ("Holding A") and Lennox International Inc., a U.S. Delaware corporation with its principal place of business at 2100 Lake Park Boulevard, Richardson, Texas, 75080, acting for itself and its subsidiaries (collectively Lennox ) as of the 30th day of September, 1997.

WITNESSETH:

WHEREAS, Lennox, Brancher and Ets. Brancher have entered into a Joint Venture Agreement, dated 13 May 1996, which was amended by the letter agreement of 13 May 1996 and the amendment of 24 September 1996, for the purposes of the manufacture, marketing and sale of heating, ventilating, air conditioning, refrigeration ("HVACR") and other related equipment (the "Venture"); and

WHEREAS, the parties believe the restructuring of the Venture as set forth below is in the parties mutual interest;

AGREEMENT

NOW, THEREFORE, for and in consideration of the covenants set forth in this Restructure Agreement, the receipt and sufficiency thereof being acknowledged by the parties, and in reliance on the recitals and covenants set forth in this Restructure Agreement, the parties hereby agree as follows:

## I. DEFINITIONS

"A Assets" shall mean the assets owned by Ets. Brancher to be transferred to Holding A which are unrelated to the Companies or their operation which are described in more detail on SCHEDULE 2.2.C.

"Amended and Restated Venture Agreement" shall mean the Venture Agreement, dated 13 May 1997, which was amended by the letter agreement of 13 May 1996 and the amendment of 24 September 1996 which has been, simultaneously with the signing of this Restructure Agreement, amended and restated to conform to the terms of this Restructure Agreement.

"B Assets" shall mean the assets to be retained in Ets. Brancher related to its activities consisting of real property located at the Villefranche, Cremieux and Genas facilities of the Companies and certain debts owed by the Companies to the Shareholders, the shares of Frinotec S.A., SCI Groupe Brancher, SCI Geraval and certain miscellaneous assets of Ets. Brancher which are described in more detail on SCHEDULE 2.2.A(l).

"Brancher" shall mean Jean Jacques Brancher.

"The Companies" shall mean the HCF Lennox S.A. ("HCF") and Friga Bohn S.A. ("Friga Bohn").

"Holding" shall mean AFIBRAL and Parifri, the holding companies created by Brancher under the terms of this Restructure Agreement for the purpose of owning assets unrelated to the Venture.

"Holding B" or "Ets. Brancher" shall mean Ets. Brancher S.A.

"Shareholder" shall mean either Lennox or Brancher or both.

"Lennox Stock" shall mean the common stock authorized for issuance by Lennox International Inc. which represents the equity ownership of Lennox.

II. PURPOSE AND SCOPE

SECTION 2.1. PURPOSE.

Each of the Shareholders own, directly or indirectly, shares of the Companies which conduct the operations of the Venture under the terms of the Amended Venture Agreement. The purpose of this Restructure Agreement is to restructure the Venture such that the shares of the Companies now owned by the Shareholders, directly or indirectly, will be transferred to and owned by a single holding company, the existing Ets. Brancher. The Shareholders will then own the shares of this holding company in the proportion agreed to in this Restructure Agreement and the Amended Venture Agreement. In addition, Brancher will remove from Ets. Brancher those assets which are unrelated to the Venture (the A Assets) in a manner so as to also transfer any liabilities related to these assets to the new holding company, AFIBRAL or Holding A, which will own those assets. Holding B will continue to own certain other assets which are related to the Venture (the B Assets). Finally, this restructuring will increase the percentage of Lennox' ownership of Holding B through an exchange of Lennox Stock for additional Holding 3 shares currently owned, directly or indirectly, by Brancher.

SECTION 2.2. STEPS IN THE RESTRUCTURE PROCESS.

A. SPECIFICATION OF THE VENTURE HOLDING COMPANY. The Shareholders have agreed that the existing company, Ets. Brancher will serve as the holding company for the Venture, Holding B. After the restructure described in this Restructure Agreement, Holding B will own: (i) all outstanding shares of HCF and Friga Bohn (excluding those shares which are owned by any member of the boards of directors of the Companies to qualify that director for service on the Board); (ii) certain real property on which some of the facilities of the Companies are located (more fully described below); (iii) certain notes owed by the Companies to Ets. Brancher and Lennox; and (iv) certain miscellaneous assets owned by Ets. Brancher prior to the restructuring (items ii, iii and

iv defined collectively above as B Assets). The B Assets are specified in more detail on SCHEDULE 2.2.A(l) attached hereto. For the purposes of this transaction, specifically the steps described in SECTIONS 2.2.D. through 2.2.H., the price per share for Ets. Brancher will be as described on SCHEDULE 2.2.A(2).

B. CREATION OF THE NEW HOLDING COMPANY. Brancher agrees to create new companies into which a specified number of shares of Ets. Brancher and other assets of Ets. Brancher (the A Assets), will be transferred. It is understood and agreed that Lennox shall have no ownership interest in or control of Holding A apart from the obligations assumed by Ets. Brancher and Holding A, under this Restructuring Agreement to perform the functions it will perform for the restructure described herein.

C. TRANSFER OF A ASSETS. Brancher agrees to cause the transfer all A Assets from Ets. Brancher into Fibel S.A. ("Fibel"), a subsidiary of Ets. Brancher, in manner so as to also transfer any present or future liabilities related to those assets. The A Assets are specified in more detail on SCHEDULE 2.2.C. attached hereto.

D. TRANSFER OF ETS. BRANCHER SHARES TO HOLDING A. Brancher agrees to transfer a portion of his shares of Ets. Brancher at the price per share described in SECTION 2.2.A(2). above, to AFIBRAL and Parifri. The number of shares transferred to AFIBRAL will equal at least the value of Fibel containing all the A Assets and the number of shares transferred to Parifri will equal at least the value of the Lennox Stock to be exchanged for shares of Ets. Brancher which is described in more detail on SCHEDULE 2.2.D. attached hereto.

E. HOLDING A'S TRANSFER OF ETS. BRANCHER SHARES TO ETS. BRANCHER FOR FIBEL SHARES. Brancher agrees to cause that portion of the Ets. Brancher shares held by AFIBRAL to be exchanged or sold to Ets. Brancher at the price per share described in SECTION 2.2.A(2) above, for all of the Fibel shares. This will cause Fibel owning all of the A Assets to be owned by AFIBRAL. Subsequent to this sale or exchange these shares of Ets. Brancher will be canceled as required by French law.

F. LENNOX' CONTRIBUTION OF ALL OF ITS SHARES IN AND LOANS TO THE COMPANIES TO ETS. BRANCHER FOR ETS. BRANCHER SHARES. Lennox agrees to contribute all of its shares in and loans to the Companies to Ets. Brancher for shares of Ets. Brancher at the price per share described in SECTION 2.2.A(2). above. The number of shares of the Companies to be contributed and the number of Ets. Brancher shares to be received is described in more detail on SCHEDULE 2.2.F. attached hereto.

G. HOLDING A S EXCHANGE OF ETS. BRANCHER SHARES FOR LENNOX STOCK. Brancher and Lennox agree to cause that number of the Ets. Brancher shares at the price per share described in SECTION 2.2.A(2). above, held by Parifri to be exchanged with Lennox for an equivalent value of Lennox Stock. The number of shares of the Ets. Brancher and the number of shares of Lennox Stock to be exchanged is described in more detail on SCHEDULE 2.2.G. attached hereto.

H. SUBSEQUENT PURCHASE OF ETS. BRANCHER SHARES BY LENNOX. Brancher and Lennox agree that Lennox will purchase and Brancher will sell additional Ets. Brancher shares at the price per share described in SECTION 2.2.A(2). above, at times selected by Brancher during the period between the Effective Date of this Restructure Agreement and 31 October 1997. The number of such shares will be at Brancher election. The balance of the Ets. Brancher shares held by Brancher shall be purchased by Lennox and sold by Brancher in accordance with the Amended Venture Agreement. The number of shares of Ets. Brancher to be purchased and sold in the future is described in more detail on SCHEDULE 2.2.H. attached hereto.

I. FINALIZATION OF THE TRANSACTIONS. The parties acknowledge and agree that the number of shares to be purchased and the price per share of Ets. Brancher shares are based on preliminary financial information for Ets. Brancher. The final values of all Ets. Brancher Assets will be based on financial data approved by the authorized representatives of both Brancher and Lennox. The parties further agree to adjust the respective contributions of each party as necessary to result in the number of shares and the price per share described above.

J. TIMING OF THE TRANSACTIONS. The order and timing of the above transactions may be changed with the agreement of the Shareholders.

SECTION 2.3. AMENDMENT OF THE VENTURE AGREEMENT.

The Shareholders agree that simultaneously with the Effective Date of this Restructure Agreement, the parties will cause the terms of the Venture Agreement to be amended as necessary to conform to the terms of this Restructure Agreement.

III. VALUATION

SECTION 3.1. REAL PROPERTY AND OTHER ASSETS.

Brancher shall have or cause to have appraised, by an independent appraiser, all A Assets and B Assets included in the transactions described above. Lennox shall have the right to review all such appraisals and, at its option, obtain a second independent appraisal. In the event the second appraisal differs from the initial appraisal by more than Five Percent (5%), the value of any such asset will be deemed to be the average of the two appraisals. It is further agreed that, where required, an appraiser, appointed in accordance with the requirements of French Law, will be used. Lennox and Brancher agree that in the event of a dispute as to the value of any asset which can not be resolved among the parties, the dispute provisions of this Restructure Agreement shall control.

SECTION 3.2. SHARES.

A. SHARES OF THE COMPANIES. Lennox and Brancher agree that for the purposes of the transactions described in this Restructuring Agreement the shares of the Companies shall be valued as follows: (i) HCF shares will be valued at eighty-one French Francs (81 Ffrs) per share and (ii) Friga Bohn shares will be valued at One Thousand Eight Hundred ninety-nine French Francs

(1899 Ffrs) per share. It being understood and agreed that this is the same price per share paid by Lennox for the shares of the Companies under the Amended Venture Agreement.

B. LENNOX STOCK. Lennox and Brancher agree that, for purposes of the transactions described above, the Lennox Stock will be valued in accordance with the appraisal in effect at the time of any such transaction for a nonmarketable minority interest provided by the independent professional appraisers engaged by the Lennox, which is Houlihan, Lokey, Howard & Zukin, Inc. It being understood that such appraisals are provided on a quarterly basis, approximately forty-five (45) days after the close of any calendar quarter, and are effective upon receipt by Lennox and remain in effect until the next appraisal is received by Lennox.

C. SHARES OF ETS. BRANCHER. Lennox and Brancher agree that for purposes of the transactions described above the Ets. Brancher Shares will be valued in accordance with the calculation described in SCHEDULE 2.2.A(2).

## IV. ETS. BRANCHER MANAGEMENT AND SHAREHOLDER RIGHTS

### SECTION 4.1. ETS. BRANCHER MANAGEMENT.

For so long as Both shareholders continue to own shares in the Ets. Brancher, the Ets. Brancher's activities are to be managed as provided for in the Amended Venture Agreement.

### SECTION 4.2. BOARD OF DIRECTORS.

A. DESIGNATION OF MEMBERS; POWERS OF BOARD. The Board of Directors shall be designated and its activities conducted in accordance with the terms of the Amended Venture Agreement.

B. ACTION OF THE BOARD. The Shareholders agree that each will take all actions as a member of the Board of Directors of the Ets. Brancher or the Companies in accordance with the terms of this Restructure Agreement and the Amended Venture Agreement consistent with the terms set forth in the Company Statutes of Ets. Brancher or the Companies and applicable laws.

### SECTION 4.3. ACTIONS REQUIRING SHAREHOLDER APPROVAL.

In addition to and not in contravention of any rights which a Shareholder may have under the Company Statutes or applicable laws, Ets. Brancher shall be prohibited from taking any of the following actions without first obtaining the express written consent of the Shareholders:

(i) engaging in any increase of capital such that the percentage of Brancher ownership of the Ets. Brancher is less than Twenty Five Percent (25%) of the Ets. Brancher's outstanding shares unless Brancher either by election under SECTION 2.2.H. or otherwise under the terms of the Amended Venture Agreement reduces its ownership of the Ets. Brancher to less than Twenty-five Percent (25%) of the outstanding shares of the Ets. Brancher;

(ii) changing in any material way the purpose of Ets. Brancher; and

(iii) dissolving the Ets. Brancher.

V. REPRESENTATIONS AND WARRANTIES

SECTION 5.1. LENNOX REPRESENTATIONS AND WARRANTIES.

Lennox hereby represents and warrants to Brancher as follows:

A. ORGANIZATION AND POWER. Lennox is a corporation duly organized, validly existing and in good standing under the laws of Delaware and is duly qualified to do business in all other jurisdictions where such qualification is required. No actions or proceedings to dissolve Lennox are pending.

B. AUTHORITY OF LENNOX. Lennox has full corporate power to enter into this Restructure Agreement and to carry out its obligations hereunder, and the execution and delivery by Lennox of this Restructure Agreement and the performance by Lennox of its obligations hereunder have been duly authorized by all necessary corporate action of Lennox. This Restructure Agreement has been duly executed and delivered by Lennox and constitutes a valid and legally binding obligation of Lennox enforceable against Lennox in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor's rights generally, (ii) the remedies of specific performance and injunctive relief are subject to certain equitable defenses and to the discretion of the court before which any proceedings may be brought, and (iii) rights to indemnification hereunder may be limited under applicable Securities Laws.

C. FINANCIAL STATEMENTS. Lennox has or will have delivered to Brancher true, complete and correct copies of (i) the audited Balance Sheet of Lennox at December 31, 1996 and the related Statements of Earnings and Changes in Financial Position for the year then ended, and the notes thereto, and (ii) the unaudited Balance Sheet of Lennox at June 30, 1997 and the related Statements of Earnings and Changes in Financial Position for the period then ended. The Financial Statements have been prepared from the books and records of Lennox in accordance with the GAAP and accounting practices of each applied on a basis consistent with preceding years throughout the period involved and present fairly the financial condition of Lennox at the respective dates thereof and their results of operations and cash flows for the periods then ended. Brancher and their employees and agents shall not disclose any of the financial data to any party without the prior written consent of Lennox.

D. CAPITALIZATION. The authorized capital stock of Lennox consists of Thirty Seven Million Five Hundred Thousand (37,500,000) shares of common stock, of a par value of $0.01 of which One Million Twenty-five Thousand Two Hundred sixty-seven (1,025,267) shares are outstanding and an additional approximately ninety-two Thousand Five Hundred forty-nine (92,549) shares under option. Lennox also has 1,000,000 shares of preferred stock, of a par value of

$0.01, authorized with no shares outstanding. No other shares of capital stock are issued or outstanding. All outstanding shares of capital stock of Lennox have been validly issued and are fully paid and nonassessable. No such shares of capital stock have been issued in violation of preemptive or similar rights, and there are no outstanding or contingent rights to acquire any of the capital stock of Brancher (whether or not outstanding), and no outstanding agreements or other arrangements by which Brancher is or may be bound to repurchase or otherwise acquire any shares of its capital stock.

E. TITLE TO SHARES. The shares of Lennox Stock to be exchanged for Ets. Brancher shares under the terms of this Restructure Agreement will be common stock which has been authorized but unissued. The title to the Lennox Stock is held, in the number of shares noted, free of any lien or other encumbrance or restriction. The Lennox Stock is not registered for sale on any exchange and all such shares are subject to a right of first refusal on behalf of Lennox in the event any such shares are offered for sale to a third party as specified in Article Sixteen of the Certificate of Incorporation. This restriction is terminated in the event of registration of the shares for sale on any exchange. A decision by Lennox to seek such registration, including the sale of additional shares is a matter within the sole discretion of Lennox and nothing in this Restructure Agreement shall constitute any commitment by Lennox to engage in such registration or sale of Lennox Stock.

F. NON-CONTRAVENTION. Neither the execution and delivery of this Restructure Agreement nor the completion of the transactions described herein will (i) conflict with or result in any violation of or constitute a default under any provision of the Certificate of Incorporation or Bylaws of Lennox or any mortgage, bond, indenture, agreement, franchise or other instrument or obligation to which Lennox is a party or by which Lennox is bound, (ii) violate any judgment, order, injunction, decree or order of any Governmental Entity against, or binding upon, Lennox or upon the securities, property or business of Lennox, or (iii) constitute a violation by Lennox of any law or regulation of any jurisdiction as such law or regulation relates to Lennox or the securities, property or business of Lennox.

G. GOVERNMENTAL CONSENTS; COMPLIANCE WITH LAW. The execution, delivery, or performance by Lennox of this Restructure Agreement will not violate the terms, or require the obtainment, of any consent, order, approval or authorization of, or declaration, filing, or registration with, any Governmental Entity. The execution, delivery or performance by Lennox of this Restructure Agreement will not violate any Applicable Law to which Lennox is subject.

H. INVESTMENT INTENT. Lennox is acquiring the Shares of the Ets. Brancher for its own account for investment purposes only and not with a view to, or for sale or other disposition in connection with, any distribution thereof, nor with any present intention of selling or otherwise disposing thereof. Lennox agrees that the shares may not be sold, transferred, offered for sale, pledged, hypothecated or otherwise disposed of without registration under the applicable securities laws, as amended, except pursuant to any exemption from such registration available thereunder.

I. LENNOX STOCK. The Lennox Stock is being exchanged subject only to the restrictions set forth in of the Certificate of Incorporation or By-laws of Lennox and not subject to any mortgage, bond, indenture, agreement, franchise or other instrument or obligation to which Lennox is a party or by which Lennox is bound. Lennox has provided or agrees to provide Brancher access to all such documents. It is expressly understood that such restrictions include a right of first refusal in favor of Lennox, for the sale of Lennox Stock owned by Brancher. It is further understood that the Lennox Stock may not be sold, transferred, offered for sale, pledged, hypothecated or otherwise disposed of without registration under the applicable securities laws, as amended, except pursuant to any exemption from such registration available thereunder. Any future registration for such sale by Lennox or any other shareholder of Lennox may or may not occur based on a Lennox decision solely within its discretion. In the event the Lennox stock is not registered for public sale and Brancher desires to sell some or all of its Lennox stock, Lennox agrees to, upon written notice by Brancher of its intent to sell the Lennox stock, either register the Lennox stock for public sale within six (6) months of such request or purchase up to twenty-five Percent (25%) of the Lennox stock owned by Brancher per year at the then applicable appraised value as referenced in SECTION 3.2.B.

SECTION 5.2. BRANCHER S REPRESENTATIONS AND WARRANTIES.

Brancher hereby represents and warrants to Lennox as follows:

A. ORGANIZATION, POWER AND AUTHORITY OF THE ETS. BRANCHER. Ets Brancher is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, with all necessary corporate power and authority to carry on its business as now being conducted and to own, operate and lease all properties owned, operated or leased by it, and is duly qualified to do business in all jurisdictions where such qualification is required, except where the failure to be so qualified will not result in a Material Adverse Effect. Brancher has delivered to Lennox true, correct and complete copies of the charter or bylaws of the Ets. Brancher as now in force.

B. AUTHORITY. Brancher, Holding A and Ets. Brancher have full power, corporate or individual, as appropriate, to enter into this Restructure Agreement and to carry out their obligations hereunder, and the execution and delivery by such parties of this Restructure Agreement and the performance by such parties of their obligations hereunder have been duly authorized by all necessary corporate action or other approvals of such parties. This Restructure Agreement has been duly executed and delivered by Brancher, Holding A and Ets. Brancher and constitutes a valid and legally binding obligation of such parties enforceable against the parties in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor's rights generally, (ii) the remedies of specific performance and injunctive relief are subject to certain equitable defenses and to the discretion of the court before which any proceedings may be brought, and (iii) rights to indemnification hereunder may be limited under applicable securities laws. No actions or proceedings to dissolve Brancher, Holding A and Ets. Brancher are pending.

C. CAPITALIZATION. The authorized capital stock of Ets. Brancher S. A. consists of Two Hundred Thousand Sixty Six Ten (266,010) shares of common stock, of a par value of 100 Ffrs per share of which all shares are outstanding. No other shares of capital stock are issued or outstanding. All outstanding shares of capital stock of Brancher have been validly issued and are fully paid and nonassessable. No such shares of capital stock have been issued in violation of preemptive or similar rights, and there are no outstanding or contingent rights to acquire any of the capital stock of Brancher (whether or not outstanding), and no outstanding agreements or other arrangements by which Brancher is or may be bound to repurchase or otherwise acquire any shares of its capital stock.

D. TITLE TO SHARES. The title to all of the authorized and issued Shares of Brancher are held, in the number of shares noted, free of any lien or other encumbrance or restriction other than those described thereon, by those parties set forth on SCHEDULE 5.2.D., attached hereto.

E. TITLE TO PROPERTIES. The Ets. Brancher has good and indefeasible title to all A Assets and B Assets free and clear of all encumbrances, except as disclosed on SCHEDULE 5.2.E.

F. COMPLIANCE WITH LAW. To the best of Brancher's knowledge and except for those disclosed on SCHEDULE 5.2.F., the Ets. Brancher is not in violation of (i) any applicable judgment, order, injunction, award or decree relating to the operation of its businesses or (ii) any Applicable Law.

G. ABSENCE OF CERTAIN EVENTS. Other than those events which have been disclosed to Lennox, there has not been:

(a) Any Material Adverse Effect on the Ets. Brancher, A Holding or Brancher from any source;

(b) Any purchase, sale or transfer of assets in anticipation of this Restructure Agreement, or which would contravene the intent of this Restructure Agreement;

(c) Any damage, destruction or loss (whether or not covered by insurance) which has or would have a Material Adverse Effect.

H. TAXES. Other than those items specifically disclosed to Lennox, Ets. Brancher has filed all tax returns and other reports required to be filed and has either discharged or adequately provided for the discharge of all taxes, costs, expenses, charges and debts of every kind and character, except those taxes, costs, expenses, charges and debts which are being protested in good faith by the Ets. Brancher. Prior to Closing, the Ets. Brancher shall provide to Lennox the federal tax returns for fiscal years 1995 and 1996 for Ets. Brancher.

VI. CONDITIONS TO THE OBLIGATIONS OF BRANCHER

The obligations of Brancher to consummate the transactions contemplated by this Restructure Agreement are subject to the fulfillment, on or before the Closing Date, of the following conditions, subject to the right of Brancher to waive any such condition (except for any condition that cannot be waived due to any Applicable Law):

SECTION 6.1 REPRESENTATIONS AND WARRANTIES TRUE. All the representations and warranties of Lennox contained in this Restructure Agreement shall be true and correct in all material respects on and as of the Closing Date, except to the extent such representations and warranties expressly relate to an earlier date.

SECTION 6.2 PERFORMANCE OF COVENANTS. Lennox shall have in all material respects performed or complied with all covenants and agreements required by this Restructure Agreement to be performed or complied with by Lennox prior to or on the Closing Date.

SECTION 6.3 CLOSING DOCUMENTS. Lennox shall have delivered to Brancher the documents and other items listed below:

(a) Resolutions of the Board of Directors of Lennox authorizing the execution, delivery and performance of this Restructure Agreement and the consummation of the transactions contemplated hereby, certified by an officer of Lennox;

(b) Stock certificates representing the Lennox Stock, duly endorsed for transfer to Brancher or its designee;

(c) Such other certificates and documents as may be reasonably requested by Brancher.

SECTION 6.5 NO INJUNCTIONS. Neither Brancher nor Lennox shall be subject to an order, decree or injunction of a court of competent jurisdiction which (i) prevents or delays any of the transactions contemplated by this Restructure Agreement or (ii) would impose any material limitation on the ability of Brancher effectively to exercise full rights of ownership of the Lennox Stock except as set forth in this Restructure Agreement.

VII. CONDITIONS TO THE OBLIGATIONS OF LENNOX

The obligations of Lennox to consummate the transactions contemplated by this Restructure Agreement are subject to the fulfillment, on or before the Closing Date, of the following conditions, subject to the right of Lennox to waive any such condition (except for any condition that cannot be waived due to any Applicable Law):

SECTION 7.1 REPRESENTATIONS AND WARRANTIES TRUE. All of the representations and warranties of Brancher contained in this Restructure Agreement shall be true and correct in all material respects on and as of the Closing Date, except to the extent such representations and warranties expressly relate to an earlier date.

SECTION 7.3 PERFORMANCE OF COVENANTS. Brancher shall have performed or complied with or delivered all covenants and agreements required by this Restructure Agreement to be performed or complied with by Brancher prior to or on the Closing Date.

SECTION 7.4 CLOSING DOCUMENTS. Brancher shall have delivered to Lennox the documents listed below:

(a) Resolutions of the Board of Directors of Ets. Brancher, Holding A or other corporation involved authorizing the execution, delivery and performance of this Restructure Agreement and the consummation of the transactions contemplated hereby, certified by an officer of such company;

(b) Certificates representing the transfer of Ets. Brancher shares to Lennox;

(c) Such other certificates and documents as may be reasonably requested by Lennox.

SECTION 7.5 NO INJUNCTIONS. Neither Brancher, Ets Brancher, Holding A or other entity necessary for the completion of the transactions contemplated by this Restructuring Agreement nor Lennox shall be subject to an order, decree or injunction of a court of competent jurisdiction which (i) prevents or delays any of the transactions contemplated by this Restructure Agreement or (ii) would impose any material limitation on the ability of Lennox effectively to exercise full rights of ownership of the Shares.

VIII. COVENANTS AND AGREEMENTS OF THE PARTIES

Brancher and Lennox mutually covenant and agree as follows:

SECTION 8.1 ACCESS. Until the closing, both Brancher and Lennox shall give the officers, attorneys, accountants and other authorized representatives of the other full access, during normal business hours and upon reasonable notice, to all of the records, plants, properties and personnel of the Ets. Brancher, Holding A, Lennox or any other entity involved in the transactions envisioned in this Restructuring Agreement. Each party will furnish the representatives of the other party during such period with all information as such representatives may reasonably request and cause the employees, accountants and attorneys of that party to cooperate fully with such representatives in connection with such review and examination; provided, however, that, the receiving party will hold in strict confidence and not use for its own benefit the documents and information furnished concerning the other party; and, if the transactions contemplated by this Restructure Agreement shall not be consummated, such confidence shall be maintained and all such documents and all copies

thereof and all summaries or compilations of such documents prepared by any receiving party shall immediately thereafter be returned to the providing party.

SECTION 8.2 LITIGATION. Until the Closing, each party will promptly notify the other party of any Proceeding which is threatened in writing or commenced against that party, or against any officer, employee, agent, consultant or director of that party which may relate to or affect this Restructure Agreement or the transactions contemplated hereby.

SECTION 8.3 EXPENSES OF SALE. Brancher and Lennox shall each bear their own direct and indirect expenses incurred in connection with the negotiation and preparation of this Restructure Agreement and the consummation and performance of the transactions contemplated hereby. Each party shall be liable for and shall pay all applicable sales and use taxes imposed on that party as a result of the consummation of the transactions contemplated hereby, and Lennox and Brancher agree to cooperate to obtain all available exemptions from such taxes. The party receiving shares shall also be liable for and shall pay all other transfer, recording and deed and stamp taxes and fees relating to the transfer of the such shares and consummation of the transactions contemplated hereby. The parties agree to equally share the other costs and expenses incurred in connection with the consummation of the transactions contemplated under this Restructure Agreement.

SECTION 8.4 ACTIONS WITH RESPECT TO CLOSING. The parties agree to use their best efforts to bring about the satisfaction of the conditions precedent to the Closing and to cause the covenants and agreements contained in this ARTICLE VIII to be satisfied and performed hereunder by each of them.

SECTION 8.5 PUBLICITY. The parties agree that no publicity release or announcement concerning the transactions contemplated hereby shall be issued without the advance approval of form and substance by the respective parties.

SECTION 8.6 CONDITIONS OF EMPLOYMENT. The parties agree that Jean Jacques Brancher shall remain as an officer and employee of Brancher under the terms and for the compensation described on SCHEDULE 8.6. The parties agree that fifty percent (50%) of the corresponding costs of Brancher (salary, benefits, etc.) less 200,000 Ffrs will be invoiced to Holding A.

## IX. TERM AND TERMINATION

SECTION 9.1. TERM.

The term of this Restructure Agreement shall be for as long as both Shareholders or their respective successors or assigns own shares of Ets. Brancher or until the termination of the Amended Venture Agreement.

SECTION 9.2. TERMINATION.

A. TERMINATION BY BREACH OF THIS RESTRUCTURE AGREEMENT. Upon the occurrence of a breach by the other Shareholder of the terms of this Restructure Agreement, the other Shareholder may, at its sole discretion, by giving notice to the other Shareholder as provided under SECTION 9.2.C(i), terminate this Restructure Agreement and seek such remedies as may provided herein; provided, however, that termination of this Restructure Agreement and, at that Shareholder's option, purchase the shares of the Ets. Brancher owned by the defaulting Shareholder or sell its shares to the Defaulting Shareholder at the non-defaulting Shareholder's option, which shall be permitted only following exhaustion of the notice and cure provisions set forth in SECTIONS 12.1 AND 12.2 and the dispute resolution mechanism set forth in SECTION 10.1. The price to be paid or received for the shares shall be determined by the formula specified in the Amended Venture Agreement.

B. TERMINATION BY TERMINATION OF THE AMENDED VENTURE AGREEMENT. Upon the termination of the Amended Venture Agreement, this Restructure Agreement will also terminate. Any Ets. Brancher shares still owned by Brancher shall be transferred to Lennox as provided herein.

C. NOTICES.

(i) NOTICE OF SECTION 9.2.A. TERMINATION. Any notice of termination of this Restructure Agreement under SECTION 9.2.A. shall be given, if at all, by the terminating Shareholder in writing to the other Shareholder. Such notice shall state that the Restructure Agreement is thereby terminated under SECTION 9.2.A., provide a clear statement of the reason for such termination, and make demand upon the other Shareholder to cooperate fully with the terminating Shareholder in causing the transfer of the shares of the Ets. Brancher as specified by the terminating Shareholder.

(ii) NOTICE OF SECTION 9.2.B. TERMINATION BY THE TERMINATION OF THE AMENDED VENTURE AGREEMENT. No notice of termination of this Restructure Agreement upon the termination of the Amended Venture Agreement shall be require and such termination shall be effective automatically upon the termination of the Amended Venture Agreement without action by either Shareholder. However, provided there remain Ets. Brancher shares still owned by Brancher, either Lennox or Brancher shall provide a notice to the other indicating that the transfer all remaining Ets. Brancher shares to Lennox is initiated. The Notice of Intent to Transfer shall state that the Amended Venture Agreement is terminated and the required transfer of Ets. Brancher shares is initiated under SECTION 9.2.B. Within ten (10) days of receipt of any such Notice of Intent to Transfer, Brancher shall transfer all the Ets. Brancher shares to Lennox, and Lennox shall purchase all the remaining Ets. Brancher shares.

D. TERMS OF PURCHASE AND CLOSING SECTION 9.2.A. OR 9.2.B. PURCHASE. The terms of any transfer of Ets. Brancher shares under SECTION 9.2.A. OR 9.2.B., shall be as follows:

(i) The closing of any transfer of Ets. Brancher shares under SECTION 9.2.A. shall be completed no later than thirty (30) days following the Notice of Intent to Transfer provided under SECTION 9.2.C(i) given by the initiating Shareholder.

(ii) The closing of the transfer any remaining Ets. Brancher shares of Brancher under SECTION 9.2.B. shall be completed no later than thirty (30) days following the notice of SECTION 9.2.B. termination given under SECTION 9.2.C(ii).

(iii) The transfer price of the Ets. Brancher shares being transferred shall be fully paid in cash by the purchasing Shareholder to the selling Shareholder on or before the date it is due.

(iv) The purchasing Shareholder shall provide to the selling Shareholder a representation and warranty to the effect that it is purchasing such Ets. Brancher shares for investment purposes and not with a view to the offer, sale or other distribution thereof.

(v) The selling Shareholder shall provide to the purchasing Shareholder representations and warranties to the effect that:

(a) The selling Shareholder has good and marketable title to the Ets. Brancher shares that are to be transferred, free and clear of all liens and encumbrances;

(b) The selling Shareholder has taken all steps and complied with all corporate formalities required to transfer its Ets. Brancher shares to the buying Shareholder; and

(c) The selling Shareholder is legally empowered and authorized to effect such sale of its Ets. Brancher shares.

## X. DISPUTE RESOLUTION

### SECTION 10.1. DISPUTE RESOLUTION MECHANISM.

Every dispute whatsoever that may arise between the Shareholders or their nominees, designees or other representatives with respect to the subject matter of this Restructure Agreement shall be resolved as provided in this SECTION 10.1.

A. DISPUTE AMONG SHAREHOLDERS. The Shareholders shall strive in good faith to resolve any dispute that may arise between them as to any matter arising from or in any way connected with their relationship as Shareholders, or that is related to or otherwise connected with the subject matter of this Restructure Agreement.

B. FAILURE OF RESOLUTION; REMAINING REMEDIES. If attempts by the Shareholders to resolve any dispute arising under this Restructure Agreement shall fail to produce a resolution of the dispute satisfactory to both Shareholders within thirty (30) days of the commencement thereof, then either Shareholder shall pursue the remedies for the resolution of disputes as set forth in the Amended Venture Agreement.

XI. RESTRICTIONS ON TRANSFER

SECTION 11.1. RESTRICTION ON TRANSFER TO THIRD PARTIES.

Neither Shareholder shall transfer, attempt to transfer or permit to be transferred any of its Ets. Brancher shares to any person other than the other Shareholder; provided, however, that either Shareholder may transfer its Ets. Brancher shares to any third party upon receiving the written approval of such transfer by the other Shareholder, such written approval to be given or withheld at the sole discretion of the other Shareholder.

SECTION 11.2. SECURITIES LAW RESTRICTIONS ON TRANSFER.

Neither Shareholder shall attempt to transfer, or permit to be transferred, its Ets. Brancher shares, or consent to any transfer by the other Shareholder of its Ets. Brancher shares, unless both Shareholders shall have received opinions from their respective counsel that such transfer shall not constitute a violation of any applicable laws.

XII. BREACH, NOTICE AND OPPORTUNITY TO CURE

SECTION 12.1. NOTICE OF BREACH.

If either Shareholder in good faith should conclude that the other Shareholder has committed a breach of this Restructure Agreement, the Shareholder so concluding may notify the other Shareholder that it is in breach hereof.

SECTION 12.2. OPPORTUNITY TO CURE.

Any Shareholder receiving notice under SECTION 12.1. of this Restructure Agreement shall have thirty (30) days to cure its breach, if any, and to begin those steps reasonably necessary to cure and diligently continue such steps and to notify the Shareholder sending such notice that such breach has been cured or the steps to cure have been taken.

SECTION 12.3. RESOLUTION OF DISPUTED BREACH.

Following the cure period specified in SECTION 12.2., if the notifying Shareholder shall reject the cure or otherwise maintain that an uncured breach of this Restructure Agreement exists, then such matter shall be treated as a dispute to be resolved beginning under SECTION 10.1.A.

SECTION 12.4. REMEDIES.

Neither Shareholder may pursue any remedy at law for a breach of this Restructure Agreement until it first shall have exhausted the dispute resolution mechanism set forth in SECTION 10.1. Nothing in this Restructure Agreement shall preclude or limit the right of any Shareholder at any time or under any circumstances to seek injunctive relief hereunder.

XIII. GENERAL PROVISIONS

SECTION 13.1. ACCURACY OF RECITALS.

The paragraphs contained in the recitals in this Restructure Agreement are incorporated herein by this reference, and the parties hereto acknowledge the accuracy thereof.

SECTION 13.2. AUDIT RIGHTS.

Each Shareholder at any time may inspect and audit Ets. Brancher's books and records, either through its own employees or through independent auditors, or both.

SECTION 13.3. PUBLIC STATEMENTS.

Neither Shareholder shall, without the permission of the other, release any public statement describing or in any way relating to the business or operations of Ets. Brancher.

SECTION 13.4. WAIVER OF CONSEQUENTIAL DAMAGES.

The Shareholders hereby waive any and all claims to incidental and consequential damages arising out of any breach of this Restructure Agreement.

SECTION 13.5. TREATMENT OF CONFIDENTIAL OR PROPRIETARY INFORMATION.

Neither Shareholder, nor Ets. Brancher, shall share with any other person any Confidential or Proprietary Information obtained through or for Ets. Brancher, or otherwise use such information to the detriment of either or both Shareholders or Ets. Brancher.

SECTION 13.6. NOTICES.

All notices, demands and other communications provided for hereunder shall be in writing and shall be mailed, faxed or delivered (by hand or courier service) to the parties at their respective addresses set forth below:

Brancher: Jean Jacques Brancher
11 rue d'Alsace-Lorraine
69500 Bron France
Telephone: (33) 472.14.61.14
Fax: (33) 472.14.61.16

Lenox: Lennox International Inc.
Attention: Chief Executive Officer
2100 Lake Park Boulevard
Richardson, Texas 75080-2254
Telephone: 972-497-5000
Fax: 972-497-5440

or at such other address as the party desiring to change the address set forth above under its name may direct by written notice to all other parties hereto. All such notices and communications, when mailed by certified mail or when telecopied, shall be effective upon the earlier to occur of actual receipt or three (3) business days after deposit in the mail, postage prepaid.

SECTION 13.7. FURTHER ASSURANCES.

The Shareholders agree to execute such additional agreements and documents, and to take such other actions, as may be necessary to effect the purposes of this Restructure Agreement.

SECTION 13.8. MODIFICATIONS.

Any action or agreement by the Shareholders to modify this Restructure Agreement, in whole or in part, shall be binding upon the Shareholders even though such Restructure Agreement may lack legal consideration, so long as such modification Restructure Agreement shall be in writing and shall be executed by both Shareholders with the same formality with which this Restructure Agreement was executed.

SECTION 13.9. HEADINGS.

The headings in this Restructure Agreement are inserted for convenience only and shall not affect the meaning or interpretation of this Restructure Agreement or of any section hereof.

SECTION 13.10. BINDING EFFECT.

This Restructure Agreement shall be binding upon, and shall inure to the benefit of, the Shareholders and their respective successors, assigns and legal representatives.

SECTION 13.11. COUNTERPARTS.

This Restructure Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same Restructure Agreement. Each Shareholder may execute this Restructure Agreement by signing any such counterpart.

SECTION 13.12. GOVERNING LAW.

This Restructure Agreement shall be deemed to be a contract made under, and for all purposes shall be construed in accordance with and governed by, the laws of France.

SECTION 13.14. CONSTRUCTION.

Wherever possible, this Restructure Agreement, and all documents contemplated hereunder, shall be construed and interpreted so as to be effective and valid under applicable law. If any provision of this Restructure Agreement, or any document contemplated hereunder, for any reason shall be deemed invalid or prohibited under applicable law, such provision shall be invalid or prohibited only to the extent of such invalidity or prohibition, which shall not invalidate the remainder of such provision or the remaining provisions of this Restructure Agreement.

SECTION 13.15. DELAY OR PARTIAL EXERCISE NOT WAIVER.

No failure or delay on the part of any party to exercise any right or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy granted hereby or by any related document.

SECTION 13.16. INTERPRETATION.

As used in this Restructure Agreement, any singular noun shall include the plural and any plural the singular, and any reference to one gender shall include the other.

SECTION 13.17. COMMITMENTS FROM SUBSIDIARIES.

Each Shareholder shall cause its subsidiaries to act in such a manner as to give effect to the purposes, provisions and obligations of such Shareholder under this Restructure Agreement.

SECTION 13.18. ENTIRE RESTRUCTURE AGREEMENT.

This Restructure Agreement and the Exhibits attached hereto constitute and express the entire Restructure Agreement between the Shareholders with respect to the matters referred to herein. All previous discussions, promises, representations and understandings relative thereto are hereby merged in and superseded by this Restructure Agreement.

SECTION 13.19. WAIVER.

To be effective, any waiver of any right hereunder shall be in writing and be signed by a duly authorized officer or representative of the Shareholder bound thereby.

SECTION 13.20. SIGNATORIES DULY AUTHORIZED.

Each of the signatories to this Restructure Agreement represents that he is duly authorized to execute this Restructure Agreement on behalf of the party for which he is signing, and that such signature is sufficient to bind the party purportedly represented.

SECTION 13.21. INCORPORATION OF EXHIBITS BY REFERENCE.

Any reference herein to any Exhibit to this Restructure Agreement shall incorporate such Exhibit herein, as if it were set out in full in the text of this Restructure Agreement.

IN WITNESS WHEREOF, Brancher and Lennox have caused this Restructure Agreement to be duly executed and delivered as of the date first written above.

ETS. BRANCHER S.A.
A French Corporation

By: /s/ Jean-Jacques Brancher
---
President

LENNOX INTERNATIONAL INC.
A Delaware Corporation

By: /s/ Clyde Wyant
---
Executive Vice President

AFIBRAL S.A.
A French Corporation

By: /s/ Jean-Jacques Brancher
---
President

PARIFRI S.A.
A Belgium Corporation

By: /s/ J.C. DeKoster
---
President

JEAN JACQUES BRANCHER

By: /s/ Jean-Jacques Brancher
---

LIST OF EXHIBITS
TO SHAREHOLDER RESTRUCTURE AGREEMENT

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| SCHEDULE 2.2.A(l) | B ASSETS |
| SCHEDULE 2.2.A(2) | B SHARES PRICE |
| SCHEDULE 2.2.C. | A ASSETS |
| SCHEDULE 2.2.D. | ETS. BRANCHER SHARES EXCHANGED FOR A ASSETS |
| SCHEDULE 2.2.F. | ETS. BRANCHER SHARES RECEIVED BY LENNOX |
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| SCHEDULE 5.2.C. | ETS. BRANCHER FINANCIAL STATEMENTS |
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EXHIBIT 10.15

LENNOX INTERNATIONAL INC.

INDEMNIFICATION AGREEMENT

THIS AGREEMENT is entered into as of March 12, 1999 ("Agreement"), between Lennox International Inc., a Delaware corporation (the "Company"), and _____ ("Indemnitee").

BACKGROUND STATEMENT AND RECITALS

Highly competent and experienced persons are becoming more reluctant to serve corporations as directors or in other capacities unless they are provided with adequate protection through insurance and adequate indemnification against inordinate risks of claims and actions against them arising out of their service to and activities on behalf of the corporation.

The Board of Directors of the Company (the "Board") has determined that the inability to attract and retain such persons would be detrimental to the best interests of the Company and its stockholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future.

The Board has also determined that it is reasonable, prudent and necessary for the Company, in addition to purchasing and maintaining directors' and officers' liability insurance (or otherwise providing for adequate arrangements of self-insurance), contractually to obligate itself to indemnify such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified.

Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Company on the condition that he be so indemnified.

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

ARTICLE I

CERTAIN DEFINITIONS

As used herein, the following words and terms shall have the following respective meanings:

"Beneficial Owner" means, with reference to any securities, any Entity if:

1. such Entity is the "beneficial owner" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act, as in effect on the date of this Agreement) such securities; provided, however, that a Entity shall not be deemed the "Beneficial Owner" of, or to "beneficially own," any security under this subsection (i) as a result of an agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding: (x) arises solely from a revocable proxy or consent given in response to a public (i.e., not including a solicitation exempted by Rule 14a- 2(b)(2) of the General Rules and Regulations under the Exchange Act) proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act and (y) is not then reportable by such Entity on Schedule 13D under the Exchange Act (or any comparable or successor report); or

2. such Entity is a member of a group (as that term is used in Rule 13d- 5(b) of the General Rules and Regulations under the Exchange Act) that includes any other Entity that beneficially owns such securities;

provided, however, that a Entity shall not be deemed the "Beneficial Owner" of, or to "beneficially own" any security held by a Norris Family Trust with respect to which such Entity acts in the capacity of trustee, personal representative, custodian, administrator, executor or other fiduciary; provided, further, that nothing in this definition shall cause a Entity engaged in business as an underwriter of securities to be the Beneficial Owner of, or to "beneficially own," any securities acquired through such Entity's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition. For purposes hereof, "voting" a security shall include voting, granting a proxy, consenting or making a request or demand relating to corporate action (including, without limitation, a demand for a stockholder list, to call a stockholder meeting or to inspect corporate books and records) or otherwise giving an authorization (within the meaning of Section 14(a) of the Exchange Act) in respect of such security.

The terms "beneficially own" and "beneficially owning" shall have meanings that are correlative to this definition of the term "Beneficial Owner."

"Change of Control" means any of the following occurring on or after the date hereof:

(i) Any Entity (other than an Exempt Person) shall become the Beneficial Owner of 35% or more of the shares of Common Stock then outstanding or 35% or more of the combined voting power of the Voting Stock of the Company then outstanding; provided, however, that no Change of Control shall be deemed to occur for purposes of this subsection (i) if such Entity shall become a Beneficial Owner of 35% or more of the shares of Common Stock or 35% or more of the combined voting power of the Voting Stock of the Company solely as a result of (x) an Exempt Transaction or (y) an acquisition by a Entity pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (x), (y) and (z) of subsection (iii) of this definition are satisfied;

(ii) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board; provided, further, that there shall be excluded, for this purpose, any such individual whose initial assumption of office occurs as a result of any actual or threatened election contest that is subject to the provisions of Rule 14a-11 under the Exchange Act;

(iii) Approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (x) more than 65% of the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding Voting Stock of such corporation is beneficially owned, directly or indirectly, by all or substantially all of the Entities who were the Beneficial Owners of the outstanding Common Stock immediately prior to such reorganization, merger or consolidation (ignoring, for purposes of this clause (x), the first proviso in the definition of "Beneficial Owner" set forth in this Article I) in substantially the same proportions as their ownership immediately prior to such reorganization, merger or consolidation of the outstanding Common Stock, (y) no Entity (excluding any Exempt Person or any Entity beneficially owning, immediately prior to such reorganization, merger or consolidation, directly or indirectly, 35% or more of the Common Stock then outstanding or 35% or more of the combined voting power of the Voting Stock of the Company then outstanding) beneficially owns, directly or indirectly, 35% or more of the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding Voting Stock of such corporation and (z) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement or initial action by the Board providing for such reorganization, merger or consolidation; or

(iv) Approval by the shareholders of the Company of (x) a complete liquidation or dissolution of the Company, unless such liquidation or dissolution is approved as part of a plan of liquidation and dissolution involving a sale or disposition of all or substantially all of the assets of the Company to a corporation with respect to which, following such sale or other disposition, all of the requirements of clauses (y)(A), (B) and (C) of this subsection (iv) are satisfied, or (y) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which, following such sale or other disposition, (A) more than 65% of the then outstanding shares of common stock of such corporation and the combined voting power of the Voting Stock of such corporation is then beneficially owned, directly or indirectly, by all or substantially all of the Entities who were the Beneficial Owners of the outstanding Common Stock immediately prior to such sale or other disposition (ignoring, for purposes of this clause (y)(A), the first proviso in the definition of "Beneficial Owner" set forth in this Article I) in substantially the same proportions as their ownership, immediately prior to such sale or other disposition, of the outstanding Common Stock, (B) no Entity (excluding any Exempt Person and any Entity beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 35% or more of the Common Stock then outstanding or 35% or more of the combined voting power of the Voting Stock of the Company then outstanding) beneficially owns, directly or indirectly, 35% or more of the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding Voting Stock of such corporation and (C) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or initial action of the Board providing for such sale or other disposition of assets of the Company.

"Claim" means an actual or threatened claim or request for relief.

"Common Stock" means the common stock, par value $0.01 per share, of the Company.

"Corporate Status" means the status of a person who is or was a director, nominee for director, officer, employee, agent or fiduciary of the Company (including any predecessors to the Company), or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the request of the Company.

"Disinterested Director," with respect to any request by Indemnitee for indemnification hereunder, means a director of the Company who neither is nor was a party to the Proceeding or subject to a Claim, issue or matter in respect of which indemnification is sought by Indemnitee.

"DGCL" means the Delaware General Corporation Law and any successor statute thereto as either of them may be amended from time to time.

"Entity" means any individual, firm, corporation, partnership, association, trust, unincorporated organization or other entity.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exempt Person" means (i) the Company, any subsidiary of the Company, any employee benefit plan of the Company or any subsidiary of the Company, and any Entity organized, appointed or established by the Company for or pursuant to the terms of any such plan and (ii) any Person who is shown under the caption "Principal and Selling Stockholders" in the Company's Registration Statement on Form S-1 related to the initial public offering of the Common Stock as beneficially owning (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act, as in effect on the date of this Agreement) five percent or more of the Common Stock unless and until such Person individually becomes the Beneficial Owner, other than as a result of a distribution from a Norris Family Trust, of an amount of Common Stock that is 103% or more of the amount of such Common Stock beneficially owned by such Person on the date the Registration Statement is declared effective by the Securities and Exchange Commission.

"Exempt Transaction" means an increase in the percentage of the outstanding shares of Common Stock or the percentage of the combined voting power of the outstanding Voting Stock of the Company beneficially owned by any Entity solely as a result of a reduction in the number of shares of Common Stock then outstanding due to the repurchase of Common Stock by the Company, unless and until such time as such Entity shall purchase or otherwise become the Beneficial Owner of additional shares of Common Stock constituting 3% or more of the then outstanding shares of Common Stock or additional Voting Stock representing 3% or more of the combined voting power of the then outstanding Voting Stock.

"Expenses" means all attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or participating in (including on appeal), a Proceeding.

"Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither contemporaneously is, nor in the five years theretofore has been, retained to represent (a) the Company or Indemnitee in any matter material to either such party, (b) any other party to the Proceeding giving rise to a claim for indemnification hereunder or (c) the beneficial owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding voting securities (other than, in each such case, with respect to matters concerning the rights of Indemnitee under this Agreement, or of other indemnitees under similar indemnification

agreements). Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

"Norris Family Trust" means any trust, estate, custodianship or other fiduciary arrangement (collectively, a "Family Entity") formed, owned, held or existing primarily for the benefit of the lineal descendants of D.W. Norris, but only if such Family Entity shall not at any time hold Common Stock or Voting Stock of the Company with the primary purpose of effecting with respect to the Company (i) an extraordinary corporate transaction, such as a merger, reorganization or liquidation (ii) a sale or transfer of a material amount of assets, (iii) any material change in capitalization, (iv) any other material change in business or corporate structure or operations, (v) changes in corporate charter or bylaws, or (vi) a change in the composition of the Board or of the members of senior management.

"person" shall have the meaning ascribed to such term in Sections 13(d) and 14(d) of the Exchange Act.

"Proceeding" means any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, administrative hearing or any other proceeding, whether civil, criminal, administrative or investigative and whether or not based upon events occurring, or actions taken, before the date hereof (except any of the foregoing initiated by Indemnitee pursuant to Article VI or Section 7.8 to enforce his rights under this Agreement), and any inquiry or investigation that could lead to, and any appeal in or related to, any such action, suit, arbitration, alternative dispute resolution mechanism, hearing or proceeding.

"Voting Stock" means, with respect to a corporation, all securities of such corporation of any class or series that are entitled to vote generally in the election of directors of such corporation (excluding any class or series that would be entitled so to vote by reason of the occurrence of any contingency, so long as such contingency has not occurred).

## ARTICLE II

## SERVICES BY INDEMNITEE

Section 2.1 Services. Indemnitee agrees to serve, or continue to serve, as a director of the Company and, as the Company has requested or may request from time to time, as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise. Indemnitee and Company each acknowledge that they have entered into this Agreement as a means of inducing Indemnitee to serve, or continue to serve, the Company in such capacities. Indemnitee may at any time and for any reason resign from such position or positions (subject to any other contractual obligation or

any obligation imposed by operation of law). The Company shall have no obligation under this Agreement to continue Indemnitee in any such position or positions.

## ARTICLE III

## INDEMNIFICATION

Section 3.1 General. The Company shall indemnify, and advance Expenses to, Indemnitee to the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may thereafter from time to time permit. The rights of Indemnitee provided under the preceding sentence shall include, but shall not be limited to, the right to be indemnified and to have Expenses advanced in all Proceedings to the fullest extent permitted by Section 145 of the DGCL. The provisions set forth in this Agreement are provided in addition to and as a means of furtherance and implementation of, and not in limitation of, the obligations expressed in this Article III.

Section 3.2 Proceedings Other Than by or in Right of the Company. Indemnitee shall be entitled to indemnification pursuant to this Section 3.2 if, by reason of his Corporate Status, he was, is or is threatened to be made, a party to any Proceeding, other than a Proceeding by or in the right of the Company. Pursuant to this Section 3.2, the Company shall indemnify Indemnitee against Expenses, judgments, penalties, fines and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with any such Expenses, judgments, penalties, fines and amounts paid in settlement) actually and reasonably incurred by him or on his behalf in connection with such Proceeding or any Claim, issue or matter therein, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and with respect to any criminal Proceeding, had no reasonable cause to believe his conduct was unlawful. Nothing in this Section 3.2 shall limit the benefits of Section 3.1 or any other Section hereunder.

Section 3.3 Proceedings by or in Right of the Company. Indemnitee shall be entitled to indemnification pursuant to this Section 3.3 if, by reason of his Corporate Status, he was, is or is threatened to be made, a party to any Proceeding brought by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 3.3, the Company shall indemnify Indemnitee against Expenses actually and reasonably incurred by him or on his behalf in connection with such Proceeding or any Claim, issue or matter therein, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company. Notwithstanding the foregoing, no indemnification against such Expenses shall be made in respect of any Claim, issue or matter in such Proceeding as to which Indemnitee shall have been adjudged to be liable to the Company if applicable law prohibits such indemnification; provided, however, that, if applicable law so permits, indemnification against such Expenses shall nevertheless be made by the Company in such event if and only to the extent that the Court of

Chancery of the State of Delaware or other court of competent jurisdiction (the "Court"), or the court in which such Proceeding shall have been brought or is pending, shall so determine. Nothing in this Section 3.3 shall limit the benefits of Section 3.1 or any other Section hereunder.

ARTICLE IV

EXPENSES

Section 4.1 Expenses of a Party Who Is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement to the contrary (except as set forth in Section 7.2(c) or 7.6), and without a requirement for any determination described in Section 5.2, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf in connection with any Proceeding to which Indemnitee was or is a party by reason of his Corporate Status and in which Indemnitee is successful, on the merits or otherwise. If Indemnitee is not wholly successful, on the merits or otherwise, in a Proceeding but is successful, on the merits or otherwise, as to any Claim, issue or matter in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf relating to each successfully resolved Claim, issue or matter. For purposes of this Section 4.1 and without limitation, the termination of a Claim, issue or matter in a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such Claim, issue or matter.

Section 4.2 Expenses of a Witness or Non-Party. Notwithstanding any other provision of this Agreement to the contrary, to the extent that Indemnitee is, by reason of his Corporate Status, a witness or otherwise participates in any Proceeding at a time when he is not a party in the Proceeding, the Company shall indemnify him against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith.

Section 4.3 Advancement of Expenses. The Company shall pay all reasonable Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding, whether brought by or in the right of the Company or otherwise, in advance of any determination with respect to entitlement to indemnification pursuant to Article V within 15 days after the receipt by the Company of a written request from Indemnitee requesting such payment or payments from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee. Indemnitee hereby undertakes and agrees that he will reimburse and repay the Company for any Expenses so advanced to the extent that it shall ultimately be determined (in a final adjudication by a court from which there is no further right of appeal or in a final adjudication of an arbitration pursuant to Section 6.1 if Indemnitee elects to seek such arbitration) that Indemnitee is not entitled to be indemnified by the Company against such Expenses.

ARTICLE V

PROCEDURE FOR DETERMINATION OF ENTITLEMENT
TO INDEMNIFICATION

Section 5.1 Request by Indemnitee. To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. The Secretary or an Assistant Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the members of the Board in writing that Indemnitee has requested indemnification.

Section 5.2 Determination of Request. Upon written request by Indemnitee for indemnification pursuant to Section 5.1, a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall be made in the specific case as follows:

(a) If a Change in Control shall have occurred, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee unless Indemnitee shall request that such determination be made by the Disinterested Directors, in which case in the manner provided for in clause (i) or (ii) of paragraph (b) below;

(b) If a Change in Control shall not have occurred, (i) by a majority vote of the Disinterested Directors, even though less than a quorum of the Board, (ii) by a committee of Disinterested Directors designated by majority vote of the Disinterested Directors, even though less than a quorum of the Board, (iii) if there are no Disinterested Directors, or if such Disinterested Directors so direct, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to the Indemnitee, or (iv) if Indemnitee and the Company mutually agree, by the stockholders of the Company; or

(c) As provided in Section 5.4(b).

If it is so determined that Indemnitee is entitled to indemnification hereunder, payment to Indemnitee shall be made within 15 days after such determination. Indemnitee shall cooperate with the person or persons making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person upon reasonable advance request any documentation or information that is not privileged or otherwise protected from disclosure and that is reasonably available to Indemnitee and reasonably necessary for such determination. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person or persons making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification), and the Company shall indemnify and hold harmless Indemnitee therefrom.

Section 5.3 Independent Counsel. If a Change in Control shall not have occurred and the determination of entitlement to indemnification is to be made by Independent Counsel, the Independent Counsel shall be selected by (a) a majority vote of the Disinterested Directors, even though less than a quorum of the Board or (b) if there are no Disinterested Directors, by a majority vote of the Board, and the Company shall give written notice to Indemnitee, within 10 days after receipt by the Company of Indemnitee's request for indemnification, specifying the identity and address of the Independent Counsel so selected. If a Change in Control shall have occurred and the determination of entitlement to indemnification is to be made by Independent Counsel, the Independent Counsel shall be selected by Indemnitee, and Indemnitee shall give written notice to the Company, within 10 days after submission of Indemnitee's request for indemnification, specifying the identity and address of the Independent Counsel so selected (unless Indemnitee shall request that such selection be made by the Disinterested Directors, in which event the Company shall give written notice to Indemnitee, within 10 days after receipt of Indemnitee's request for the Disinterested Directors to make such selection, specifying the identity and address of the Independent Counsel so selected). In either event, (i) such notice to Indemnitee or the Company, as the case may be, shall be accompanied by a written affirmation of the Independent Counsel so selected that it satisfies the requirements of the definition of "Independent Counsel" in Article I and that it agrees to serve in such capacity and (ii) Indemnitee or the Company, as the case may be, may, within seven days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection. Any objection to selection of Independent Counsel pursuant to this Section 5.3 may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of the definition of "Independent Counsel" in Article I, and the objection shall set forth with particularity the factual basis of such assertion. If such written objection is timely made, the Independent Counsel so selected may not serve as Independent Counsel unless and until the Court has determined that such objection is without merit. In the event of a timely written objection to a choice of Independent Counsel, the party originally selecting the Independent Counsel shall have seven days to make an alternate selection of Independent Counsel and to give written notice of such selection to the other party, after which time such other party shall have five days to make a written objection to such alternate selection. If, within 30 days after submission of Indemnitee's request for indemnification pursuant to Section 5.1, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the Court for resolution of any objection that shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the Court or by such other person as the Court shall designate, and the person with respect to whom an objection is so resolved or the person so appointed shall act as Independent Counsel under Section 5.2. The Company shall pay any and all reasonable fees and expenses incurred by such Independent Counsel in connection with acting pursuant to Section 5.2, and the Company shall pay all reasonable fees and expenses incident to the procedures of this Section 5.3, regardless of the manner in which such Independent Counsel was selected or appointed. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 6.1, Independent

Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

Section 5.4 Presumptions and Effect of Certain Proceedings.

(a) Indemnitee shall be presumed to be entitled to indemnification under this Agreement upon submission of a request for indemnification pursuant to Section 5.1, and the Company shall have the burden of proof in overcoming that presumption in reaching a determination contrary to that presumption. Such presumption shall be used by Independent Counsel (or other person or persons determining entitlement to indemnification) as a basis for a determination of entitlement to indemnification unless the Company provides information sufficient to overcome such presumption by clear and convincing evidence.

(b) If the person or persons empowered or selected under this Article V to determine whether Indemnitee is entitled to indemnification shall not have made a determination within 60 days after receipt by the Company of Indemnitee's request for indemnification, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a knowing misstatement by Indemnitee of a material fact, or knowing omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with Indemnitee's request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional 30 days, if the person making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating to such determination; provided further, that the 60-day limitation set forth in this Section 5.4(b) shall not apply and such period shall be extended as necessary (i) if within 30 days after receipt by the Company of Indemnitee's request for indemnification under Section 5.1 Indemnitee and the Company have agreed, and the Board has resolved, to submit such determination to the stockholders of the Company pursuant to Section 5.2(b) for their consideration at an annual meeting of stockholders to be held within 90 days after such agreement and such determination is made thereat, or a special meeting of stockholders for the purpose of making such determination to be held within 60 days after such agreement and such determination is made thereat, or (ii) if the determination of entitlement to indemnification is to be made by Independent Counsel, in which case the applicable period shall be as set forth in clause (c) of Section 6.1.

(c) The termination of any Proceeding or of any Claim, issue or matter by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere or its equivalent, shall not by itself adversely affect the rights of Indemnitee to indemnification or create a presumption that Indemnitee did not act

in good faith or in a manner that he reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his conduct was unlawful. Indemnitee shall be deemed to have been found liable in respect of any Claim, issue or matter only after he shall have been so adjudged by the Court after exhaustion of all appeals therefrom.

## ARTICLE VI

## CERTAIN REMEDIES OF INDEMNITEE

Section 6.1 Indemnitee Entitled to Adjudication in an Appropriate Court. If (a) a determination is made pursuant to Article V that Indemnitee is not entitled to indemnification under this Agreement, (b) there has been any failure by the Company to make timely payment or advancement of any amounts due hereunder, or (c) the determination of entitlement to indemnification is to be made by Independent Counsel and such determination shall not have been made and delivered in a written opinion within 90 days after the latest of (i) such Independent Counsel's being appointed, (ii) the overruling by the Court of objections to such counsel's selection or (iii) expiration of all periods for the Company or Indemnitee to object to such counsel's selection, Indemnitee shall be entitled to commence an action seeking an adjudication in the Court of his entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnitee, at his option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the commercial arbitration rules of the American Arbitration Association. Indemnitee shall commence such action seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such action pursuant to this Section 6.1, or such right shall expire. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

Section 6.2 Adverse Determination Not to Affect any Judicial Proceeding. If a determination shall have been made pursuant to Article V that Indemnitee is not entitled to indemnification under this Agreement, any judicial proceeding or arbitration commenced pursuant to this Article VI shall be conducted in all respects as a de novo trial or arbitration on the merits, and Indemnitee shall not be prejudiced by reason of such initial adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Article VI, Indemnitee shall be presumed to be entitled to indemnification or advancement of Expenses, as the case may be, under this Agreement and the Company shall have the burden of proof in overcoming such presumption and to show by clear and convincing evidence that Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

Section 6.3 Company Bound by Determination Favorable to Indemnitee in any Judicial Proceeding or Arbitration. If a determination shall have been made or deemed to have been made pursuant to Article V that Indemnitee is entitled to indemnification, the Company shall be irrevocably bound by such determination in any judicial proceeding or arbitration commenced

pursuant to this Article VI and shall be precluded from asserting that such determination has not been made or that the procedure by which such determination was made is not valid, binding and enforceable, in each such case absent (a) a knowing misstatement by Indemnitee of a material fact, or a knowing omission of a material fact necessary to make a statement by Indemnitee not materially misleading, in connection with Indemnitee's request for indemnification or (b) a prohibition of such indemnification under applicable law.

Section 6.4 Company Bound by the Agreement. The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Article VI that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement.

Section 6.5 Indemnitee Entitled to Expenses of Judicial Proceeding. If Indemnitee seeks a judicial adjudication of or an award in arbitration to enforce his rights under, or to recover damages for breach of, this Agreement, Indemnitee shall be entitled to recover from the Company, and the Company shall indemnify Indemnitee against, any and all expenses (of the types described in the definition of Expenses in Article I) actually and reasonably incurred by him in such judicial adjudication or arbitration but only if Indemnitee prevails therein. If it shall be determined in such judicial adjudication or arbitration that Indemnitee is entitled to receive part but not all of the indemnification or advancement of expenses or other benefit sought, the expenses incurred by Indemnitee in connection with such judicial adjudication or arbitration shall be equitably allocated between the Company and Indemnitee. Notwithstanding the foregoing, if a Change in Control shall have occurred, Indemnitee shall be entitled to indemnification under this Section 6.5 regardless of whether Indemnitee ultimately prevails in such judicial adjudication or arbitration.

## ARTICLE VII

## MISCELLANEOUS

Section 7.1 Non-Exclusivity. The rights of Indemnitee to receive indemnification and advancement of Expenses under this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Certificate of Incorporation or Bylaws of the Company, any other agreement, vote of stockholders or a resolution of directors, or otherwise. No amendment or alteration of the Certificate of Incorporation or Bylaws of the Company or any provision thereof shall adversely affect Indemnitee's rights hereunder and such rights shall be in addition to any rights Indemnitee may have under the Company's Certificate of Incorporation, Bylaws and the DGCL or otherwise. To the extent that there is a change in the DGCL or other applicable law (whether by statute or judicial decision) that allows greater indemnification by agreement than would be afforded currently under the Company's Certificate of Incorporation or Bylaws and this Agreement, it is

the intent of the parties hereto that the Indemnitee shall enjoy by virtue of this Agreement the greater benefit so afforded by such change.

Section 7.2 Insurance and Subrogation.

(a) To the extent the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, agents or fiduciaries of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise that such person serves at the request of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee, agent or fiduciary under such policy or policies.

(b) In the event of any payment by the Company under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(c) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under the Company's Certificate of Incorporation or Bylaws or any insurance policy, contract, agreement or otherwise.

Section 7.3 Certain Settlement Provisions. The Company shall have no obligation to indemnify Indemnitee under this Agreement for amounts paid in settlement of a Proceeding or Claim without the Company's prior written consent. The Company shall not settle any Proceeding or Claim in any manner that would impose any fine or other obligation on Indemnitee without Indemnitee's prior written consent. Neither the Company nor Indemnitee shall unreasonably withhold their consent to any proposed settlement.

Section 7.4 Duration of Agreement. This Agreement shall continue for so long as Indemnitee serves as a director, nominee for director, officer, employee, agent or fiduciary of the Company or, at the request of the Company, as a director, nominee for director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, and thereafter shall survive until and terminate upon the latest to occur of (a) the expiration of 10 years after the latest date that Indemnitee shall have ceased to serve in any such capacity; (b) the final termination of all pending Proceedings in respect of which Indemnitee is granted rights of indemnification or advancement of Expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Article VI relating thereto; or (c) the expiration of all statutes of limitation applicable to possible Claims arising out of Indemnitee's Corporate Status.

Section 7.5 Notice by Each Party. Indemnitee shall promptly notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document or communication relating to any Proceeding or Claim for which Indemnitee may be entitled to indemnification or advancement of Expenses hereunder; provided, however, that any failure of Indemnitee to so notify the Company shall not adversely affect Indemnitee's rights under this Agreement except to the extent the Company shall have been materially prejudiced as a direct result of such failure. The Company shall notify promptly Indemnitee in writing, as to the pendency of any Proceeding or Claim that may involve a claim against the Indemnitee for which Indemnitee may be entitled to indemnification or advancement of Expenses hereunder.

Section 7.6 Certain Persons Not Entitled to Indemnification. Notwithstanding any other provision of this Agreement to the contrary, Indemnitee shall not be entitled to indemnification or advancement of Expenses hereunder with respect to any Proceeding or any Claim, issue or matter therein, brought or made by Indemnitee against the Company or any affiliate of the Company, except as specifically provided in Article V or Article VI.

Section 7.7 Indemnification for Negligence, Gross Negligence, etc. Without limiting the generality of any other provision hereunder, it is the express intent of this Agreement that Indemnitee be indemnified and Expenses be advanced regardless of Indemnitee's acts of negligence, gross negligence or intentional or willful misconduct to the extent that indemnification and advancement of Expenses is allowed pursuant to the terms of this Agreement and under applicable law.

Section 7.8 Enforcement. The Company agrees that its execution of this Agreement shall constitute a stipulation by which it shall be irrevocably bound in any court or arbitration in which a proceeding by Indemnitee for enforcement of his rights hereunder shall have been commenced, continued or appealed, that its obligations set forth in this Agreement are unique and special, and that failure of the Company to comply with the provisions of this Agreement will cause irreparable and irremediable injury to Indemnitee, for which a remedy at law will be inadequate. As a result, in addition to any other right or remedy he may have at law or in equity with respect to breach of this Agreement, Indemnitee shall be entitled to injunctive or mandatory relief directing specific performance by the Company of its obligations under this Agreement.

Section 7.9 Successors and Assigns. All of the terms and provisions of this Agreement shall be binding upon, shall inure to the benefit of and shall be enforceable by the parties hereto and their respective successors, assigns, heirs, executors, administrators, legal representatives. The Company shall require and cause any direct or indirect successor (whether by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, by written agreement in form and substance reasonably satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to

the same extent that the Company would be required to perform if no such succession had taken place.

Section 7.10 Amendment. This Agreement may not be modified or amended except by a written instrument executed by or on behalf of each of the parties hereto.

Section 7.11 Waivers. The observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) by the party entitled to enforce such term only by a writing signed by the party against which such waiver is to be asserted. Unless otherwise expressly provided herein, no delay on the part of any party hereto in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party hereto of any right, power or privilege hereunder operate as a waiver of any other right, power or privilege hereunder nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

Section 7.12 Entire Agreement. This Agreement and the documents expressly referred to herein constitute the entire agreement between the parties hereto with respect to the matters covered hereby, and any other prior or contemporaneous oral or written understandings or agreements with respect to the matters covered hereby are expressly superseded by this Agreement.

Section 7.13 Severability. If any provision of this Agreement (including any provision within a single section, paragraph or sentence) or the application of such provision to any person or circumstance, shall be judicially declared to be invalid, unenforceable or void, such decision will not have the effect of invalidating or voiding the remainder of this Agreement or affect the application of such provision to other persons or circumstances, it being the intent and agreement of the parties that this Agreement shall be deemed amended by modifying such provision to the extent necessary to render it valid, legal and enforceable while preserving its intent, or if such modification is not possible, by substituting therefor another provision that is valid, legal and enforceable and that achieves the same objective. Any such finding of invalidity or unenforceability shall not prevent the enforcement of such provision in any other jurisdiction to the maximum extent permitted by applicable law.

Section 7.14 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given upon (a) transmitter's confirmation of a receipt of a facsimile transmission, (b) confirmed delivery of a standard overnight courier or when delivered by hand or (c) the expiration of five business days after the date mailed by certified or registered mail (return receipt requested), postage prepaid, to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice):

If to the Company, to:

Lennox International Inc.
2100 Lake Park Blvd.
Richardson, Texas 75080
Attention: Carl E. Edwards, Jr., Secretary
Facsimile: (972) 497-5268

If to Indemnitee, to:

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---

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Facsimile:
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Section 7.15 Certain Construction Rules.

(a) The article and section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. As used in this Agreement, unless otherwise provided to the contrary, (i) all references to days shall be deemed references to calendar days and (ii) any reference to a "Section" or "Article" shall be deemed to refer to a section or article of this Agreement. The words "hereof," "herein" and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." Unless otherwise specifically provided for herein, the term "or" shall not be deemed to be exclusive. Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

(b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; references to "serving at the request of the Company" shall include any service as a director, nominee for director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, nominee, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

Section 7.16 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without giving effect to the conflicts of laws principles thereof.

Section 7.17 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument, notwithstanding that both parties are not signatories to the original or same counterpart.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered to be effective as of the date first above written.

LENNOX INTERNATIONAL INC.

By:
---
John W. Norris, Jr.
Chairman of the Board and
Chief Executive Officer

INDEMNITEE

---
Signature

Printed Name:

SCHEDULE A

List of Executive Officers and Directors
who entered into Indemnification Agreements
with Lennox International Inc., dated April 23, 1999

John W. Norris, Jr.
Linda G. Alvarado
David H. Anderson
Richard W. Booth
David V. Brown
James J. Byrne
Thomas B. Howard, Jr.
John E. Major
Donald E. Miller
Loraine B. Millman
Robert W. Norris
Lynn B. Storey
Richard L. Thompson
Terry D. Stinson
Thomas Booth
Harry J. Ashenhurst
Scott J. Boxer
Carl E. Edwards, Jr.
H.E. French
John J. Hubbuch
W. Lane Pennington
Robert E. Schjerven
Michael G. Schwartz
Clyde W. Wyant
Janet Cooper

EXHIBIT 10.16

_____, 1998

(Employee)
(Address)

Dear (Employee):

Lennox International Inc. ("Lennox") recognizes you as a key employee, important to its future profitability, growth and financial strength. Accordingly, Lennox proposes to enter into an agreement with you to establish certain terms of your employment, including a specified duration or term of employment, the basis for your compensation and assignments, certain post-employment covenants, mechanisms to resolve disputes and certain benefits and income to you in the event you leave the employ of Lennox under certain specified circumstances (the "Agreement"). We believe the Agreement benefits both you and Lennox by clarifying your employment relationship so that we all understand its terms. The Agreement provides you with greater certainty and security with various aspects of your employment relationship, as well as provides you with information to assist you with future financial planning. In that same regard, the Agreement assists Lennox in its own financial and business planning. The purpose of this letter is to describe the terms of your employment with Lennox after the effective date of this Agreement. The term "Employee" will be used to refer to you in this Agreement where appropriate. The controlling terms of this Agreement are set forth in the body of this letter Agreement as well as in the Exhibits to this Agreement which are incorporated by reference. The specific terms of the Exhibits are controlling should there be any confusion or conflict between them and this letter. With the signing by both parties of this Agreement, you and Lennox will have agreed to the following:

1. Nature of Employment. You and Lennox have agreed that your employment relationship with Lennox will no longer be "at will" and terminable by either party at any time. Instead, this employment relationship will be governed by the terms of this Agreement for as long as it remains in effect and even after its termination for any provisions which by their terms survive. The terms agreed upon by you and Lennox provide the consideration and inducement for each party to enter into this Agreement and are described more fully throughout the body of this Agreement and the attached Exhibits A through C.

2. Term of Agreement; Termination Date. This Agreement will commence on the date of signing this Agreement by both parties (the "Effective Date") and will be in effect until December 31 of that year and thereafter for a series of one-year terms.

3. Termination of Employment. Your employment with Lennox may be terminated for a number of reasons prior to the expiration of any term of this Agreement as described below. The rights of each party under each circumstance will vary and are described in the attached Exhibits. More specifically, if Lennox terminates your employment for any reason other than for "Cause", as defined in Section B.3 of Exhibit A, you will be entitled to receive, in addition to any other compensation or benefits described in Section B.2 of Exhibit A, severance benefits consisting of either the Normal Severance Payment defined in Section 2 of Exhibit C or the Enhanced Severance Payment defined in Section 3 of Exhibit C as determined by those provisions. However, the provisions of Sections C.2(a)-(d) of Exhibit A will continue to be effective after the termination of this Agreement regardless of the reason for your termination.

a. Termination by Employee. You may terminate your employment at any time upon 30 days notice to Lennox (or a lesser period if approved by Lennox) of your intent to terminate or not to renew this Agreement and, in that event, Lennox shall be obligated only to pay you your Base Salary and other applicable benefits provided to employees in your position that are effective at the time of the voluntary resignation up to the effective date of the termination only.

b. Termination For Cause. Lennox may terminate your employment, at any time, for Cause, as defined in Section B.3 of Exhibit A, to be effective immediately upon delivery to you of notice of termination. If Lennox terminates you for Cause, you are only entitled to receive your Base Salary and other applicable benefits provided to employees in your position that are effective at the time of termination up through the effective date of termination.

c. Termination Other Than For Cause. Your employment may also be terminated by Lennox other than for Cause at any time (including Lennox' non-renewal of the Agreement) but such a decision triggers certain defined benefits for you. In the event Lennox elects to terminate you under this provision, Lennox agrees to pay either the Normal Severance Payment as defined in Section 2 of Exhibit C or the Enhanced Severance Payment as defined in Section 3 of Exhibit C, provided you comply with all requirements described in Section 3 of Exhibit C. These benefits are contractually defined by this Agreement and are not dependent on the other benefits policies of Lennox at the time of your termination.

d. Termination As A Result Of Disability Or Death. Should you die or become permanently disabled (completely unable to perform your duties as defined in the

benefit plans of Lennox) during the term of this Agreement, your employment will be terminated effective as of the date of your death or permanent disability.

e. Withholdings From Payment/Offset. Any payments made by Lennox to you under Section 3 will be subject to all applicable local, state, federal or foreign taxes, including, without limitation, income tax, withholding tax, and social security tax. Further, to the extent you have, on the date of termination, any outstanding debts or financial obligations to Lennox, including, but not limited to, loans, overpayment of wages, bonuses or other forms of incentive payments, unauthorized travel or purchasing expenses, or theft of Lennox' funds or property, you agree that Lennox shall be entitled to set off against and withhold from such payments due you for such debts or obligations.

4. Nonpayment Upon Breach. Notwithstanding anything in this Agreement to the contrary, at any time after the date of termination, if you, by any intentional or grossly negligent action or omission to act, breach any covenant, agreement, condition or obligation contained herein, Lennox is entitled to cease making any payments and to cease providing any of the benefits to you under this Agreement. Additionally, Lennox reserves the right to seek repayment of any amounts previously paid hereunder along with recovery of any other damages caused by you.

5. Resolution of Disputes. In the event that any employment dispute as defined in Section A of Exhibit B arises between Lennox and any Employee, the parties involved will make all efforts to resolve any such dispute through informal means. If these informal attempts at resolution fail, Lennox and the Employee agree to and shall submit the dispute to final and binding arbitration pursuant to the policy and terms outlined in Exhibit B, to which the parties expressly agree to be bound. The parties fully and completely understand and agree that arbitration is the exclusive forum for all such arbitrable disputes and that the parties are giving up all rights to a court trial or jury trial; however, the parties, by agreeing to the policy for resolution of disputes outlined in Exhibit B are not waiving any substantive rights or remedies to which they would otherwise be entitled.

6. Waiver, Modification, and Integration. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by any party. This Agreement, which includes all Exhibits referenced or attached, expresses the entire agreement of the parties concerning matters contained herein and supersedes all prior and contemporaneous representations, understandings and agreement, either oral or in writing, between the parties hereto with respect to such matters and all such prior or contemporaneous representations, understandings and agreements, both oral and written, are hereby terminated. This Agreement may not be modified, altered or amended except by written agreement of the Employee and the Chief Executive Officer, except when the Chief Executive Officer is involved, and in that event, an official designated by the Board of Directors for Lennox.

7. Binding Effect. This Agreement shall be binding and effective upon Lennox and its successors and permitted assigns, and upon the Employee, Employee's heirs and representatives. The Employee hereby represents and warrants to Lennox that Employee has not previously assumed any obligations inconsistent with those contained in this Agreement, including, but not limited to, covenants not to compete with another person, firm, corporation or other entity.

8. Governing Law, Venue and Personal Jurisdiction. It is the intention of the parties that the laws of the State of Texas should govern the validity of this Agreement, the construction of its terms, and the interpretation of the rights and duties of the parties hereto. The parties agree that venue for all disputes shall be in Dallas County, Texas. The parties further agree to submit to personal jurisdiction in Dallas County, Texas.

Sincerely,

LENNOX INTERNATIONAL INC.

By:
---
John W. Norris, Jr.

ACCEPTED AND AGREED this _____ day of _____, 1998.

EMPLOYEE

- ---
Signature

- ---
Printed Name

EXHIBIT A

TERMS OF EMPLOYMENT

The following are the specific agreements of Lennox and the Employee providing the details and basis for this Agreement and are intended by each as its consideration to induce the other party to enter into this Agreement. Each party agrees that the consideration provided by the other is adequate for its agreements to the following terms:

A. Renewal. On January 1 of each year (the "Anniversary Date") after the end of the first term and for each year thereafter, this Agreement will be automatically renewed for an additional year, unless either party notifies the other, in writing, at least 30 days prior to the Anniversary Date, that it does not wish to renew the Agreement. No reason need be given by either party for the non-renewal of the Agreement. If Lennox elects not to renew, however, Employee is nevertheless entitled to the benefits provided in this Agreement, subject to all of its provisions. If Employee elects not to renew, Employee will receive only those benefits provided upon voluntary termination as described in Section 3(a) of the letter agreement.

B. Agreements by Lennox.

1. Employee Duties. Lennox will assign to the Employee such duties and responsibilities that would appropriately be performed by an employee holding Employee's position and/or job title on a permanent basis as it deems consistent with the Employee's qualifications and experience provided, however, that Lennox can assign other duties on a temporary basis. Lennox retains the right to change such duties and to change the location of the Employee's assignment as and when it deems appropriate.

2. Employee Compensation. Employee shall receive an annual salary of that amount in effect at the initial effective or subsequent renewal dates of this Agreement (as may be, from time to time, adjusted in accordance with Lennox' applicable salary policies which may be changed by Lennox in its sole discretion), payable in accordance with the then applicable payroll policies and subject to all required and authorized withholdings and deductions ("Base Salary"). The Base Salary will be set in accordance with Lennox' policy regarding salaries and will not be reduced during the annual term of the Agreement unless Employee's job duties are changed, in which circumstance Lennox reserves the right to lessen Employee's compensation by no more than ten percent for the remainder of the year without such change amounting to a breach or termination of this Agreement. Employee is also entitled to such short term bonuses, stock options, long-term incentive program payments and fringe benefits as are applicable to employees in your position pursuant to Lennox'

then applicable policies and plans. Benefits may be subject to periodic review and may be changed by Lennox in its sole discretion.

3. Termination for Cause Defined. Lennox may terminate Employee's employment, at any time, for Cause as set forth in Section 3(b) of the body of the Letter Agreement. "Cause" is defined as (a) any violation by an Employee of Lennox' written policies as they may exist or be created or modified from time to time in the future, including, as examples and not as a limitation of the policies to which an Employee may be subject, those policies prohibiting discrimination in the workplace, including the prohibition of harassment, on the ground of race, sex, religion, age or any other prohibited basis; (b) any state or federal criminal conviction, including, but not limited to, entry of a plea of nolo contendere or deferred adjudication upon a felony or misdemeanor charge; (c) the commission by Employee of any material act of misconduct or dishonesty; (d) any intentional or grossly negligent action or omission to act which breaches any covenant, agreement, condition or obligation contained in this Agreement; or (e) acts that in any way have a direct, substantial and adverse effect on Lennox' reputation.

Lennox' termination for Cause determination is subject to the Employee's rights to a resolution of a dispute of that determination as provided in Exhibit B of this Agreement.

4. Payments Upon Disability or Death. In the event Employee dies or becomes permanently disabled during the term of the Agreement, Employee or Employee's designated beneficiaries will be entitled to the payments described in Section 3(c) of the Agreement, together with any other benefits provided to employees in an equivalent position in effect at that time. Should Employee die during the severance period, all payments of severance amounts shall cease upon the later of Employee's death or the expiration of the twenty-fourth month after the date of Employee's termination in the event the employee has agreed to the terms of the enhanced severance benefit. Any payments after Employee's death that may be due hereunder will be paid to Employee's beneficiary named in connection with Exhibit D of this Agreement, or if no such designation has been made by Employee, then to Employee's executors, administrators, heirs, personal representatives, successors, or assigns, as the case may be.

C. Agreements by Employee.

1. Effort and Cooperation. Employee agrees to devote his or her full efforts and time to the performance of this Agreement and shall not, without the prior written consent of the Chief Executive Officer, or in the event the Chief Executive Officer is involved, a designee assigned by the Board of Directors, engage in any other employment, business or other activity that would materially interfere with the

performance of his or her duties under this Agreement. Employee further agrees that following his or her termination from employment, Employee will provide reasonable cooperation with and assistance to Lennox in all respects, including, but not limited to, the transition of his or her duties and responsibilities, cooperation on any project for a reasonable period not to exceed six months, or litigation involving Lennox. Lennox will reimburse the Employee any reasonable expenses incurred.

2. Protective Covenants. Employee recognizes that Employee's employment by Lennox is one of the highest trust and confidence. In return for the Employee's agreement to the protective covenants herein, Lennox agrees that the (i) Employee will become fully familiar with many aspects of Lennox' business, including future changes customarily related to the performance of the duties of Employees's position during the term of the Agreement, (ii) Employee will be given access to proprietary confidential information of Lennox or its customers and other information which is of special and peculiar commercial or competitive value to Lennox or its customers for use in connection with Lennox' business, which proprietary confidential information is for the sole and exclusive benefit of Lennox, (iii) Employee will be given all specialized training necessary to perform his or her assigned duties, and (iv) Employee will be provided with Lennox' goodwill in dealing with customers, vendors and potential business contacts.

Employee acknowledges and agrees that if any such proprietary and confidential information of either Lennox or its customers were to become known by any persons outside of Lennox with a need to have such information, hardship, loss or irreparable injury and damage could result to Lennox or its customers which would be difficult if not impossible to measure. Therefore, Employee agrees that (i) it is necessary for Lennox to protect its business and that of its customers from such damage, (ii) that the information is of a confidential nature, (iii) that the following covenants constitute a reasonable and appropriate means, consistent with the best interests of both Employee and Lennox, to protect Lennox and its customers against such damage and to protect the value of their confidential proprietary information, (iv) that the following covenants are agreed to as a term and condition of Employee's continued employment with Lennox and are supported by adequate consideration from Lennox, and (v) shall apply to and be binding upon Employee as provided herein:

a. Trade Secrets, Proprietary and Confidential Information. Employee will have access to, and contact with certain trade secrets and confidential and proprietary information of Lennox, including, without limitation, unique skills, concepts, sales presentations, marketing programs, marketing strategy, business practices, methods of operation, systems, sales methods, proposals, customer lists, customer leads, documents identifying past, present and future customers, hiring and training methods, financial and other customer data,

lists of agents, and other confidential information ("Trade Secrets"). Employee agrees to protect and safeguard the Trade Secrets, business practices, and confidential and proprietary information of Lennox. Employee further agrees and covenants that, except as may be required by Lennox in connection with this Agreement, or with the prior written consent of Lennox, Employee shall not, either during his or her employment with Lennox or thereafter, directly or indirectly, use for Employee's own benefit or for the benefit of another, disclose, disseminate, or distribute to another, any Trade Secret, business practice, or confidential or proprietary information (whether or not acquired, learned, obtained, or developed by Employee alone or in conjunction with others) of Lennox or of others with whom Lennox has a business relationship. Such Trade Secrets, business practices, and confidential and proprietary information include, but are not limited to, Lennox' patents, trademarks, licenses and technical information concerning its operations, data bases, Lennox' sales information and marketing strategy, the identities of Lennox' customers, contractors, suppliers, and others with whom Lennox has a business relationship, Lennox arrangements with such parties, Lennox' customer list and Lennox' pricing policies and strategy. All memoranda, notes, records, drawings, documents, or other writings whatsoever made, compiled, acquired, or received by Employee during the term of Employee's employment with Lennox, arising out of, in connection with, or related to any activity or business of Lennox, including, but not limited to, Lennox' customers, contractors, suppliers, or others with whom Lennox has a business relationship, Lennox' arrangements with such parties, and Lennox' pricing policies and strategy, are, and shall continue to be, the sole and exclusive property of Lennox, and shall, together with all copies thereof and all advertising literature, be returned and delivered to Lennox by Employee immediately, without demand, upon the termination of the Employee's employment with Lennox or shall be returned at any time upon Lennox demand.

b. Restrictions on Diverting Employees of Lennox. Employee agrees that during employment with Lennox, and for a period of 24 complete calendar months following the termination of employment, Employee will not, either directly or indirectly, call on, solicit, induce or attempt to induce any of the employees or officers of Lennox that Employee had knowledge of or association with during Employee's employment with Lennox to terminate their association with Lennox either personally or through the efforts of his or her subordinates.

c. Restrictions on Diverting Vendors or Contractors. Employee agrees that during his or her employment with Lennox, and for a period of 24 complete calendar months following his or her termination of employment, Employee

will not, either directly or indirectly, call on, solicit, or induce any of Lennox' vendors or suppliers that Employee had contact with, direct knowledge of through his or her position with Lennox, or associated with in the course of employment with Lennox to terminate their association with Lennox either personally or through the efforts of his or her subordinates.

d. Restrictions on Soliciting Customers. For a period of 24 calendar months following the termination of employment, Employee will not directly or indirectly call on, service, or solicit competing business or provide consulting services regarding the same from customers of Lennox that Employee had (i) direct contact with or (ii) access to information and files about as part of Employee's duties with Lennox within the previous 24 months. This restriction is limited, by geography, to the specific places, addresses, or locations where a covered customer is present and available for solicitation or servicing.

A competing business is defined as a business that is the same or so substantially similar in nature to Lennox so as to have the possibility to affect or usurp Lennox' business opportunities.

e. Remedies. In the event of breach or threatened breach by Employee of any provision of Paragraph C.2 hereof, Lennox shall be entitled to (i) cease any payments under this Agreement as set forth in Section 4 of the body of the Agreement, (ii) relief by temporary restraining order, temporary injunction, and/or permanent injunction, (iii) recovery of all attorneys fees and costs incurred by Lennox in obtaining such relief, and (iv) any other legal and equitable relief to which it may be entitled, including any and all monetary damages. Lennox has the right to pursue partial enforcement and/or to seek declaratory relief regarding the enforceable scope of this Agreement without penalty and without waiving Lennox' right to pursue any other available remedy.

f. Survival of Covenants. Each covenant of Employee set forth in Paragraph C.2 shall survive the termination of Employee's employment. The existence of any claim or cause of action by Employee against Lennox, whether related to this Agreement or otherwise, shall not constitute a defense to the enforcement of the covenants in Paragraph C.2. In the event an enforcement remedy is necessary under Paragraph C.2, the restricted time periods provided for in Paragraph C.2 shall commence on the date enforcement is ordered and complied with by Employee and shall be extended by the period of noncompliance.

g. Acknowledgment of Ancillary Agreements and Consideration. Employee acknowledges that his or her agreement to be bound by the protective covenants set forth in Paragraph C.2 is the inducement for Lennox (i) to enter into the other terms of this Agreement (ii) to modify existing employment agreements or other contracts, if any, affected by this Agreement, (iii) to initiate or continue the employment of Employee pursuant to the terms of this Agreement, (iv) to provide Employee with initial or continued use or access to confidential proprietary information of Lennox, and (v) to provide the Employee with unique and specialized training regarding Lennox' Trade Secrets, business practices and marketing strategy, to provide use of goodwill as a representative of Lennox and to ensure business expertise in developing relations with third parties. Employee agrees that each agreement set forth in this Agreement is otherwise enforceable and independently sufficient to support all the protective covenants in Paragraph C.2.

D. Severability. If any provision contained in this Agreement is determined to be void, illegal or unenforceable, in whole or in part, then it will be treated as though it never was contained herein and all other provisions shall remain in full force and effect.

E. Notices. All communications required or allowed under this Agreement shall be in writing and shall be deemed to have been delivered on the date personally delivered or on the date deposited in the United States Postal Service, postage prepaid, by certified mail, return receipt requested, addressed to you at the address provided above and to Lennox at:

Lennox International Inc.
2100 Lake Park Blvd.
Richardson, Texas 75080-2254
Attn: General Counsel

EXHIBIT B

POLICY FOR RESOLUTION OF DISPUTES

A. Agreement to Arbitrate.

1. Arbitrable Disputes. This Policy covers any legal dispute between the parties, as set forth below, except for Lennox's right to seek enforcement of Employee's protective covenants set forth in Paragraph C.2 of Exhibit A or Employee's claims related to workers compensation and/or unemployment insurance. The disputes subject to this policy are all those disputes between the parties arising from any breach or alleged breach of this Agreement or as to Employee's termination or as to any allegation by the Employee that Lennox has violated any of the Employee's rights under state or federal employment or civil rights laws, or any other laws, statutes or constitutional provisions, including, but not limited to, the following: unlawful discrimination or harassment; claims based on any purported breach of contractual obligations; claims based on any purported breach of duty arising in tort, including violations of public policy; as well as any actions recognized under common law or the combination of any of these claims; and any claims against supervisors or agents of Lennox for which the supervisors or agents were acting in the course and scope of their employment or making any decisions or comments related to or connected with employment, even if the supervisor or agent was not acting within the course and scope of employment, shall be resolved in accordance with the provisions of this Policy for Resolution of Disputes as set forth herein. All arbitrable disputes are subject to applicable statutes of limitations and other affirmative defenses recognized by law. Employee or Lennox may seek a court order to enforce or compel arbitration pursuant to the terms of this Policy.

2. Acceptance of Policy. By accepting or continuing employment with Lennox, for the provision of a term of employment provided by Lennox, for Lennox' agreement to pay a severance package, and for Lennox' agreement to provide Employee access to confidential information, Employee and Lennox agree that arbitration is the exclusive remedy for all arbitrable disputes.

3. Governing Law/Waiver of Rights. THIS POLICY AND AGREEMENT TO ARBITRATE IS MADE PURSUANT TO THE FEDERAL ARBITRATION ACT AND APPLICABLE STATE LAWS REGARDING ARBITRATION AND IS A FULL AND COMPLETE WAIVER OF THE PARTIES' RIGHTS TO A CIVIL COURT ACTION AND RIGHTS TO A TRIAL BY JURY.

B. Request for Arbitration.

1. Attempt at Informal Resolution of Disputes.

a. Prior to submission of any dispute to arbitration, Lennox and the Employee shall attempt to resolve the dispute informally as set forth below.

b. Lennox and the Employee will select a mutually acceptable mediator from a list provided by an American Arbitration Association Employment Dispute Division or other similar agency who will assist the parties in attempting to reach a settlement of the dispute. The mediator may make settlement suggestions to the parties but shall not have the power to impose a settlement upon them. If the dispute is resolved in mediation, the matter shall be deemed closed. If the dispute is not resolved in mediation and goes to the next step (binding arbitration), any proposals or compromises suggested by either of the parties or the mediator shall not be referred to or have any bearing on the arbitration procedure. The mediator cannot also serve as the arbitrator in the subsequent proceeding unless all parties expressly agree in writing.

2. Arbitration Procedures. The Employee or his/her representative must submit a "Request for Arbitration" in writing to the Chief Executive Officer of Lennox within the greater of 300 days or the applicable statute of limitation that would apply if the claim had been brought in court of (i) the termination of employment (including resignation), (ii) the incident giving rise to the dispute or claim, or (iii) in the case of unlawful discrimination, including sexual or other unlawful harassment, the alleged conduct. This time limitation will not be extended for any reason and shall not be subject to tolling, equitable or otherwise. If the "Request for Arbitration" is not submitted in accordance with the aforementioned time limitations, the Employee will not be able to bring his/her claim to this or any other forum. The Employee can obtain a "Request for Arbitration" form from the Human Resource Department of Lennox International Inc. or other party designated by the Chief Executive Officer. Alternatively, the Employee can create his/her own "Request for Arbitration" form, as long as it clearly states "Request for Arbitration" at the beginning of the first page. The "Request for Arbitration" must include the following information:

a. A factual description of the dispute in sufficient detail to advise Lennox of the nature of the dispute;

b. The date when the dispute first arose;

c. The names, work locations, telephone numbers of any co-workers or supervisors with knowledge of the dispute; and

d. The relief requested by the Employee.

Lennox will respond in a timely manner to this "Request for Arbitration," so that the parties can begin the process of selecting an arbitrator. Such response may include any counterclaims that Lennox chooses to bring against the Employee.

3. Selection of the Arbitrator. All disputes will be resolved by a single arbitrator. The arbitrator will be mutually selected by Lennox and the Employee. If the parties cannot agree on an arbitrator, then a list of seven arbitrators, experienced in employment matters, shall be provided by the American Arbitration Association. The arbitrator will be selected by the parties who will alternately strike names from the list. The last name remaining on the list will be the arbitrator selected to resolve the dispute. Upon selection, the arbitrator shall set an appropriate time, date, and place for the arbitration, after conferring with the parties to the dispute.

4. Arbitrator's Authority. The arbitrator shall have the powers enumerated below:

a. Ruling on motions regarding discovery, and ruling on procedural and evidentiary issues arising during the arbitration;

b. Issuing protective orders on the motion of any party or third party witness (such protective orders may include, but not be limited to, sealing the record of the arbitration, in whole or in part (including discovery proceedings and motions, transcripts, and the decision and award), to protect the privacy or other constitutional or statutory rights of parties and/or witnesses);

c. Determining only the issue(s) submitted to him/her (the issue(s) must be identified in the "Request for Arbitration" or counterclaims, and any issue(s) not so identified in those documents shall be deemed to be and is/are outside the scope of the arbitrator's jurisdiction, and any award involving those issue(s) shall be subject to a motion to vacate);

d. Shall have no authority to violate state or federal law; and

e. Issuing written opinions on the issues raised in the Arbitration.

5. Pleadings.

a. A copy of the "Request for Arbitration" shall be forwarded to the arbitrator within five calendar days of his/her selection.

b. Within 10 calendar days following submission of the "Request for Arbitration" to the arbitrator, Lennox shall respond in writing to the "Request

for Arbitration" to the arbitrator, Lennox shall respond in writing to the "Request for Arbitration" by answer and/or demurrer. The answer or demurrer shall be served on the arbitrator and the Employee.

c. The answer to the "Request for Arbitration" shall include the following information:

(1) a response, by admission or denial, to each claim set forth in the "Request for Arbitration";

(2) all affirmative defenses asserted by Lennox to each claim; and

(3) all counterclaims Lennox asserts against the Employee and any related third party claims.

d. If Lennox contends that some or all of the Employee's claims set forth in the "Request for Arbitration" are barred as a matter of law, it may respond by demurrer setting forth the legal authorities in support of its position. If Lennox demurs to less than the entire "Request for Arbitration," Lennox must answer those claims to which it does not demur at the same time that it submits its demurrer.

e. The Employee shall have 20 calendar days to oppose Lennox' demurrer. Any opposition must be in writing and served on the arbitrator and Lennox.

f. If the answer alleges a counterclaim, within 20 days of service of the answer, the Employee shall answer and/or demur to the counterclaim in writing and serve the answer and/or demurrer on the arbitrator and Lennox. If the Employee demurs to any counterclaim, Lennox shall have 20 calendar days from its receipt of the demurrer to submit a written opposition to the demurrer to the Employee and the arbitrator.

g. The arbitrator shall rule on demurrer(s) to any claims and/or counterclaims within 15 calendar days of service of the moving and opposition papers.

h. If any demurrer is overruled, the moving party must answer those claims to which it demurred within five calendar days of the receipt of the arbitrator's ruling. The answer must be served on the arbitrator and the opposing party.

i. When all claims and counterclaims have been answered, the arbitrator shall set a time and place for hearing which shall be no earlier than three months from the day on which the parties are notified of the date of hearing and no

later than 12 months from the date on which the arbitrator sets the date for the hearing.

6. Discovery. The discovery process shall proceed and be governed as follows:

a. Parties may obtain discovery by any of the following methods:

(1) depositions upon oral examination, one per side as of right, with more permitted if leave is obtained from the arbitrator;

(2) written interrogatories, up to a maximum combined total of 20, with the responding party having 20 days to respond;

(3) request for production of documents or things or permission to enter upon land or other property for inspection, with the responding party having 20 days to produce the documents and allow entry or to file objections to the request; and

(4) physical and mental examination, in accordance with the Federal Rules of Civil Procedure, Rule 35(a).

b. Any motion to compel production, answers to interrogatories or entry onto land or property must be made to the arbitrator within 15 days of receipt of objections.

c. All discovery requests shall be submitted no less than 60 days before the hearing date.

d. The scope of discoverable evidence shall be in accordance with Federal Rule of Civil Procedure 26(b)(1).

e. The arbitrator shall have the power to enforce the aforementioned discovery rights and obligations by the imposition of the same terms, conditions, consequences, liabilities, sanctions, and penalties as can or may be imposed in like circumstances in a civil action by a federal court under the Federal Rules of Civil Procedure, except the power to order the arrest or imprisonment of a person.

7. Hearing Procedure. The hearing shall proceed according to the American Arbitration Association's Rules with the following amendments:

a. The arbitrator shall rule at the outset of the arbitration on procedural issues that bear on whether the arbitration is allowed to proceed.

b. Each party has the burden of proving each element of its claim or counterclaims, and each party has the burden of proving any of its affirmative defenses.

c. In addition to, or in lieu of, closing arguments, either party shall have the right to present post-hearing briefs, and the due date for exchanging post- hearing briefs shall be mutually agreed on by the parties and the arbitrator.

8. Substantive Law. The applicable substantive law shall be the law of the State of Texas or federal law. If both federal and state law speak to a cause of action, the Employee shall have the right to elect his/her choice of law. However, choice of law in no way affects the procedural aspects of the arbitration, which are exclusively governed by the provisions of this Policy.

9. Opinion and Award. The arbitrator shall issue a written opinion and award, in conformance with the following requirements:

a. The opinion and award must be signed and dated by the arbitrator.

b. The arbitrator's opinion and award shall decide all issues submitted.

c. The arbitrator's opinion and award shall set forth the legal principles supporting each part of the opinion.

d. The arbitrator shall have the same authority to award remedies and damages as provided to a judge and/or jury under parallel circumstances.

10. Enforcement of Arbitrator's Award. Following the issuance of the arbitrator's decision, any party may petition a court to confirm, enforce, correct or vacate the arbitrator's opinion and award under the Federal Arbitration Act, and/or applicable state law.

11. Fees and Costs. Fees and costs shall be allocated in the following manner:

a. Each party shall be responsible for its own attorneys' fees, except as provided by law.

b. The Employee will pay a $150 filing fee to be paid to the arbitration agency. Lennox will bear the remainder of the arbitrator's fees and any costs associated with the facilities for the arbitration.

c. Lennox and the Employee shall each bear an equal one-half of any court reporters' fees, assuming both parties want a transcript of the proceeding. If

one party elects not to receive a transcript of the proceedings, the other party will bear all of the court reporters' fee. However, such an election must be made when the arrangements for the court reporter are being made.

d. Each party shall be responsible for its costs associated with discovery.

C. Severability. In the event that any provision of this Policy is determined by a court of competent jurisdiction to be illegal, invalid, or unenforceable to any extent, such term or provision shall be enforced to the extent permissible under the law and all remaining terms and provisions of this Policy shall continue in full force and effect.

EXHIBIT C

SEVERANCE TERMS

1. Effect of Protective Covenants. The provisions of Paragraphs C2(a)-(d) of Exhibit A of this Agreement will continue in full force and effect regardless of whether Employee continues to be employed by Lennox and regardless of the reason Employee's employment is terminated and regardless of the severance compensation to which Employee is entitled as set forth below, if any.

2. Normal Severance Compensation. Should Employee be terminated by Lennox prior to the expiration of the term specified in Section 2 of the body of the Agreement or the Agreement is not renewed by Lennox for any reason other than for Cause as defined in Section B.3 of Exhibit A, and provided the Employee does not qualify for the Enhanced Severance Payment described in Section 3 of Exhibit C set forth below, Employee will be entitled to receive monthly payments of the greater of the Employee's Base Salary for the remainder of the Agreement's term or three months of Employee's Base Salary in addition to any other compensation or benefits applicable to an employee at Employee's level.

3. Enhanced Severance Benefits. If Lennox terminates an Employee other than for Cause (including Lennox' non-renewal of the Agreement) and that Employee accepts and meets the conditions of this Paragraph 3 of Exhibit C, Lennox agrees to pay an Enhanced Severance Payment and provide the other benefits described below ("Enhanced Severance Benefits"). The Employee must agree to execute a written General Release of any and all possible claims against Lennox existing at the time of termination in exchange for which Lennox agrees to the following severance provisions:

(i) Severance Payment. Lennox agrees to pay Employee's Base Salary for a period of 24 months following the date of termination. The severance payments will be paid in installments in accordance with the regular payroll policies of Lennox then in effect and each installment will be subject to regular payroll deductions and all applicable taxes.

(ii) Perquisites. Within 45 days following the date of termination, the Employee will receive in addition to (i) above, in a lump sum, a payment of $12,000 in lieu of the continuation of or payment for any perquisites, including, without limitation, automobile, club membership, tax preparation, physical examination or others being received by the Employee at the time of termination.

(iii) COBRA Continuation. Lennox agrees to pay COBRA premiums to allow Employee to continue to participate in Lennox group health plan on the same terms as other Lennox employees for up to 18 months while Employee is unemployed and not eligible for other group health insurance coverage. Should Employee remain unemployed at the end of 18 months, the equivalent of the COBRA premium will be paid to the employee on a month-to-month basis for up to six additional months for his or her use in obtaining health insurance coverage outside the group health plan.

(iv) Outplacement. Lennox agrees to provide Employee with outplacement services in accordance with Lennox' then applicable policy. In lieu of such outplacement services, Lennox agrees to pay Employee a lump sum payment of 10% of Employee's annual Base Salary within 45 days following the date of termination should Employee elect not to receive outplacement services.

(v) Death Benefit. Employee's beneficiary, as set forth in Exhibit D, will receive, in a lump sum, a death benefit equivalent to six months of Employee's Base Salary in the event that the Employee should die during the period in which the Employee is entitled to any severance payment described above.

Nothing herein shall be construed to limit Employee's right to receive any benefits and entitlements under Lennox' ERISA or other employee benefit plans, with all such benefits being received by the Employee only to the extent allowed by and subject to the terms of any such plan as it may from time to time exist or be modified. Further, this Agreement is not intended and the parties agree that it will not be interpreted as creating any obligation for Lennox to create or maintain any employee benefit, compensation, perquisite or other plan, policy or program for its employees and Lennox retains the sole discretion to eliminate or modify any existing plan, program or policy as it deems to be appropriate.

EXHIBIT D

DESIGNATION OF BENEFICIARY

The following represent the designation of Beneficiary for the Employee named below:

EMPLOYEE:
---

PRIMARY BENEFICIARY(S):

| | | |
|---|---|---|
| - ---------- | ---------- | ---------%* |
| Name | Relationship | Percent |
| - ---------- | ---------- | ---------%* |
| Name | Relationship | Percent |

*The total should add to 100%

CONTINGENT BENEFICIARY(S):

| | | |
|---|---|---|
| - ---------- | ---------- | ---------%* |
| Name | Relationship | Percent |
| - ---------- | ---------- | ---------%* |
| Name | Relationship | Percent |

*The total should add to 100%

This is to confirm the designation of my Beneficiary(s) to receive any benefits provided under this Agreement which are not otherwise covered by Employee benefit plans with other designations of beneficiary which I intend to supersede any designation made above.

EMPLOYEE

---
Signature

---

Printed Name

---
Date

SCHEDULE A

List of Executive Officers who entered into
Employment Agreements with Lennox International Inc.,
and respective dates of effectiveness

| | |
|---|---|
| John W. Norris, Jr. | February 6, 1998 |
| Harry J. Ashenhurst | March 23, 1998 |
| Carl E. Edwards, Jr. | February 9, 1998 |
| Horace E. French | February 24, 1998 |
| Robert E. Schjerven | June 2, 1998 |
| Michael G. Schwartz | August 6, 1998 |
| Clyde W. Wyant, Jr. | February 3, 1998 |
| Scott J. Boxer | July 1, 1998 |
| William Lane Pennington | June 26, 1998 |

EXHIBIT 10.17

CHANGE OF CONTROL

EMPLOYMENT AGREEMENT

April ___, 1999

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April ___, 1999

CHANGE OF CONTROL
EMPLOYMENT AGREEMENT

This AGREEMENT (the "Agreement") by and between Lennox International Inc., a Delaware corporation (the "Company"), and _____ (the "Executive"), dated as of the _____ day of _____, 1999, to be effective as of the Agreement Effective Date (as defined in Section 11(h) hereof).

The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to assure that, in the event of a Change of Control or Potential Change of Control (in each case as defined in Section 9 hereof), the Company will have the continued services of the Executive and the Executive will be provided with compensation and benefits arrangements that meet his expectations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement. It is understood that the Executive has an existing employment agreement (the "Existing Agreement") with the Company. This Agreement is intended to provide certain protections to Executive that are not afforded by the Existing Agreement. This Agreement is not, however, intended to provide benefits that are duplicative of the Executive's current benefits. To the extent that this Agreement provides benefits of the same types as those provided under the Existing Agreement, the Company shall provide the better of the benefits in each case during the Employment Period. If Executive remains employed by the Company at the conclusion of an Employment Period, the Existing Agreement shall continue in effect in accordance with its terms thereafter, except that Executive's Base Salary for purposes of the Existing Agreement shall be equal to the Executive's Annual Base Salary under this Agreement at the conclusion of the Employment Period.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Employment Period. Upon a Change of Control or Potential Change of Control, the Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, in accordance with, and subject to, the terms and provisions of this Agreement, for the period (the "Employment Period") commencing on the date upon which there occurs a Change of Control or a Potential Change of Control and ending on (i) if a Change of Control has occurred, the second anniversary of the Employment Effective Date or (ii) if a Potential Change of Control has occurred but a Change of Control has not occurred, the earliest of (x) the date upon which the Board determines in good faith that a Change of Control is unlikely to occur, (y) any anniversary of the Potential Change of Control, if at least 30 days prior to such anniversary the Executive notifies the Company in writing that he elects to terminate his employment with the Company as of such anniversary and (z) the second anniversary of the Employment Effective Date. If the Employment Period commences by reason of a

Potential Change of Control and the Employment Period is thereafter terminated pursuant to clause (ii) (x) of the preceding sentence, this Agreement shall nevertheless remain in effect and a new Employment Period shall commence upon a subsequent Change of Control or Potential Change of Control. The Company shall promptly notify the Executive in writing of the occurrence of a Change of Control or Potential Change of Control and of any determination made by the Board pursuant to clause (ii)(x) above that a Change of Control is unlikely to occur. As used herein, the term "Employment Effective Date" shall mean, with respect to any Employment Period, the date upon which such Employment Period commences in accordance with this Section 1.

2. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately preceding the Employment Effective Date, and (B) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Employment Effective Date or at another location within 35 miles thereof, unless, in accordance with the normal business practice of the Company, Executive is asked to move to another business location in connection with a promotion or other improvement in Executive's status with the Company or an affiliated Company.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Employment Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Employment Effective Date shall not thereafter be

deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive an annual base salary equal to the base salary in effect immediately prior to the Employment Effective Date ("Annual Base Salary"), which shall be paid in accordance with the normal business practice of the Company. During the Employment Period, the Annual Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be substantially consistent with increases in base salary generally awarded in the ordinary course of business to executives of the Company and its affiliated companies. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase and the term "Annual Base Salary" as utilized in this Agreement shall refer to Annual Base Salary as so increased. As used in this Agreement, the term "affiliated companies" shall include, when used with reference to the Company, any company controlled by, controlling or under common control with the Company.

(ii) Annual Bonus. In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year or portion thereof during the Employment Period, an annual bonus (the "Annual Bonus") in cash equal to the greater of (A) the greatest dollar amount of annual bonus paid or awarded to or for the benefit of the Executive in respect of any of the preceding three fiscal years or (B) an amount comparable to the annual bonus awarded to other Company executives taking into account Executive's position and responsibilities with the Company, prorated in the case of either (A) or (B) for any period consisting of less than twelve full months. The Annual Bonus awarded for a particular fiscal year shall (unless the Executive elects to defer receipt thereof) be paid no later than the last day of the third month after the end of such year.

(iii) Qualified Plans. During the Employment Period, the Executive shall be entitled to participate in all profit-sharing, savings and retirement plans that are tax-qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended ("Code"), and all plans that are supplemental to any such tax-qualified plans, in each case to the extent that such plans are applicable generally to other executives of the Company and its affiliated companies, but in no event shall such plans provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities that are, in each case, less favorable, in the aggregate, than the most

favorable plans of the Company and its affiliated companies. As used in this Agreement, the term "most favorable" shall, when used with reference to any plans, practices, policies or programs of the Company and its affiliated companies, be deemed to refer to the most favorable plans, practices, policies or programs of the Company and its affiliated companies as in effect at any time during the three months preceding the Employment Effective Date or, if more favorable to the Executive, provided generally at any time after the Employment Effective Date to other executives of the Company and its affiliated companies.

(iv) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, vision, disability, salary continuance, group life and supplemental group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable such plans, practices, policies and programs of the Company and its affiliated companies.

(v) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies.

(vi) Fringe Benefits and Perquisites. During the Employment Period, the Executive shall be entitled to fringe benefits and perquisites in accordance with the most favorable plans, practices, programs and policies of the Company and its affiliated companies applicable to similarly situated executives, which, in the aggregate, shall not be less than Executive's benefits and perquisites in effect prior to the commencement of the Employment Period.

(vii) Office and Support Staff. During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the three months preceding the Employment Effective Date.

(viii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies, but

not less than the amount of vacation time to which Executive was entitled prior to the commencement of the Employment Period.

(ix) Equity and Performance Based Awards. During the Employment Period, the Executive shall be granted on an annual basis a long-term incentive package consisting of stock options, restricted stock or restricted stock units and other equity-based awards and performance grants, as selected by the Company, with an aggregate value (as determined by an independent consulting firm selected by Executive and reasonably acceptable to the Company) that shall be not less than the aggregate value of the long-term incentive package awarded the Executive in any of the three years immediately preceding such Employment Period.

3. Termination of Employment.

(a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 11(d) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be withheld unreasonably).

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean (i) dishonesty by Executive which results in substantial personal enrichment at the expense of the Company or (ii) demonstratively willful repeated violations of Executive's obligations under this Agreement which are intended to result and do result in material injury to the Company.

(c) Good Reason. The Executive's employment may be terminated during the Employment Period by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any material respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 2 of this Agreement, other than any such assignment that would clearly constitute a promotion or other improvement in Executive's position, or any other action by the Company which results in a significant diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 2(a)(i)(B) hereof;

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement;

(v) any failure by the Company to comply with and satisfy the requirements of Section 10 of this Agreement, provided that (A) the successor described in Section 10(c) has received, at least ten days prior to the Date of Termination (as defined in subparagraph (e) below), written notice from the Company or the Executive of the requirements of such provision and (B) such failure to be in compliance and satisfy the requirements of Section 10 shall continue as of the Date of Termination; or

(vi) in the event that the Executive is serving as a member of the Board immediately prior to the Employment Effective Date, any failure to reelect Executive as a member of the Board, unless such reelection would be prohibited by the Company's By-laws as in effect at the beginning of the Employment Period.

(d) Notice of Termination. Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 11(d) of this Agreement. The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

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(e) Date of Termination. For purposes of this Agreement, the term "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

4. Obligations of the Company Upon Termination.

(a) Good Reason; Other than for Cause, Death or Disability. If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason:

(i) the Company shall pay or provide to or in respect of the Executive the following amounts and benefits:

A. in a lump sum in cash within 10 days after the Date of Termination, an amount equal to the sum of (1) the Executive's Annual Base Salary through the Date of Termination, (2) the product of (x) the highest Annual Bonus paid or awarded to or for the benefit of Executive during the three fiscal years preceding the Date of Termination and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination and the denominator of which is 365, (3) any deferred compensation previously awarded to or earned by the Executive (together with any accrued interest or earnings thereon) and (4) any compensation for unused vacation time for which the Executive is eligible in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2), (3) and (4) shall be hereinafter referred to as the "Accrued Obligation");

B. in a lump sum in cash, undiscounted, within 10 days after the Date of Termination, an amount equal to the sum of (1) three times the Annual Base Salary and (2) three times the Annual Bonus that would have been paid or awarded to or for the benefit of the Executive during the fiscal year that includes the Date of Termination;

C. an additional three Years of Vesting Service and Years of Credited Service, as well as an incremental three years added to

Executive's age, for purposes of the Company's Supplemental Retirement Plan and Profit Sharing Restoration Plan;

D. effective as of the Date of Termination, (x) immediate vesting and exercisability of, termination of any restrictions on sale or transfer (other than any such restriction arising by operation of law) with respect to and treatment of any performance goals as having been satisfied at the highest possible level with respect to each and every stock option, restricted stock award, restricted stock unit award and other equity- based award and performance award (each, a "Compensatory Award") that is outstanding as of a time immediately prior to the Date of Termination, (y) the extension of the term during which each and every Compensatory Award may be exercised by the Executive until the earlier of (1) the first anniversary of the Date of Termination or (2) the date upon which the right to exercise any Compensatory Award would have expired if the Executive had continued to be employed by the Company under the terms of this Agreement until the second anniversary of the Employment Effective Date and (z) at the sole election of Executive, in exchange for any or all Compensatory Awards that are either denominated in or payable in Common Stock, an amount in cash equal to the number of shares of Common Stock that are subject to the Compensatory Award multiplied by the excess of (i) the Highest Price Per Share (as defined below) over (ii) the exercise or purchase price, if any, of such Compensatory Awards. As used herein, the term "Highest Price Per Share" shall mean the highest price per share that can be determined to have been paid or agreed to be paid for any share of Common Stock by a Covered Person (as defined below) at any time during the Employment Period or the six-month period immediately preceding the Employment Effective Date. As used herein, the term "Covered Person" shall mean any Person other than an Exempt Person (in each case as defined in Section 9 hereof) who (i) is the Beneficial Owner (as defined in Section 9 hereof) of 35% or more of the outstanding shares of Common Stock or 35% or more of the combined voting power of the outstanding Voting Stock (as defined in Section 9 hereof) of the Company at any time during the Employment Period or the two-year period immediately prior to the Employment Effective Date, or (ii) is a Person who has any material involvement in proposing or effecting the Change of Control or Potential Change of Control (but excluding any Person whose involvement in proposing or effecting the Change of Control or Potential Change of Control resulted solely from such Person's voting or selling of Common Stock in connection with the Change of Control or Potential Change of Control, from such Person's status as a director or officer of the Company in evaluating and/or approving a Change of Control or Potential Change of Control or both). In determining the Highest Price Per Share, the

price paid or agreed to be paid by a Covered Person will be appropriately adjusted to take into account (W) distributions paid or payable in stock, (X) subdivisions of outstanding stock, (Y) combinations of shares of stock into a smaller number of shares and (Z) similar events.

(ii) for the three-year period commencing with the Date of Termination, and for the COBRA continuation period commencing thereafter, the Company shall continue medical and health benefits to the Executive and/or the Executive's family at least equal to those that would have been provided to them in accordance with the medical plans, programs, practices and policies described in Section 2(b)(iv) of this Agreement if the Executive's employment had not been terminated (such continuation of such benefits for the applicable period herein set forth shall be hereinafter referred to as "Welfare Benefit Continuation"). For purposes of determining eligibility of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until the third anniversary of Executive's Date of Termination and to have retired on such date; and

(iii) the Company shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided or which the Executive and/or the Executive's family is eligible to receive pursuant to this Agreement and under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies as in effect and applicable generally to other executives and their families on the Employment Effective Date (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(b) Death. If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate and the Company shall be obligated to pay to the Executive's legal representatives under this Agreement the greater of (i) such benefits as would be provided to Executive under the Existing Agreement or (ii)(A) the payment of the Accrued Obligations (which shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination), (B) the payment of an amount equal to the Annual Salary that would have been paid to the Executive pursuant to this Agreement for the period beginning on the Date of Termination and ending on the first anniversary thereof if the Executive's employment had not terminated by reason of death (which shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination), (C) the timely payment or provision of the Welfare Benefit Continuation and Other Benefits and (D) effective as of the Date of Termination, (x) immediate vesting and exercisability of, and termination of any restrictions on sale or transfer (other than any such restriction arising by operation of law) with respect to, each and every Compensatory Award outstanding as of a time immediately prior to the Date of Termination, (y) the

extension of the term during which each and every Compensatory Award may be exercised or purchased by the Executive until the earlier of (I) the first anniversary of the Date of Termination or (II) the date upon which the right to exercise or purchase any Compensatory Award would have expired if the Executive had continued to be employed by the Company under the terms of this Agreement until the second anniversary of the Employment Effective Date and (z) at the sole election of Executive's legal representative, in exchange for any Compensatory Award that is either denominated in or payable in Common Stock, an amount in cash equal to the excess of (I) the Highest Price Per Share over (II) the exercise or purchase price, if any, of such Compensatory Award.

(c) Disability. If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, this Agreement shall terminate and the Company shall be obligated to pay to the Executive, the greater of (i) such benefits as would be provided to Executive under the Existing Agreement or (ii)(A) the payment of the Accrued Obligations (which shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination), (B) the payment of an amount equal to the Annual Salary that would have been paid to the Executive pursuant to this Agreement for the period beginning on the Date of Termination and ending on the first anniversary thereof if the Executive's employment had not terminated by reason of Disability (which shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination), (C) the timely payment or provision of the Welfare Benefit Continuation and Other Benefits and (D) effective as of the Date of Termination, (x) immediate vesting and exercisability of, and termination of any restrictions on sale or transfer (other than any such restriction arising by operation of law) with respect to, each and every Compensatory Award outstanding as of a time immediately prior to the Date of Termination, (y) the extension of the term during which each and every Compensatory Award may be exercised or purchased by the Executive until the earlier of (I) the first anniversary of the Date of Termination or (II) the date upon which the right to exercise or purchase any Compensatory Award would have expired if the Executive had continued to be employed by the Company under the terms of this Agreement until the second anniversary of the Employment Effective Date and (z) at the sole election of Executive, in exchange for any Compensatory Award that is either denominated in or payable in Common Stock, an amount in cash equal to the excess of (I) the Highest Price Per Share over (II) the exercise or purchase price, if any, of such Compensatory Award.

(d) Cause; Other than for Good Reason. If the Executive's employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations under this Agreement to the Executive other than for Accrued Obligations. If the Executive terminates employment during the Employment Period other than for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for the payment of Accrued Obligations. In such case, all Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

5. Non-exclusivity of Rights. Except as provided in Section 4 of this Agreement, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as such plan, policy, practice or program is superseded by this Agreement.

6. Full Settlement; Resolution of Disputes.

(a) The Company's obligation to make payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense, mitigation or other claim, right or action which the Company may have against the Executive or others. The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (in which the Executive is successful, in whole or in part, on the merits) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement (other than Section 8 hereof) or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any such payment pursuant to this Agreement), plus in each case interest on any delayed payment at the Applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

(b) If there shall be any dispute between the Company and the Executive concerning (i) in the event of any termination of the Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by the Executive, whether Good Reason existed, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or that Good Reason did not exist, the Company shall pay all amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to Section 4(a) hereof as though such termination were by the Company without Cause or by the Executive with Good Reason; provided, however, that the Company shall not be required to pay any disputed amounts pursuant to this paragraph except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled.

7. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 7) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 7(c), all determinations required to be made under this Section 7, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Arthur Andersen LLP (the "Accounting Firm"); provided, however, that the Accounting Firm shall not determine that no Excise Tax is payable by the Executive unless it delivers to the Executive a written opinion (the "Accounting Opinion") that failure to report the Excise Tax on the Executive's applicable Federal income tax return would not result in the imposition of a negligence or similar penalty. In the event that Arthur Andersen LLP has served, at any time during the two years immediately preceding a Change of Control Date, as accountant or auditor for the individual, entity or group that is involved in effecting or has any material interest in the Change of Control, the Executive, at his option, shall appoint another nationally recognized accounting firm to make the determinations and perform the other functions specified in this Section 7 (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company, the Accounting Firm shall make all determinations required under this Section 7, shall provide to the Company and the Executive a written report setting forth such determinations, together with detailed supporting calculations, and, if the Accounting Firm determines that no Excise Tax is payable, shall deliver the Accounting Opinion to the Executive. Any Gross-Up Payment, as determined pursuant to this Section 7, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Subject to the remainder of this Section 7, any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the

Accounting Firm hereunder, it is possible that a Gross-Up Payment that will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that it is ultimately determined in accordance with the procedures set forth in Section 7(c) that the Executive is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claims by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but not later than 30 days after the Executive actually receives notice in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid; provided, however, that the failure of the Executive to notify the Company of such claim (or to provide any required information with respect thereto) shall not affect any rights granted to the Executive under this Section 7 except to the extent that the Company is materially prejudiced in the defense of such claim as a direct result of such failure. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company and reasonably acceptable to the Executive;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) if the Company elects not to assume and control the defense of such claim, permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the

foregoing provisions of this Section 7(c), the Company shall have the right, at its sole option, to assume the defense of and control all proceedings in connection with such contest, in which case it may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's right to assume the defense of and control the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 7(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

8. Confidential Information; Certain Prohibited Activities.

(a) The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After the Executive's Date of Termination, the Executive shall not, without the prior written

consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. Except as provided in subsection (c) below, in no event shall an asserted violation of the provisions of this Section 8 constitute a basis for deferring or withholding any amounts otherwise payable to Executive under this Agreement. Also, within 14 days of the termination of Executive's employment for any reason, Executive shall return to the Company all documents and other tangible items of or containing Company information which are in Executive's possession, custody or control.

(b) Executive agrees that for a period of 24 complete calendar months following his Date of Termination, Executive will not, either directly or indirectly, call on, solicit, induce or attempt to induce any of the employees or officers of the Company whom Executive had knowledge of or association with during Executive's employment with the Company to terminate their association with the Company either personally or through the efforts of his or her subordinates.

(c) In the event of a breach by Executive of any provision of this Section 8, the Company shall be entitled to (i) cease any Welfare Benefit Contribution entitlement provided pursuant to Section 4(a)(ii) hereof, (ii) relief by temporary restraining order, temporary injunction and/or permanent injunction, (iii) recovery of all attorneys' fees and costs incurred in obtaining such relief and (iv) any other legal and equitable relief to which it may be entitled, including monetary damages.

9. Change of Control; Potential Change of Control.

(a) As used in this Agreement, the terms set forth below shall have the following respective meanings:

"Beneficial Owner" shall mean, with reference to any securities, any Person if:

(i) such Person is the "beneficial owner" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act, as in effect on the date of this Agreement) such securities; provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," any security under this subsection (i) as a result of an agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding: (x) arises solely from a revocable proxy or consent given in response to a public (i.e., not including a solicitation exempted by Rule 14a-2(b)(2) of the General Rules and Regulations under the Exchange Act) proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act and (y) is not then

reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(ii) such Person is a member of a group (as that term is used in Rule 13d-5(b) of the General Rules and Regulations under the Exchange Act) that includes any other Person that beneficially owns such securities;

provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own" any security held by a Norris Family Trust with respect to which such Person acts in the capacity of trustee, personal representative, custodian, administrator, executor or other fiduciary; provided, further, that nothing in this definition shall cause a Person engaged in business as an underwriter of securities to be the Beneficial Owner of, or to "beneficially own," any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition. For purposes hereof, "voting" a security shall include voting, granting a proxy, consenting or making a request or demand relating to corporate action (including, without limitation, a demand for a stockholder list, to call a stockholder meeting or to inspect corporate books and records) or otherwise giving an authorization (within the meaning of Section 14(a) of the Exchange Act) in respect of such security.

The terms "beneficially own" and "beneficially owning" shall have meanings that are correlative to this definition of the term "Beneficial Owner."

"Change of Control" shall mean any of the following occurring on or after the Agreement Effective Date:

(i) Any Person (other than an Exempt Person) shall become the Beneficial Owner of 35% or more of the shares of Common Stock then outstanding or 35% or more of the combined voting power of the Voting Stock of the Company then outstanding; provided, however, that no Change of Control shall be deemed to occur for purposes of this subsection (i) if such Person shall become a Beneficial Owner of 35% or more of the shares of Common Stock or 35% or more of the combined voting power of the Voting Stock of the Company solely as a result of (x) an Exempt Transaction or (y) an acquisition by a Person pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (x), (y) and (z) of subsection (iii) of this definition are satisfied;

(ii) Individuals who, as of the Agreement Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Agreement Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a

majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board; provided, further, that there shall be excluded, for this purpose, any such individual whose initial assumption of office occurs as a result of any actual or threatened election contest that is subject to the provisions of Rule 14a-11 under the Exchange Act;

(iii) Approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (x) more than 65% of the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding Voting Stock of such corporation is beneficially owned, directly or indirectly, by all or substantially all of the Persons who were the Beneficial Owners of the outstanding Common Stock immediately prior to such reorganization, merger or consolidation (ignoring, for purposes of this clause (x), the first proviso in the definition of "Beneficial Owner" set forth in Section 9(a)) in substantially the same proportions as their ownership immediately prior to such reorganization, merger or consolidation of the outstanding Common Stock, (y) no Person (excluding any Exempt Person or any Person beneficially owning, immediately prior to such reorganization, merger or consolidation, directly or indirectly, 35% or more of the Common Stock then outstanding or 35% or more of the combined voting power of the Voting Stock of the Company then outstanding) beneficially owns, directly or indirectly, 35% or more of the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding Voting Stock of such corporation and (z) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement or initial action by the Board providing for such reorganization, merger or consolidation; or

(iv) Approval by the shareholders of the Company of (x) a complete liquidation or dissolution of the Company, unless such liquidation or dissolution is approved as part of a plan of liquidation and dissolution involving a sale or disposition of all or substantially all of the assets of the Company to a corporation with respect to which, following such sale or other disposition, all of the requirements of clauses (y)(A), (B) and (C) of this subsection (iv) are satisfied, or (y) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which, following such sale or other disposition, (A) more than 65% of the then outstanding shares of common stock of such corporation and the combined voting power of the Voting Stock of such corporation is then beneficially owned, directly or indirectly, by all or substantially all of the Persons who were the Beneficial Owners of the outstanding

Common Stock immediately prior to such sale or other disposition (ignoring, for purposes of this clause (y)(A), the first proviso in the definition of "Beneficial Owner" set forth in Section 9(a)) in substantially the same proportions as their ownership, immediately prior to such sale or other disposition, of the outstanding Common Stock, (B) no Person (excluding any Exempt Person and any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 35% or more of the Common Stock then outstanding or 35% or more of the combined voting power of the Voting Stock of the Company then outstanding) beneficially owns, directly or indirectly, 35% or more of the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding Voting Stock of such corporation and (C) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or initial action of the Board providing for such sale or other disposition of assets of the Company.

"Common Stock" shall mean the common stock, par value $.01 per share, of the Company, and shall include, for purposes of Section 4 hereof, stock of any successor, within the meaning of Section 10(c).

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Exempt Person" shall mean (i) the Company, any subsidiary of the Company, any employee benefit plan of the Company or any subsidiary of the Company, and any Person organized, appointed or established by the Company for or pursuant to the terms of any such plan and (ii) any Person who is shown under the caption "Principal and Selling Stockholders" in the Company's Registration Statement on Form S-1 related to the initial public offering of the Common Stock as beneficially owning (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act, as in effect on the date of this Agreement) five percent or more of the Common Stock unless and until such Person individually becomes the Beneficial Owner, other than as a result of a distribution from a Norris Family Trust, of an amount of Common Stock that is 103% or more of the amount of such Common Stock beneficially owned by such Person on the date the Registration Statement is declared effective by the Securities and Exchange Commission.

"Exempt Transaction" shall mean an increase in the percentage of the outstanding shares of Common Stock or the percentage of the combined voting power of the outstanding Voting Stock of the Company beneficially owned by any Person solely as a result of a reduction in the number of shares of Common Stock then outstanding due to the repurchase of Common Stock by the Company, unless and until such time as such Person shall purchase or otherwise become the Beneficial Owner of additional shares of

Common Stock constituting 3% or more of the then outstanding shares of Common Stock or additional Voting Stock representing 3% or more of the combined voting power of the then outstanding Voting Stock.

"Norris Family Trust" shall mean any trust, estate, custodianship or other fiduciary arrangement (collectively, a "Family Entity") formed, owned, held, or existing primarily for the benefit of the lineal descendants of D.W. Norris, but only if such Family Entity shall not at any time hold Common Stock or Voting Stock of the Company with the primary purpose of effecting with respect to the Company (i) an extraordinary corporate transaction, such as a merger, reorganization or liquidation (ii) a sale or transfer of a material amount of assets, (iii) any material change in capitalization, (iv) any other material change in business or corporate structure or operations, (v) changes in corporate charter or bylaws, or (vi) a change in the composition of the Board or of the members of senior management.

"Person" shall mean any individual, firm, corporation, partnership, association, trust, unincorporated organization or other entity.

"Potential Change of Control" shall mean any of the following:

(i) a tender offer or exchange offer is commenced by any Person which, if consummated, would constitute a Change of Control;

(ii) an agreement is entered into by the Company providing for a transaction which, if consummated, would constitute a Change of Control;

(iii) any election contest is commenced that is subject to the provisions of Rule 14a-11 under the Exchange Act; or

(iv) any proposal is made, or any other event or transaction occurs or is continuing, which the Board determines, if consummated, would result in a Change of Control.

"Voting Stock" shall mean, with respect to a corporation, all securities of such corporation of any class or series that are entitled to vote generally in the election of directors of such corporation (excluding any class or series that would be entitled so to vote by reason of the occurrence of any contingency, so long as such contingency has not occurred).

(b) In the event that the Company is a party to a transaction that is otherwise intended to qualify for "pooling of interests" accounting treatment, such transaction constitutes a Change of Control within the meaning of this Agreement and individuals who satisfy the requirements in clauses (i) and (ii) below constitute at least 51%

of the number of directors of the entity surviving such transaction or any parent thereof: individuals who (i) immediately prior to such transaction constituted the Board and (ii) on the date hereof constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of at least 51% of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended, then this Section 9 and other Agreement provisions concerning a Change of Control shall, to the extent practicable, be interpreted so as to permit such accounting treatment, and to the extent that the application of this sentence does not preserve the availability of such accounting treatment, then, to the extent that any provision or combination of provisions of this Section 9 and other Agreement provisions concerning a Change of Control disqualifies the transaction as a "pooling" transaction (including, if applicable, all provisions of the Agreement relating to a Change of Control), the Board shall amend such provision or provisions if and to the extent necessary (including declaring such provision or provisions to be null and void as of the date hereof, which declaration shall be binding on Executive) so that such transaction may be accounted for as a "pooling of interests." All determinations with respect to this paragraph shall be made by the Company, based upon the advice of the accounting firm whose opinion with respect to "pooling of interests" is required as a condition to the consummation of such transaction.

10. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's heirs, executors and other legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and may only be assigned to a successor described in Section 10(c).

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

11. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws that would require the application of the laws of any other state or jurisdiction.

(b) The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

(c) This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and heirs, executors and other legal representatives.

(d) All notices and other communications hereunder shall be in writing and shall be given, if by the Executive to the Company, by telecopy or facsimile transmission at the telecommunications number set forth below and, if by either the Company or the Executive, either by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

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If to the Company:

Lennox International Inc.
2100 Lake Park Blvd.
Richardson, Texas 75080-2254
Telecommunications Number: (972) 497-5075
Attention: Corporate Secretary

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(e) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(f) The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(g) The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 3(c) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(h) This Agreement shall become effective as of _____ (the "Agreement Effective Date ").

IN WITNESS WHEREOF, the Executive has hereunto set his hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

LENNOX INTERNATIONAL INC.

By: ----------

Name: ----------

Title: ----------

EXECUTIVE

---

Signature

SCHEDULE A

List of Executive Officers who entered into
Change of Control Employment Agreements
with Lennox International Inc., dated April 23, 1999

John W. Norris, Jr.
Harry J. Ashenhurst
Scott J. Boxer
Carl E. Edwards, Jr.
Horace E. French
William Lane Pennington
Robert E. Schjerven
Michael G. Schwartz
Clyde W. Wyant, Jr.

EXHIBIT 10.18

# STOCK DISPOSITION AGREEMENT

THIS AGREEMENT ("Agreement") is effective as of the 2nd day of June, 1997 and is by and among A.O.C. CORPORATION, a Texas corporation ("Pledgor"), LENNOX INTERNATIONAL INC., a Delaware corporation ("Lennox"), and COMPASS BANK, a state bank chartered under the laws of the State of Texas, with its principal office located in Dallas, Texas (the "Bank").

## PRELIMINARY STATEMENTS:

WHEREAS, Pledgor is the owner of common shares of the capital stock of Lennox and has pledged 30,000 of such shares to the Bank for the benefit of Borrower (said 30,000 shares, together with any additional shares that may hereafter be pledged by Pledgor to the Bank as collateral for the Loan [defined below], are referred to herein collectively as the "Pledged Stock"); and

WHEREAS, it is the desire of the parties hereto that the Bank make a loan to AOC Development, L.L.C., a Delaware limited liability company (the "Borrower") in the principal amount of $20,950,900.00 (the "Loan"), pursuant to a Loan Agreement (the "Loan Agreement") dated of even date herewith by and between Borrower and Lender, which Loan shall be evidenced by a promissory note dated of even date herewith (together with any and all renewals, extensions, modifications and replacements thereof, the "Note") and secured by, among other things, the Pledged Stock pursuant to a Stock Pledge Agreement executed by Pledgor and delivered to Bank and dated of even date herewith (the "Security Agreement"); and

WHEREAS, Lennox has determined that it is in its best interests to enter into this Agreement to make provision for the potential future disposition of its stock; and

WHEREAS, the Pledged Stock is subject to certain restrictions, including a right of first refusal in favor of Lennox under the terms of its Certificate of Incorporation; and

WHEREAS, the Pledged Stock has value to the Bank as security only to the extent that the Bank can be assured that, upon the occurrence of an Event of Default under the Loan Agreement, there will be available a ready buyer or market for the Pledged Stock.

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

## AGREEMENTS:

1. Conditions on the Ownership and Restrictions on the Transfer of the Pledged Stock. The Pledgor's ownership and the rights of the Bank with respect to the Pledged Stock are subject to the following:

(a) Pursuant to Article Sixteenth of the Lennox Restated Certificate of Incorporation, "No sale, assignment, transfer or other disposition . . . shall be effective unless and until there is compliance with the . . . terms and conditions" set forth therein. The Restated Certificate of Incorporation of Lennox is attached hereto and incorporated herein as Exhibit A.

The parties hereto understand and agree that the Pledgor's rights in and to the Pledged Stock and any rights of the Bank thereto created as a result of the Loan and the Security Agreement are expressly conditioned upon the above conditions set forth and referenced above in this Paragraph 1.

2. Disposition of Pledged Stock. At any time after the occurrence of an Event of Default as defined in the Loan Agreement (a "Loan Agreement Default"), the Bank shall have the right to demand and require Lennox to perform one of the following: (a) within sixty (60) days of such demand, procure a ready and willing buyer for the Pledged Stock at the Value (as defined in

the Loan Agreement) of such shares; (b) within thirty (30) days of such demand, purchase from the Bank the Pledged Stock at the Value of such shares; or (c) if at the time of a Loan Agreement Default, Lennox's common stock is listed for trading on a stock exchange or other recognized securities market and has an average daily trading volume of 25,000 shares, then as soon as is practicable, but within one hundred twenty (120) days of such demand, register the Pledged Stock pursuant to the Securities Act of 1933; provided that (i) Lennox shall have the option to perform under clause (a), (b) or (c) above so long as performance is completed within the number of days specified (during which time interest shall continue to accrue on the Note at the Default Rate [as defined in the Note]) and (ii) neither the buyer under clause (a) above nor Lennox under clause (b) above shall be required to purchase Pledged Stock in excess of the number of shares pledged to secure the Note and required to pay Bank an amount equal to the aggregate amount of the then outstanding indebtedness secured by the Pledged Stock. Notwithstanding anything else to the contrary herein, Lennox shall not be required to take any action pursuant to this Agreement that would cause Lennox to be in default under (i) the Revolving Credit Agreement dated as of December 4, 1991, as the same may have heretofore been amended or may hereafter be amended, among Lennox, the banks named on the signature pages thereof, and The Northern Trust Company, as Agent, or (ii) any note purchase agreements entered into in December 1991, December 1993, and July 1995, between Lennox and various note purchasers, as in effect on the date hereof, where the outstanding amount of a long term note issued thereunder exceeds Five Million Dollars ($5,000,000.00).

If a Loan Agreement Default shall occur, the Bank shall also have the right, subject to the conditions set forth in Paragraph 1 hereof, to procure a buyer for the Pledged Stock; provided that the Bank shall first offer the shares of the Pledged Stock to Lennox, whether or not the aggregate Value of the Pledged Stock shall be sufficient to pay in full all then outstanding indebtedness secured by the Pledged Stock, and provided, further, that Bank's obligation to make such offer shall terminate in the event Lennox fails to exercise its right of first refusal by paying Bank the Value of the Pledged Stock in cash within thirty (30) days of such offer.

3. Method of Demand. The right to demand performance by Lennox as described in Paragraph 2 hereof shall be exercised by Bank giving written notice to Lennox (at the address set forth in Paragraph 9(b) below) of the Loan Agreement Default and the Bank's demand for such performance by Lennox. Any delay by Bank in exercising such right after the occurrence of a Loan Agreement Default shall not operate as a waiver of such right or any other right provided for herein. Upon receipt of such demand, Lennox shall advise the Bank in writing within ten (10) business days whether it intends to perform under clause (a), (b) or (c) of Paragraph 2 hereof, whereupon Lennox shall promptly commence said performance and shall diligently pursue completion of its performance.

4. Method of Payment. The purchase price of the Pledged Stock (the "Purchase Price") shall be its Value as provided in Paragraph 2 hereof, and the full Purchase Price shall be paid to the Bank in cash on the Closing Date as set forth in Paragraph 5 below.

5. Closing Date. Any purchase of the Pledged Stock by Lennox or a buyer procured by Lennox pursuant to Paragraph 2 hereof shall occur in Dallas, Texas at the principal office of Bank or such other address in Dallas, Texas as Bank shall designate, on a date mutually agreed by Bank and Lennox, which date shall be not later than the last date for performance by Lennox or such buyer under Paragraph 2 hereof (the "Closing Date"). At the closing, Bank shall deliver the certificates being purchased, duly endorsed or with duly completed stock powers, and the buyer of the Pledged Stock shall deliver to Bank, the Purchase Price required to be paid on the Closing Date pursuant to Paragraph 4 above, which shall be payable through a wire transfer or a cashier's check in United States dollars from a bank acceptable to Bank.

6. Representations, Warranties and Covenants

(a) This Agreement has been duly authorized by all corporate action necessary on the part of Pledgor and Lennox, respectively. This Agreement constitutes a valid and binding agreement of Pledgor and Lennox, and is enforceable against Pledgor and Lennox, respectively, in accordance with its terms, except that such enforceability may be affected by (i) general principles of equity (regardless of whether relief is sought in an action at law or in equity) and (ii) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws from time to time in effect affecting enforcement of creditors' rights generally.

(b) Pledgor hereby agrees that the disposition of the Pledged Stock in the manner and on such terms as are provided in this Agreement shall be deemed for all purposes as a "commercially reasonable" sale as required by the

Texas Business and Commerce Code, regardless of whether the book, market or other value of the Pledged Stock is equal to, above or below the Purchase Price.

(c) BANK HAS MADE NO REPRESENTATION OR WARRANTY WHATSOEVER CONCERNING THE INVESTMENT VALUE OF THE PLEDGED STOCK. THE PLEDGOR AND LENNOX AGREE THAT THIS AGREEMENT CONTEMPLATES THAT NEITHER PLEDGOR NOR LENNOX SHALL BE ENTITLED TO ASSERT ANY SUCH REPRESENTATION OR WARRANTY BY BANK, AT ANY TIME. PLEDGOR AND LENNOX AGREE TO INDEMNIFY AND HOLD BANK HARMLESS WITH RESPECT TO ANY CLAIM MADE BY ANY PARTY HERETO, OR ANY SUCCESSOR OR ASSIGN, ASSERTING SUCH A REPRESENTATION OR WARRANTY BY BANK.

(d) Each of the parties hereto agree to undertake such additional agreements, execute such additional documents, and do such other acts and things as may be reasonably required to effect the purposes of this Agreement.

(e) To the extent that any provision of this Agreement is in conflict with any provision in any prior agreement between Pledgor and Lennox, this Agreement shall control.

(f) Lennox shall promptly give written notice to Bank of any event of default under any loan or credit agreement or note purchase agreement between Lennox and a lender where the amount of debt outstanding under such agreement is at least Ten Million Dollars ($10,000,000).

(g) Pledgor shall reimburse Lennox for its reasonable out-of-pocket expenses (not including any Purchase Price paid by Lennox hereunder) in performing its obligations hereunder after an Event of Default has occurred.

(h) Pledgor represents and warrants that the Pledged Stock has not been pledged, assigned, hypothecated or transferred in any way for the benefit of any other party, and is not the subject of any security, pledge, hypothecation or similar agreement for the benefit of any other party, with the sole exception of the Other Security Agreement relating to the Pledgor's Loan (as such terms are defined below in Paragraph 9[h] of this Agreement).

7. Breach of Agreement. It is agreed that a breach by Lennox in the performance of its obligations hereunder cannot be adequately measured or compensated in money damages, and that any such breach would do irreparable injury to Bank. It is therefore agreed that in the event of any breach or threatened breach by Lennox of any of the terms and conditions set forth herein, Bank shall be entitled, in addition to any and all rights and remedies to which it may otherwise be entitled at law or in equity, to apply for and obtain injunctive relief to restrain Lennox from committing such breach or threatened breach and from continuing any activity constituting such breach, and mandating that Lennox perform under this Agreement.

8. Parties Bound. All representations, warranties, covenants and agreements made by or on behalf of Lennox and Pledgor shall bind Lennox and Pledgor and the heirs, devisees, executors, administrators, personal representatives, successors, trustees, receivers, and assigns of Pledgor and Lennox and inure to the benefit of the successors and assigns of Bank.

9. Miscellaneous.

(a) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that neither of Lennox nor Pledgor shall be permitted to assign or delegate its rights, privileges or obligations hereunder at any time, and shall be required to adhere to and carry out its duties as set forth herein. Any attempted assignment by Lennox or by Pledgor shall be null and void and shall not relieve such party of any of its obligations, responsibilities, representations and warranties contained in this Agreement.

(b) All notice and other communications provided for herein shall be validly given, made or served, if in writing and delivered personally or sent by certified mail, return receipt requested, postage prepaid:

If to Bank: Compass Bank
P.O. Box 650561
Dallas, Texas 75265-0561
Attention: John Reichenbach

If to Lennox: Lennox International Inc.
P.O. Box 799900
Dallas, Texas 75379-9900
Attention: Chief Financial Officer

If to Pledgor: A.O.C. Corporation
2100 Lake Park Blvd.
Richardson, Texas 75080
Attention: President

(c) This Agreement contains the entire agreement between the parties hereto with respect to the disposition of stock contemplated herein as the same relates to the Loan and supersedes all prior agreements or understandings, if any, between the parties hereto relating to the subject matter hereof in connection with the Loan, and may not be modified except by written agreement signed by all of the parties hereto.

(d) The captions of each paragraph hereof are entered as a matter of convenience only and shall not be considered to be of any effect in the construction of this Agreement.

(e) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. THIS AGREEMENT HAS BEEN ENTERED INTO IN DALLAS COUNTY, TEXAS, SHALL BE PERFORMABLE FOR ALL PURPOSES IN DALLAS COUNTY, TEXAS AND THE PLEDGOR, LENNOX AND THE BANK AGREE THAT DALLAS COUNTY, TEXAS IS PROPER VENUE FOR ANY ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND THAT NO SUCH COURT IS AN INCONVENIENT FORUM. PLEDGOR, LENNOX AND BANK AGREE THAT SERVICE OF PROCESS UPON ANY OF THEM MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, AT THEIR ADDRESSES SPECIFIED ABOVE OR DETERMINED IN ACCORDANCE WITH THE PROVISIONS OF THIS AGREEMENT. NOTHING HEREIN OR IN ANY OF THE NOTE OR SECURITY AGREEMENT SHALL AFFECT THE RIGHT OF THE BANK TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

(f) All representations and warranties contained herein shall survive the execution of this Agreement.

(g) This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

(h) It is understood and acknowledged that (i) the 30,000 shares of the Pledged Stock were previously pledged by Pledgor to Bank pursuant to a Security Agreement (the "Other Security Agreement") dated July 26, 1995 by and between Pledgor and Bank in connection with a term loan ("Pledgor's Loan") made by Bank to Pledgor at that time, (ii) this Agreement is not intended to supercede, replace, amend, alter or otherwise affect in any way the Other Security Agreement, Pledgor's Loan or the Stock Disposition Agreement (the "Other Stock Disposition Agreement") executed by Pledgor, the Bank and Lennox in connection with Pledgor's Loan, (iii) the rights and obligations of Pledgor and Lennox under this Agreement are unrelated to and completely independent of their respective rights and obligations under the Other Stock Disposition Agreement, and each of Pledgor and Lennox shall honor and perform its obligations hereunder without regard to the Other Stock Disposition Agreement, (iv) upon the occurrence of a Loan Agreement Default, Bank shall be entitled to exercise its rights and remedies hereunder and otherwise relating to the Loan and the subject matter of this Agreement without regard to the Other Stock Disposition Agreement, and (v) in the event that default situations should exist simultaneously under or with respect to both the Loan and the Pledgor's Loan, Bank shall be entitled, at its option and without limitation as to election of remedies or otherwise, to pursue its rights and remedies as to the Pledged

Stock under either this Agreement or the Other Stock Disposition Agreement, or under both of them, either simultaneously or independently of one another.

(i) Except in the event that a Loan Agreement Default, or a breach or threatened breach by Lennox in the performance of its obligations hereunder, shall have occurred and remain uncured, unperformed or otherwise unresolved at such time, this Agreement shall be deemed automatically terminated and of no further force or effect (except as otherwise expressly provided herein) on the date that (i) Pledged Stock becomes registered for resale under the Securities Act of 1933, as amended, and the common stock of Lennox is listed on a nationally recognized securities exchange or market (including the New York Stock Exchange or NASDAQ) and (ii) the average daily trading volume for such Lennox common stock has exceeded 25,000 shares (adjusted for any stock split after the date hereof) for at least ten (10) of the prior thirty (30) days.

THIS STOCK DISPOSITION AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AS TO THE SUBJECT MATTER HEREOF IN CONNECTION WITH THE LOAN AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ Clyde Wyant
---
Clyde Wyant
Executive Vice President, Chief Financial Officer and Treasurer

PLEDGOR: A.O.C. CORPORATION

By: /s/ Clyde Wyant
---
Clyde Wyant
Vice President

BANK: COMPASS BANK

By: /s/ John H. Reichenbach
---
John H. Reichenbach
Vice President

EXHIBIT A

Restated Certificate of Incorporation of Lennox

EXHIBIT A - Restated Certificate of Incorporation of Lennox

EXHIBIT 10.19

# STOCK DISPOSITION AGREEMENT

THIS AGREEMENT ("Agreement") is effective as of the 22nd day of January, 1998 and is by and among A.O.C. CORPORATION, a Texas corporation ("Pledgor"), LENNOX INTERNATIONAL INC., a Delaware corporation ("Lennox"), and COMPASS BANK, a state bank chartered under the laws of the State of Texas, with its principal office located in Dallas, Texas (the "Bank").

## PRELIMINARY STATEMENTS:

WHEREAS, Pledgor is the owner of common shares of the capital stock of Lennox and has pledged 30,000 of such shares to the Bank for the benefit of Borrower (said 30,000 shares, together with any additional shares that may hereafter be pledged by Pledgor to the Bank as collateral for the Loan [defined below], are referred to herein collectively as the "Pledged Stock"); and

WHEREAS, it is the desire of the parties hereto that the Bank make a loan to AOC Development II, L.L.C., a Delaware limited liability company (the "Borrower") in the principal amount of $27,965,500.00 (the "Loan"), pursuant to a Loan Agreement (the "Loan Agreement") dated of even date herewith by and between Borrower and Lender, which Loan shall be evidenced by a promissory note dated of even date herewith (together with any and all renewals, extensions, modifications and replacements thereof, the "Note") and secured by, among other things, the Pledged Stock pursuant to a Stock Pledge Agreement executed by Pledgor and delivered to Bank and dated of even date herewith (the "Security Agreement"); and

WHEREAS, Lennox has determined that it is in its best interests to enter into this Agreement to make provision for the potential future disposition of its stock; and

WHEREAS, the Pledged Stock is subject to certain restrictions, including a right of first refusal in favor of Lennox under the terms of its Certificate of Incorporation; and

WHEREAS, the Pledged Stock has value to the Bank as security only to the extent that the Bank can be assured that, upon the occurrence of an Event of Default under the Loan Agreement, there will be available a ready buyer or market for the Pledged Stock.

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

## AGREEMENTS:

1. Conditions on the Ownership and Restrictions on the Transfer of the Pledged Stock. The Pledgor's ownership and the rights of the Bank with respect to the Pledged Stock are subject to the following:

(a) Pursuant to Article Sixteenth of the Lennox Restated Certificate of Incorporation, "No sale, assignment, transfer or other disposition . . . shall be effective unless and until there is compliance with the . . . terms and conditions" set forth therein. The Restated Certificate of Incorporation of Lennox is attached hereto and incorporated herein as Exhibit A.

The parties hereto understand and agree that the Pledgor's rights in and to the Pledged Stock and any rights of the Bank thereto created as a result of the Loan and the Security Agreement are expressly conditioned upon the above conditions set forth and referenced above in this Paragraph 1.

2. Disposition of Pledged Stock. At any time after the occurrence of an Event of Default as defined in the Loan Agreement (a "Loan Agreement Default"), the Bank shall have the right to demand and require Lennox to perform one of the following: (a) within sixty (60) days of such demand, procure a ready and willing buyer for the Pledged Stock at the Value (as defined in

the Loan Agreement) of such shares; (b) within thirty (30) days of such demand, purchase from the Bank the Pledged Stock at the Value of such shares; or (c) if at the time of a Loan Agreement Default, Lennox's common stock is listed for trading on a stock exchange or other recognized securities market and has an average daily trading volume of 25,000 shares, then as soon as is practicable, but within one hundred twenty (120) days of such demand, register the Pledged Stock pursuant to the Securities Act of 1933; provided that (i) Lennox shall have the option to perform under clause (a), (b) or (c) above so long as performance is completed within the number of days specified (during which time interest shall continue to accrue on the Note at the Default Rate [as defined in the Note]) and (ii) neither the buyer under clause (a) above nor Lennox under clause (b) above shall be required to purchase Pledged Stock in excess of the number of shares pledged to secure the Note and required to pay Bank an amount equal to the aggregate amount of the then outstanding indebtedness secured by the Pledged Stock. Notwithstanding anything else to the contrary herein, Lennox shall not be required to take any action pursuant to this Agreement that would cause Lennox to be in default under (i) the Revolving Credit Agreement dated as of December 4, 1991, as the same may have heretofore been amended or may hereafter be amended, among Lennox, the banks named on the signature pages thereof, and The Northern Trust Company, as Agent, or (ii) any note purchase agreements entered into in December 1991, December 1993, and July 1995, between Lennox and various note purchasers, as in effect on the date hereof, where the outstanding amount of a long term note issued thereunder exceeds Five Million Dollars ($5,000,000.00).

If a Loan Agreement Default shall occur, the Bank shall also have the right, subject to the conditions set forth in Paragraph 1 hereof, to procure a buyer for the Pledged Stock; provided that the Bank shall first offer the shares of the Pledged Stock to Lennox, whether or not the aggregate Value of the Pledged Stock shall be sufficient to pay in full all then outstanding indebtedness secured by the Pledged Stock, and provided, further, that Bank's obligation to make such offer shall terminate in the event Lennox fails to exercise its right of first refusal by paying Bank the Value of the Pledged Stock in cash within thirty (30) days of such offer.

3. Method of Demand. The right to demand performance by Lennox as described in Paragraph 2 hereof shall be exercised by Bank giving written notice to Lennox (at the address set forth in Paragraph 9(b) below) of the Loan Agreement Default and the Bank's demand for such performance by Lennox. Any delay by Bank in exercising such right after the occurrence of a Loan Agreement Default shall not operate as a waiver of such right or any other right provided for herein. Upon receipt of such demand, Lennox shall advise the Bank in writing within ten (10) business days whether it intends to perform under clause (a), (b) or (c) of Paragraph 2 hereof, whereupon Lennox shall promptly commence said performance and shall diligently pursue completion of its performance.

4. Method of Payment. The purchase price of the Pledged Stock (the "Purchase Price") shall be its Value as provided in Paragraph 2 hereof, and the full Purchase Price shall be paid to the Bank in cash on the Closing Date as set forth in Paragraph 5 below.

5. Closing Date. Any purchase of the Pledged Stock by Lennox or a buyer procured by Lennox pursuant to Paragraph 2 hereof shall occur in Dallas, Texas at the principal office of Bank or such other address in Dallas, Texas as Bank shall designate, on a date mutually agreed by Bank and Lennox, which date shall be not later than the last date for performance by Lennox or such buyer under Paragraph 2 hereof (the "Closing Date"). At the closing, Bank shall deliver the certificates being purchased, duly endorsed or with duly completed stock powers, and the buyer of the Pledged Stock shall deliver to Bank, the Purchase Price required to be paid on the Closing Date pursuant to Paragraph 4 above, which shall be payable through a wire transfer or a cashier's check in United States dollars from a bank acceptable to Bank.

6. Representations, Warranties and Covenants

(a) This Agreement has been duly authorized by all corporate action necessary on the part of Pledgor and Lennox, respectively. This Agreement constitutes a valid and binding agreement of Pledgor and Lennox, and is enforceable against Pledgor and Lennox, respectively, in accordance with its terms, except that such enforceability may be affected by (i) general principles of equity (regardless of whether relief is sought in an action at law or in equity) and (ii) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws from time to time in effect affecting enforcement of creditors' rights generally.

(b) Pledgor hereby agrees that the disposition of the Pledged Stock in the manner and on such terms as are provided in this Agreement shall be deemed for all purposes as a "commercially reasonable" sale as required by the Texas Business and Commerce Code, regardless of whether the book, market or other value of the Pledged Stock is equal to, above or below the Purchase Price.

(c) BANK HAS MADE NO REPRESENTATION OR WARRANTY WHATSOEVER CONCERNING THE INVESTMENT VALUE OF THE PLEDGED STOCK. THE PLEDGOR AND LENNOX AGREE THAT THIS AGREEMENT CONTEMPLATES THAT NEITHER PLEDGOR NOR LENNOX SHALL BE ENTITLED TO ASSERT ANY SUCH REPRESENTATION OR WARRANTY BY BANK, AT ANY TIME. PLEDGOR AND LENNOX AGREE TO INDEMNIFY AND HOLD BANK HARMLESS WITH RESPECT TO ANY CLAIM MADE BY ANY PARTY HERETO, OR ANY SUCCESSOR OR ASSIGN, ASSERTING SUCH A REPRESENTATION OR WARRANTY BY BANK.

(d) Each of the parties hereto agree to undertake such additional agreements, execute such additional documents, and do such other acts and things as may be reasonably required to effect the purposes of this Agreement.

(e) To the extent that any provision of this Agreement is in conflict with any provision in any prior agreement between Pledgor and Lennox, this Agreement shall control.

(f) Lennox shall promptly give written notice to Bank of any event of default under any loan or credit agreement or note purchase agreement between Lennox and a lender where the amount of debt outstanding under such agreement is at least Ten Million Dollars ($10,000,000).

(g) Pledgor shall reimburse Lennox for its reasonable out-of-pocket expenses (not including any Purchase Price paid by Lennox hereunder) in performing its obligations hereunder after an Event of Default has occurred.

(h) Pledgor represents and warrants that the Pledged Stock has not been pledged, assigned, hypothecated or transferred in any way for the benefit of any other party, and is not the subject of any security, pledge, hypothecation or similar agreement for the benefit of any other party, with the sole exception of the Other Security Agreement relating to the Existing Loan (as such terms are defined below in Paragraph 9[h] of this Agreement).

7. Breach of Agreement. It is agreed that a breach by Lennox in the performance of its obligations hereunder cannot be adequately measured or compensated in money damages, and that any such breach would do irreparable injury to Bank. It is therefore agreed that in the event of any breach or threatened breach by Lennox of any of the terms and conditions set forth herein, Bank shall be entitled, in addition to any and all rights and remedies to which it may otherwise be entitled at law or in equity, to apply for and obtain injunctive relief to restrain Lennox from committing such breach or threatened breach and from continuing any activity constituting such breach, and mandating that Lennox perform under this Agreement.

8. Parties Bound. All representations, warranties, covenants and agreements made by or on behalf of Lennox and Pledgor shall bind Lennox and Pledgor and the heirs, devisees, executors, administrators, personal representatives, successors, trustees, receivers, and assigns of Pledgor and Lennox and inure to the benefit of the successors and assigns of Bank.

9. Miscellaneous.

(a) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that neither of Lennox nor Pledgor shall be permitted to assign or delegate its rights, privileges or obligations hereunder at any time, and shall be required to adhere to and carry out its duties as set forth herein. Any attempted assignment by Lennox or by Pledgor shall be null and void and shall not relieve such party of any of its obligations, responsibilities, representations and warranties contained in this Agreement.

(b) All notice and other communications provided for herein shall be validly given, made or served, if in writing and delivered personally or sent by certified mail, return receipt requested, postage prepaid:

If to Bank: Compass Bank
P.O. Box 650561
Dallas, Texas 75265-0561
Attention: John Reichenbach

If to Lennox: Lennox International Inc.
P.O. Box 799900
Dallas, Texas 75379-9900
Attention: Chief Financial Officer

If to Pledgor: A.O.C. Corporation
2100 Lake Park Blvd.
Richardson, Texas 75080
Attention: President

(c) This Agreement contains the entire agreement between the parties hereto with respect to the disposition of stock contemplated herein as the same relates to the Loan and supersedes all prior agreements or understandings, if any, between the parties hereto relating to the subject matter hereof in connection with the Loan, and may not be modified except by written agreement signed by all of the parties hereto.

(d) The captions of each paragraph hereof are entered as a matter of convenience only and shall not be considered to be of any effect in the construction of this Agreement.

(e) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. THIS AGREEMENT HAS BEEN ENTERED INTO IN DALLAS COUNTY, TEXAS, SHALL BE PERFORMABLE FOR ALL PURPOSES IN DALLAS COUNTY, TEXAS AND THE PLEDGOR, LENNOX AND THE BANK AGREE THAT DALLAS COUNTY, TEXAS IS PROPER VENUE FOR ANY ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND THAT NO SUCH COURT IS AN INCONVENIENT FORUM. PLEDGOR, LENNOX AND BANK AGREE THAT SERVICE OF PROCESS UPON ANY OF THEM MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, AT THEIR ADDRESSES SPECIFIED ABOVE OR DETERMINED IN ACCORDANCE WITH THE PROVISIONS OF THIS AGREEMENT. NOTHING HEREIN OR IN ANY OF THE NOTE OR SECURITY AGREEMENT SHALL AFFECT THE RIGHT OF THE BANK TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

(f) All representations and warranties contained herein shall survive the execution of this Agreement.

(g) This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

(h) It is understood and acknowledged that (i) the 30,000 shares of the Pledged Stock were previously pledged by Pledgor to Bank pursuant to a Stock Pledge Agreement (the "Other Security Agreement") dated June 2, 1997 by and between Pledgor and Bank in connection with a $20,950,900.00 construction loan ("Existing Loan") made by Bank to AOC Development, L.L.C., a Delaware limited liability company at that time, (ii) this Agreement is not intended to supersede, replace, amend, alter or otherwise affect in any way the Other Security Agreement, Existing Loan or the Stock Disposition Agreement (the "Other Stock Disposition Agreement") executed by Pledgor, the Bank and Lennox in connection with the Existing Loan, (iii) the rights and obligations of Pledgor and Lennox under this Agreement are unrelated to and completely independent of their respective rights and obligations under the Other Stock Disposition Agreement, and each of Pledgor and Lennox shall honor and perform its obligations hereunder without regard to the Other Stock Disposition Agreement, (iv) upon the occurrence of a Loan Agreement Default, Bank shall be entitled to exercise its rights and remedies hereunder and otherwise relating to the Loan and the subject matter of this Agreement without regard to the Other Stock Disposition Agreement, and (v) in the event that default situations should exist simultaneously under or with respect to both the Loan and the Existing Loan, Bank shall be entitled, at its option and without limitation as to election of remedies or otherwise, to pursue its rights and remedies as to the Pledged Stock under either this Agreement or the Other Stock Disposition Agreement, or under both of them, either simultaneously or independently of one another.

(i) Except in the event that a Loan Agreement Default, or a breach or threatened breach by Lennox in the performance of its obligations hereunder, shall have occurred and remain uncured, unperformed or otherwise unresolved at such time, this Agreement shall be deemed automatically terminated and of no further force or effect (except as otherwise expressly provided herein) on the date that (i) the Pledged Stock becomes registered for resale under the Securities Act of 1933, as amended, and the common stock of Lennox is listed on a nationally recognized securities exchange or market (including the New York Stock Exchange or NASDAQ) and (ii) the average daily trading volume for such Lennox common stock has exceeded 25,000 shares (adjusted for any stock split after the date hereof) for at least ten (10) of the prior thirty (30) days.

THIS STOCK DISPOSITION AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AS TO THE SUBJECT MATTER HEREOF IN CONNECTION WITH THE LOAN AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ CLYDE WYANT
---
Clyde Wyant
Executive Vice President, Chief Financial Officer and Treasurer

PLEDGOR: A.O.C. CORPORATION

By: /s/ CLYDE WYANT
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Clyde Wyant
Vice President

BANK: COMPASS BANK

By: /s/ JOHN H. REICHENBACH
---
John H. Reichenbach
Vice President

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EXHIBIT A

Restated Certificate of Incorporation of Lennox

EXHIBIT A - Restated Certificate of Incorporation of Lennox

EXHIBIT 10.20

STOCK DISPOSITION AGREEMENT
(this "Agreement")

THIS AGREEMENT is effective as of the 7th day of May, 1998, and is by and among the NORTHERN TRUST BANK OF FLORIDA, N.A., TRUSTEE U/A/W LORAINE BOOTH GIMRE TRUST ("Borrower"), LENNOX INTERNATIONAL INC., a Delaware corporation ("Lennox"), and the NORTHERN TRUST BANK OF FLORIDA, N.A., a national banking association (the "Bank").

PRELIMINARY STATEMENTS:

WHEREAS, Borrower is the owner of 6,946 SHARES of the capital stock of Lennox (the "Pledged Stock"); and

WHEREAS, it is the desire of the parties hereto that the Bank make a term loan to Borrower in the principal amount of $2,800,000.00 maturing as of MAY 7, 2000 (the "Loan") which shall be evidenced by a term note dated of even date herewith (together with any and all renewals, extensions, modifications and replacements thereof, the "Note") and secured by the Pledged Stock pursuant to a Security Agreement-Pledge executed by Borrower and delivered to the Bank and dated of even date herewith ("Security Agreement")(collectively referred to as the "Loan Documents"); and

WHEREAS, Lennox has determined that it is in its best interests to enter into this Agreement to make provision for the potential future disposition of its stock; and

WHEREAS, the Pledged Stock is subject to certain restrictions, including a right of first refusal in favor of Lennox under the terms of its Certificate of Incorporation; and

WHEREAS, the Pledged Stock has value to the Bank as security only to the extent that the Bank can be assured that, upon the default of Borrower under the Note, there will be available a ready buyer or market for the Pledged Stock.

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

AGREEMENTS:

1. Conditions on the Ownership and Restrictions on the Transfer of the Pledged Stock. Except as provided in Paragraph 2(b) hereof, the Borrower's ownership and the rights of the Bank with respect to the Pledged Stock are subject to the following:

(a) Pursuant to Article Sixteenth of the Lennox Restated Certificate of Incorporation, "No sale, assignment, transfer or other disposition... shall be effective unless and until there is compliance with the...terms and conditions" set forth therein. The Restated Certificate of Incorporation of Lennox is attached hereto and incorporated herein as EXHIBIT "A".

The parties hereto understand and agree that the Borrower's rights in and to the Pledged Stock and any rights of the Bank thereto created as a result of the Loan Documents are, except as provided in Paragraph 2(b) hereof, expressly conditioned upon the above conditions set forth and referenced above in this Paragraph 1, but Lennox hereby consents to the pledge of the Pledged Stock pursuant to the Security Agreement.

2. Disposition of Pledged Stock.

(a) At any time after the occurrence of any event of default under any of the Loan Documents (an "Event of Default"), the Bank shall have the right to request and Lennox agrees to use its best efforts to perform one of the following: (a) within ninety (90) days of such demand, procure a ready and willing buyer for the Pledged Stock at their Value as such term is defined below; (b) within ninety (90 ) days of such demand, purchase from the Bank the Pledged Stock at their Value ; or (c) with written consent of the Bank as to this option, as soon as practicable, register the Pledged Stock pursuant to the Securities Act of 1933; provided that (i) Lennox shall have the option to perform under clause (a), (b) or (c) above so long as performance is completed within the time specified (during which time interest shall continue to accrue on the Note at the default rate (as defined in the Loan Documents), and (ii) neither the buyer under clause (a) above nor Lennox under clause (b) above shall be required to purchase Pledged Stock in excess of the number of shares pledged to secure the Note and required to pay the Bank an amount equal to the aggregate amount of the then outstanding indebtedness secured by the Pledged Stock, as at the time of purchase. Notwithstanding anything else to the contrary herein, Lennox shall not be required to take any action pursuant to this Agreement that would cause Lennox to be in default under (i) the Revolving Credit Agreement dated as of December 4, 1991, as amended, among Lennox, the banks named on the signature pages thereof, and The Northern Trust Company, as Agent, or (ii) any note purchase agreements entered into in December 1991, December 1993, July 1995 and April 1998, between Lennox and various note purchasers, as in effect on the date hereof, where the outstanding amount of a long term note issued thereunder exceeds $3,000,000; provided, however, that Lennox and Borrower agree that they will provide the Bank with a letter from the Chief Executive Officer, Chief Financial Officer or General Counsel as of the date of this Agreement and, thereafter, on a quarterly basis, certifying that Lennox is not in default under any of the documents referred to in this sentence and that there is no default occurring therein relating to this Agreement as of the date of any such request by the Bank and failure by Borrower and Lennox to provide such a letter shall be an Event of Default under the Bank's Loan Documents and an Event of Default for purposes of the defined term used herein.

(b) If an Event of Default shall occur, the Bank shall also have the right, subject to the conditions set forth in Paragraph 1 hereof, to procure a buyer for the Pledged Stock; provided the Bank shall first offer the shares of the Pledged Stock to Lennox, whether or not the aggregate Value of the Pledged Stock shall be sufficient to pay in full all then outstanding indebtedness secured by the Pledged Stock; and provided, further, that the Bank's obligation to make such offer shall terminate in the event Lennox fails to exercise its right of first refusal by paying the Bank the Value of the Pledged Stock in cash within thirty (30) days of such offer.

(c) The "Value" of each share of the Pledged Stock shall be determined depending on whether the Pledged Stock is traded on any security exchange according to the following procedure:

(i) If the Pledged Stock is not traded on any public exchange, then the Value shall mean the fair market value of a share of common stock of Lennox as most recently fixed pursuant to the process for determination of value set forth in Paragraph (d) of Article Sixteen, which shall have been determined (prior to the date of the event giving rise to the use and application of such term) by independent consultants to Lennox selected and appointed by its Board of Directors for the purpose of ascertaining the applicable market value ("Applicable Market Value"). Such independent consultants shall fix and determine the fair market value of a share of common stock of Lennox on a quarterly basis following the end of each calendar quarter. In ascertaining such value (sometimes identified as the "non-marketable minority" value), such consultants shall consider the latest available financial statements and financial information of Lennox, projections and internal information relating to Lennox 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 its consequent illiquidity.

(ii) If the Pledged Stock is traded on any public exchange, the Value shall mean the price of a share of common stock as determined by the normal and usual method used to value common stock on the securities exchange on which the Lennox common stock may at the time be listed.

3. Method of Demand. The right to demand performance by Lennox as described in Paragraph 2 hereof shall be exercised by the Bank giving written notice to Lennox (at the address set forth in Paragraph 6(c) below) of the Event of Default and the Bank's demand for such performance by Lennox. The date of such notice is herein referred to as the "Notice Date." Any delay by the Bank in exercising such right after the occurrence of an Event of Default shall not operate as a waiver of such right or any other right provided for herein. Upon receipt of such demand, Lennox shall advise the Bank in writing within fifteen (15) business days whether it intends to perform under clause (a), (b) or (c) of Paragraph 2(a) hereof.

4. Method of Payment. The purchase price of the Pledged Stock (the "Purchase Price") shall be its Value as provided in Paragraph 2(c) hereof, and the full Purchase Price shall be paid in cash on the Closing Date as set forth in Paragraph 5 below.

5. Closing Date. Any purchase of the Pledged Stock by Lennox or a buyer procured by Lennox pursuant to Paragraph 2 hereof shall occur in Dallas, Texas at the principal office of Lennox or such other address in Dallas, Texas as Lennox shall designate, on a date mutually agreed by the Bank and Lennox, which date shall be not later than the last date for performance by Lennox or such buyer under Paragraph 2 hereof (the "Closing Date"). At the closing, the Bank shall deliver the certificates being purchased, duly endorsed or with duly completed stock powers, and the buyer of the Pledged Stock shall deliver to the Bank, the Purchase Price required to be paid on the Closing Date pursuant to Paragraph 4 above, which shall be payable through a wire transfer or a cashier's check in United States dollars from a bank acceptable to the Bank.

6. Miscellaneous.

(a) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns;

(b) Borrower shall reimburse Lennox for its reasonable out-of-pocket expenses (not including any Purchase Price paid by Lennox hereunder) in performing its obligations hereunder after an Event of Default has occurred;

(c) All notice and other communications provided for herein shall be validly given, made or served, if in writing and delivered personally or sent by certified mail, return receipt requested, postage prepaid:

if to the Bank: Northern Trust Bank of Florida, N.A.
1515 Ringling Blvd.
Sarasota, FL 34236
Attention: Peter L. Biegel,
Senior Vice President

if to Lennox: Lennox International Inc.
P. O. Box 799900
Dallas, Texas 75379-9900
Attention: Chief Financial Officer

if to Borrower: Northern Trust Bank of Florida/Sarasota, N.A.
Trustee U/A/W Loraine Booth Gimre Trust
1515 Ringling Blvd.
Sarasota, FL 34236
Attention: William C. Garr

(d) This Agreement contains the entire agreement between the parties hereto with respect to the disposition of stock contemplated herein and supersedes all prior agreements or understandings, if any, between the parties hereto relating to the subject matter hereof, and may not be modified except by written agreement signed by all of the parties hereto.

(e) The captions of each paragraph hereof are entered as a matter of convenience only and shall not be considered to be of any effect in the construction of this Agreement.

(f) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. THIS AGREEMENT HAS BEEN ENTERED INTO IN DALLAS COUNTY, TEXAS, SHALL BE PERFORMABLE FOR ALL PURPOSES IN DALLAS COUNTY, TEXAS AND THE BORROWER, LENNOX AND THE BANK AGREE THAT DALLAS COUNTY, TEXAS IS PROPER VENUE FOR ANY ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND THAT NO SUCH COURT IS AN INCONVENIENT FORUM. BORROWER, LENNOX AND THE BANK AGREE THAT SERVICE OF PROCESS UPON ANY OF THEM MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, AT THEIR ADDRESSES SPECIFIED ABOVE OR DETERMINED IN ACCORDANCE WITH THE PROVISIONS OF THIS AGREEMENT. NOTHING HEREIN OR IN ANY OF THE LOAN DOCUMENTS SHALL AFFECT THE RIGHT OF THE BANK TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

(g) All representations and warranties contained herein shall survive the execution of this Agreement.

(h) This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

THIS STOCK DISPOSITION AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ Clyde Wyant
Clyde Wyant
Executive Vice President, Chief Financial Officer and Treasurer

BORROWER: NORTHERN TRUST BANK OF FLORIDA, N.A. TRUSTEE U/A/W LORAINE BOOTH GIMRE TRUST

By: /s/ William C. Gaan
Name: William C. Gaan
Title: Vice President

BANK: NORTHERN TRUST BANK OF FLORIDA, N.A.

By: /s/ Peter L. Biegel
Name: Peter L. Biegel
Title: Senior Vice President

EXHIBIT 10.21

# MASTER STOCK DISPOSITION AGREEMENT
(this "Agreement")

THIS AGREEMENT is effective as of August 10, 1998, and is by and among LENNOX INTERNATIONAL INC., a Delaware corporation ("Lennox"), CHASE BANK OF TEXAS, NATIONAL ASSOCIATION, a national banking association (the "Bank") and each Borrower as defined herein.

## PRELIMINARY STATEMENTS:

WHEREAS, one or more shareholders of Lennox may from time to time request loans from Bank, and Bank may agree to make such loan subject to the conditions precedent that such loan be secured by an amount of Borrower's common stock of Lennox agreed by such Borrower and Bank, and that Bank shall have the rights and benefits provided for in this Agreement with respect to the Lennox stock securing such loan;

WHEREAS, Lennox has determined that it is in its best interests to enter into this Agreement to make provision for the potential future disposition of its stock; and

WHEREAS, Lennox stock is subject to certain restrictions, including a right of first refusal in favor of Lennox under the terms of its Certificate of Incorporation; and

WHEREAS, Lennox stock has value to the Bank as security only to the extent that the Bank can be assured that, upon the default of Borrower under the Note, there will be available a ready buyer or market for the Lennox stock pledged to secure the loans contemplated by this Agreement.

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

## DEFINITIONS

"Loan" each shall refer to refer to each Loan described in an Acceptance of Terms of Master Agreement substantially in the form of Exhibit B.

With respect to each Loan:

> "Note" shall refer to the Note evidencing such Loan, together with any and all renewals, extensions, modifications and replacements thereof.
>
> "Pledged Stock" shall refer to the Lennox stock securing such Loan and Note (including any Lennox stock replacing such Pledged Stock)
>
> "Security Agreement" shall mean the security agreement executed and delivered by the Borrower covering the Pledged Stock and securing the Loan and Note
>
> "Loan Documents" shall mean and include the Note and Security Agreement pertaining to the Loan and this Agreement including the Acceptance of Terms of Master Agreement executed by the Borrower in connection with the Loan
>
> "Borrower" shall mean each Borrower who obtains the Loan secured by Pledged Stock and who executes an Acceptance of Terms of Master Agreement substantially in the form of Exhibit B

## AGREEMENTS:

1. Conditions on the Ownership and Restrictions on the Transfer of the Pledged Stock. Each Borrower's ownership and the rights of the Bank with respect to the Pledged Stock are subject to the following:

> Pursuant to Article Sixteenth of the Lennox Restated Certificate of Incorporation, "No sale, assignment, transfer or other disposition... shall be effective unless and until there is compliance with the...terms and conditions" set forth therein and attached hereto and incorporated herein as EXHIBIT A.

The parties hereto understand and agree that the Borrower's rights in and to the Pledged Stock and any rights of the Bank thereto created as a result of the Loan and Security Agreement are expressly conditioned upon the above conditions set forth and referenced above in this Paragraph 1.

2. Disposition of Pledged Stock. At any time after the occurrence of an Event of Default, as defined in the Loan Documents between Borrower and the Bank pursuant to which the Loan is being made (an "Event of Default"), the Bank shall have the right to request and Lennox agrees to use its best efforts to perform one of the following: (a) within ninety (90) days of such demand, procure a ready and willing buyer for the Pledged Stock at the Applicable Market Value (as defined Exhibit A) of such shares; (b) within sixty (60) days of such demand, purchase from the Bank the Pledged Stock at the Applicable Market Value of such shares; or (c) with written consent of the Bank as to this option, as soon as practicable, register the Pledged Stock pursuant to the Securities Act of 1933; provided that (i) Lennox shall have the

option to perform under clause (a), (b) or (c) above so long as performance is completed within the time specified (during which time interest shall continue to accrue on the Note at the Default Rate (as defined in the Note), and (ii) neither the buyer under clause (a) above nor Lennox under clause (b) above shall be required to purchase Pledged Stock in excess of the number of shares pledged to secure the Note and required to pay the Bank an amount equal to the aggregate amount of the then outstanding indebtedness secured by the Pledged Stock. Notwithstanding anything else to the contrary herein, Lennox shall not be required to take any action pursuant to this Agreement that would cause Lennox to be in default under (i) the Revolving Credit Facility Agreement dated as of July 13, 1998, as amended, among Lennox, the banks named on the signature pages thereof, and the Bank, as Administrative Agent, and Wachovia Bank, N. A., , as Documentation Agent, or (ii) any note purchase agreements entered into in December 1991, December 1993, July 1995, and April !998, between Lennox and various note purchasers, as in effect on the date hereof, where the outstanding amount of a long term note issued thereunder exceeds $3,000,000; provided, however, that Lennox and Borrower agree that they will provide the Bank with a letter from the Chief Executive Officer, Chief Financial Officer or General Counsel as of the date of this Agreement and, thereafter, on a quarterly basis, within fifteen (15) days after request by the Bank, certifying that Lennox is not in default under any of the documents referred to in this sentence and that there is no default occurring therein relating to this Agreement as of the date of any such request by the Bank and failure by Borrower and Lennox to provide such a letter shall be an Event of Default under the Bank's Loan Documents.

If an Event of Default shall occur, the Bank shall also have the right, subject to the conditions set forth in Paragraph 1 hereof, to procure a buyer for the Pledged Stock; provided the Bank shall first offer the shares of the Pledged Stock to Lennox, whether or not the aggregate Applicable Market Value of the Pledged Stock shall be sufficient to pay in full all then outstanding indebtedness secured by the Pledged Stock; and provided, further, that the Bank's obligation to make such offer shall terminate in the event Lennox fails to exercise its right of first refusal by paying the Bank the Applicable Market Value of the Pledged Stock in cash within thirty (30) days of such offer.

3. Method of Demand. The right to demand performance by Lennox as described in Paragraph 2 hereof shall be exercised by the Bank giving written notice to Lennox (at the address set forth in Paragraph 6(c) below) of the Event of Default and the Bank's demand for such performance by Lennox. Any delay by the Bank in exercising such right after the occurrence of an Event of Default shall not operate as a waiver of such right or any other right provided for herein. Upon receipt of such demand, Lennox shall advise the Bank in writing within fifteen (15) business days whether it intends to perform under clause (a), (b) or (c) of Paragraph 2 hereof.

4. Method of Payment. The purchase price of the Pledged Stock (the "Purchase Price") shall be its Applicable Market Value as provided in Paragraph 2 hereof, and the full Purchase Price shall be paid in cash on the Closing Date as set forth in Paragraph 5 below.

5. Closing Date. Any purchase of the Pledged Stock by Lennox or a buyer procured by Lennox pursuant to Paragraph 2 hereof shall occur in Dallas, Texas at the principal office of the Bank or such other address in Dallas, Texas as the Bank shall designate, on a date mutually agreed by the Bank and Lennox, which date shall be not later than the last date for performance by Lennox or such buyer under Paragraph 2 hereof (the "Closing Date"). At the closing, the Bank shall deliver the certificates being purchased, duly endorsed or with duly completed stock powers, and the buyer of the Pledged Stock shall deliver to the Bank, the Purchase Price required to be paid on the Closing Date pursuant to Paragraph 4 above, which shall be payable through a wire transfer or a cashier's check in United States dollars from a bank acceptable to the Bank.

6. Miscellaneous.

(a) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns;

(b) Borrower shall reimburse Lennox for its reasonable out-of-pocket expenses (not including any Purchase Price paid by Lennox hereunder) in performing its obligations hereunder after an Event of Default has occurred;

(c) All notice and other communications provided for herein shall be validly given, made or served, if in writing and delivered personally or sent by certified mail, return receipt requested, postage prepaid:

if to the Bank: Chase Bank of Texas, National Association
2200 Ross Avenue
P. O. Box 660197
Dallas, Texas 75266-0197
Attention: Ms. Marcia B. Messinger,
Senior Vice President

if to Lennox: Lennox International Inc.
P. O. Box 799900
Dallas, Texas 75379-9900
Attention: Chief Financial Officer

if to Borrower: the address set out in the Borrower's Acceptance of Terms of Master Agreement

(c) This Agreement contains the entire agreement between the parties hereto with respect to the disposition of stock contemplated herein and supersedes all prior agreements or understandings, if any, between the parties hereto relating to the subject matter hereof, and may not be modified except by written agreement signed by all of the parties hereto.

(e) The captions of each paragraph hereof are entered as a matter of convenience only and shall not be considered to be of any effect in the construction of this Agreement.

(f) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. THIS AGREEMENT HAS BEEN ENTERED INTO IN DALLAS COUNTY, TEXAS, SHALL BE PERFORMABLE FOR ALL PURPOSES IN DALLAS COUNTY, TEXAS AND THE BORROWER, LENNOX AND THE BANK AGREE THAT DALLAS COUNTY, TEXAS IS PROPER VENUE FOR ANY ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND THAT NO SUCH COURT IS AN INCONVENIENT FORUM. BORROWER, LENNOX AND THE BANK AGREE THAT SERVICE OF PROCESS UPON ANY OF THEM MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, AT THEIR ADDRESSES SPECIFIED ABOVE OR DETERMINED IN ACCORDANCE WITH THE PROVISIONS OF THIS AGREEMENT. NOTHING HEREIN OR IN ANY OF THE NOTE OR SECURITY AGREEMENT SHALL AFFECT THE RIGHT OF THE BANK TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

(g) All representations and warranties contained herein shall survive the execution of this Agreement.

(h) This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

THIS STOCK DISPOSITION AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ Clyde Wyant
---
Clyde Wyant
Executive Vice President, Chief Financial Officer and Treasurer

BANK: CHASE BANK OF TEXAS, NATIONAL ASSOCIATION

By: /s/ Marcia B. Messinger
---
Marcia B. Messinger
Senior Vice President

EXHIBIT A TO
MASTER STOCK DISPOSITION AGREEMENT
effective as of the 10th day of August, 1998

Article Sixteenth of the Lennox Restated Certificate of Incorporation

"SIXTEENTH: 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 SIXTEENTH:

(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 SIXTEENTH. 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 SIXTEENTH 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

SIXTEENTH) 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 SIXTEENTH 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 SIXTEENTH.

(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 SIXTEENTH, 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 SIXTEENTH (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 SIXTEENTH.

(d) As used in this ARTICLE SIXTEENTH, 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 SIXTEENTH 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 SIXTEENTH 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.

Exhibit B

TO
MASTER STOCK DISPOSITION AGREEMENT
effective as of 8 - 10, 1998

ACCEPTANCE OF TERMS OF MASTER AGREEMENT

The undersigned Borrower, having been delivered and having reviewed a true and correct copy of the Master Stock Disposition Agreement between Lennox International Inc. ("Lennox"), Chase Bank of Texas, National Association ("Bank") dated 8 - 10, 1998 ("Agreement"), consents to become a party to that Agreement and be bound by its terms with respect to the Loan secured by the Pledged Stock of Lennox set out below. The Borrower also agrees that at all times loans are outstanding under the note below (or any renewal, extension or other rearrangement of such loans or note), Borrower will maintain collateral in the form of stock subject to the Agreement, or other readily marketable investment securities acceptable to Bank in its sole discretion, with a fair market value at least equal to the amount needed to maintain the maximum loan balance to collateral value ratio specified below.

Borrower's Name: Robert E. Schjerven
Address: 812 Woodhaven Drive
Highland Village, Texas 75067

Promissory Note dated: 8-10-98

Face Amount of Promissory Note: $1,993,356.35

Number of shares of Pledged Stock: 5060

Maximum loan balance to collateral value ratio: 80 %

THIS ACCEPTANCE OF TERMS, THE STOCK DISPOSITION AGREEMENT AND THE OTHER WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

I accept and agree to the terms of the Master Agreement:

BORROWER:

/s/ Robert E. Schjerven.
Name: Robert E. Schjerven
Date: 8/10/98

Acknowledged and agreed:

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ Clyde Wyant
Clyde Wyant
Executive Vice President, Chief Financial Officer and Treasurer

BANK: CHASE BANK OF TEXAS, NATIONAL ASSOCIATION

By: /s/ Marcia Messinger
Marcia Messinger
Senior Vice President

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Borrower's Name: John J. Hubbuch
Address: 4440 Longfellow Drive
Plano, Texas 75093

Promissory Note dated: August 10, 1998

Face Amount of Promissory Note: $410,000.00

Number of shares of Pledged Stock: 1065

Maximum loan balance to collateral value ratio: 80 %

THIS ACCEPTANCE OF TERMS, THE STOCK DISPOSITION AGREEMENT AND THE OTHER WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

I accept and agree to the terms of the Master Agreement:

BORROWER:

/s/ John J. Hubbuch

Name: John J. Hubbuch

Date: 8/10/98

Acknowledged and agreed:

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ Clyde Wyant
Clyde Wyant
Executive Vice President, Chief Financial Officer and Treasurer

BANK: CHASE BANK OF TEXAS, NATIONAL ASSOCIATION

By: /s/ Marcia Messinger
Marcia Messinger
Senior Vice President

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Borrower's Name: Harry J. Ashenhurst
Address: 2926 Cambridgeshire Drive
Carrollton, Texas 75007

Promissory Note dated: August 10, 1998

Face Amount of Promissory Note: $362,000.00

Number of shares of Pledged Stock: 1020

Maximum loan balance to collateral value ratio: 80 %

THIS ACCEPTANCE OF TERMS, THE STOCK DISPOSITION AGREEMENT AND THE OTHER WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

I accept and agree to the terms of the Master Agreement:

BORROWER:

/s/ Harry J. Ashenhurst
---

Name: Harry J. Ashenhurst

Date: 8/10/98

Acknowledged and agreed:

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ Clyde Wyant
---
Clyde Wyant
Executive Vice President, Chief Financial Officer and Treasurer

BANK: CHASE BANK OF TEXAS, NATIONAL ASSOCIATION

By: /s/ Marcia Messinger
---
Marcia Messinger
Senior Vice President

Exhibit B
TO
MASTER STOCK DISPOSITION AGREEMENT
effective as of 8 - 10, 1998

ACCEPTANCE OF TERMS OF MASTER AGREEMENT

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Borrower's Name: Clyde Wyant, Jr.
Address: 3101 Royal Ashdown Ct.
Plano , Texas 75093

Promissory Note dated: August 10, 1998

Face Amount of Promissory Note: $311,000.00

Number of shares of Pledged Stock: 1020

Maximum loan balance to collateral value ratio: 80 %

THIS ACCEPTANCE OF TERMS, THE STOCK DISPOSITION AGREEMENT AND THE OTHER WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

I accept and agree to the terms of the Master Agreement:

BORROWER:

/s/ Clyde Wyant, Jr.

Name: Clyde Wyant, Jr.

Date: 8/10/98

Acknowledged and agreed:

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ Clyde Wyant
Clyde Wyant
Executive Vice President, Chief Financial Officer and Treasurer

BANK: CHASE BANK OF TEXAS, NATIONAL ASSOCIATION

By: /s/ Marcia Messinger
Marcia Messinger
Senior Vice President

Exhibit B
TO
MASTER STOCK DISPOSITION AGREEMENT
effective as of 8 - 10, 1998

ACCEPTANCE OF TERMS OF MASTER AGREEMENT

The undersigned Borrower, having been delivered and having reviewed a true and correct copy of the Master Stock Disposition Agreement between Lennox International Inc. ("Lennox"), Chase Bank of Texas, National Association ("Bank") dated 8 - 10, 1998 ("Agreement"), consents to become a party to that Agreement and be bound by its terms with respect to the Loan secured by the Pledged Stock of Lennox set out below. The Borrower also agrees that at all times loans are outstanding under the note below (or any renewal, extension or other rearrangement of such loans or note), Borrower will maintain collateral in the form of stock subject to the Agreement, or other readily marketable investment securities acceptable to Bank in its sole discretion, with a fair market value at least equal to the amount needed to maintain the maximum loan balance to collateral value ratio specified below.

Borrower's Name: Horace E. French
Address: 2628 High Street
Conyers, GA 30094

Promissory Note dated: August 10, 1998

Face Amount of Promissory Note: $294,000.00

Number of shares of Pledged Stock: 1020

Maximum loan balance to collateral value ratio: 80 %

THIS ACCEPTANCE OF TERMS, THE STOCK DISPOSITION AGREEMENT AND THE OTHER WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

I accept and agree to the terms of the Master Agreement:

BORROWER:

/s/ Horace E. French

Name: Horace E. French

Date: 8/10/98

Acknowledged and agreed:

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ Clyde Wyant
Clyde Wyant
Executive Vice President, Chief Financial Officer and Treasurer

BANK: CHASE BANK OF TEXAS, NATIONAL ASSOCIATION

By: /s/ Marcia Messinger
Marcia Messinger
Senior Vice President

Exhibit B
TO
MASTER STOCK DISPOSITION AGREEMENT
effective as of 8 - 10, 1998

ACCEPTANCE OF TERMS OF MASTER AGREEMENT

The undersigned Borrower, having been delivered and having reviewed a true and correct copy of the Master Stock Disposition Agreement between Lennox International Inc. ("Lennox"), Chase Bank of Texas, National Association ("Bank") dated 8 - 10, 1998 ("Agreement"), consents to become a party to that Agreement and be bound by its terms with respect to the Loan secured by the Pledged Stock of Lennox set out below. The Borrower also agrees that at all times loans are outstanding under the note below (or any renewal, extension or other rearrangement of such loans or note), Borrower will maintain collateral in the form of stock subject to the Agreement, or other readily marketable investment securities acceptable to Bank in its sole discretion, with a fair market value at least equal to the amount needed to maintain the maximum loan balance to collateral value ratio specified below.

Borrower's Name: Michael G. Schwartz
Address: 4408 Autumn Ridge Lane
Sandusky, Ohio 44870

Promissory Note dated: August 10, 1998

Face Amount of Promissory Note: $453,000.00

Number of shares of Pledged Stock: 1100

Maximum loan balance to collateral value ratio: 80 %

THIS ACCEPTANCE OF TERMS, THE STOCK DISPOSITION AGREEMENT AND THE OTHER WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

I accept and agree to the terms of the Master Agreement:

BORROWER:

/s/ Michael G. Schwartz

Name: Michael G. Schwartz

Date: 8/10/98

Acknowledged and agreed:

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ Clyde Wyant
Clyde Wyant
Executive Vice President, Chief Financial Officer and Treasurer

BANK: CHASE BANK OF TEXAS, NATIONAL ASSOCIATION

By: /s/ Marcia Messinger
Marcia Messinger
Senior Vice President

Exhibit B
TO
MASTER STOCK DISPOSITION AGREEMENT
effective as of August 13, 1998

ACCEPTANCE OF TERMS OF MASTER AGREEMENT

The undersigned Borrower, having been delivered and having reviewed a true and correct copy of the Master Stock Disposition Agreement between Lennox International Inc. ("Lennox"), Chase Bank of Texas, National Association ("Bank") dated August 13, 1998 ("Agreement"), consents to become a party to that Agreement and be bound by its terms with respect to the Loan secured by the Pledged Stock of Lennox set out below. The Borrower also agrees that at all times loans are outstanding under the note below (or any renewal, extension or other rearrangement of such loans or note), Borrower will maintain collateral in the form of stock subject to the Agreement, or other readily marketable investment securities acceptable to Bank in its sole discretion, with a fair market value at least equal to the amount needed to maintain the maximum loan balance to collateral value ratio specified below.

Borrower's Name: Karen O'Shea
Address: 18404 Rain Dance Trail
Dallas, Texas 75007

Promissory Note dated: August 13, 1998

Face Amount of Promissory Note: $70,000.00

Number of shares of Pledged Stock: 289

Maximum loan balance to collateral value ratio: 80 %

THIS ACCEPTANCE OF TERMS, THE STOCK DISPOSITION AGREEMENT AND THE OTHER WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

I accept and agree to the terms of the Master Agreement:

BORROWER:

/s/ Karen O'Shea

Name: Karen O'Shea

Date: 8/13/98

Acknowledged and agreed:

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ Clyde Wyant
Clyde Wyant
Executive Vice President, Chief Financial Officer and Treasurer

BANK: CHASE BANK OF TEXAS, NATIONAL ASSOCIATION

By: /s/ Marcia Messinger
Marcia Messinger
Senior Vice President

MASTER STOCK DISPOSITION AGREEMENTS W/CHASE

| | Status |
|---|---|
| Bob Schjerven | |
| Carl Edwards, Jr. | repaid |
| Clyde Wyant | |
| Ed French | |
| Harry Ashenhurst | |
| John Hubbuch | |
| Karen O'Shea | |
| Mike Schwartz | |
| Lane Pennington | (did not participate) |

EXHIBIT 10.22

# STOCK DISPOSITION AGREEMENT
(this "Agreement")

THIS AGREEMENT is effective as of the 19th day of Nov., 1998 and is by and among John E. Major ("Borrower"), LENNOX INTERNATIONAL INC., a Delaware corporation ("Lennox"), and Harry Trust & Savings Bank, a federal banking association, with its principal office located in Chicago, IL (the "Bank").

## PRELIMINARY STATEMENTS:

WHEREAS, Borrower is the owner of 65 shares of the capital stock of Lennox (the "Pledged Stock"); and

WHEREAS, it is the desire of the parties hereto that the Bank make a term loan to Borrower in the principal amount of $350,000 maturing on Demand (the "Loan"), which loan shall be evidenced by a promissory note dated of even date herewith (together with any and all renewals, extensions, modifications and replacements thereof, the "Note") and secured by, among other things, the Pledged Stock pursuant to a Security Agreement executed by Borrower and delivered to Bank and dated of even date herewith ("Security Agreement"); and

WHEREAS, Lennox has determined that it is in its best interests to enter into this Agreement to make provision for the potential future disposition of its stock; and

WHEREAS, the Pledged Stock is subject to certain restrictions, including a right of first refusal in favor of Lennox under the terms of its Certificate of Incorporation; and

WHEREAS, the Pledged Stock has value to the Bank as security only to the extent that the Bank can be assured that, upon the default of Borrower under the Note, there will be available a ready buyer or market for the Pledged Stock.

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

## AGREEMENTS:

1. Conditions on the Ownership and Restrictions on the Transfer of the Pledged Stock. The Borrower's ownership and the rights of the Bank with respect to the Pledged Stock are subject to the following:

(a) Pursuant to Article Sixteenth of the Lennox Restated Certificate of Incorporation, "No sale, assignment, transfer or other disposition... shall be effective unless and until there is compliance with the...terms and conditions" set forth therein. The Restated Certificate of Incorporation of Lennox is attached hereto and incorporated herein as EXHIBIT A.

The parties hereto understand and agree that the Borrower's rights in and to the Pledged Stock and any rights of the Bank thereto created as a result of the Loan and Security Agreement are expressly conditioned upon the above conditions set forth and referenced above in this Paragraph 1.

2. Disposition of Pledged Stock. At any time after the occurrence of an Event of Default, as defined in the Loan Agreement between Borrower and the Bank pursuant to which the Loan is being made (an "Event of Default"), the Bank shall have the right to request and Lennox agrees to use its best efforts to perform one of the following: (a) within sixty (60) days of such demand, procure a ready and willing buyer for the Pledged Stock at the Value (as defined in the Loan Agreement) of such shares; (b) within thirty (30) days of such demand, purchase from the Bank the Pledged Stock at the Value of such shares; or (c) if, at the time of an Event of Default, Lennox common stock is listed for trading on a stock exchange or other recognized securities market and has an average daily trading volume of 25,000 shares, then as soon as practicable, but within one hundred eighty (180) days of such demand, register the Pledged Stock pursuant to the Securities Act of 1933; provided that (i) Lennox shall have the option to perform under clause (a), (b) or (c) above so long as performance is completed within the number of days specified (during which time interest shall continue to accrue on the Note at the Default Rate (as defined in the Note), and (ii) neither the buyer under clause (a) above nor Lennox under clause (b) above shall be required to purchase Pledged Stock in excess of the number of shares pledged to secure the Note and required to pay Bank an amount equal to the aggregate amount of the then outstanding indebtedness secured by the Pledged Stock. Notwithstanding anything else to the contrary herein, Lennox shall not be required to take any action pursuant to this Agreement that would cause Lennox to be in default under (i) the Revolving Credit Agreement dated as of December 4, 1991, as amended, among Lennox, the banks named on the signature pages thereof, and The Northern Trust Company, as Agent, or (ii) any note purchase agreements entered into in December 1991, December 1993, and July 1995, between Lennox and various note purchasers, as in effect on the date hereof, where the outstanding amount of a long term note issued thereunder exceeds $5,000,000.

If an Event of Default shall occur, the Bank shall also have the right, subject to the conditions set forth in Paragraph 1 hereof, to procure a buyer for the Pledged Stock; provided that the Bank shall first offer the shares of the Pledged Stock to Lennox, whether or not the aggregate Value of the Pledged Stock shall be sufficient to pay in full all then outstanding indebtedness secured by the Pledged Stock; and provided, further, that Bank's obligation to make such offer shall terminate in the event Lennox fails to exercise its right of first refusal by paying Bank the Value of the Pledged Stock in cash within thirty (30) days of such offer.

3. Method of Demand. The right to demand performance by Lennox as described in Paragraph 2 hereof shall be exercised by Bank giving written notice to Lennox (at the address set forth in Paragraph 9(b) below) of the Event of Default and the Bank's demand for such performance by Lennox. Any delay by Bank in exercising such right after the occurrence of an Event of Default shall not operate as a waiver of such right or any other right provided for herein. Upon receipt of such demand, Lennox shall advise the Bank in writing within ten (10) business days whether it intends to perform under clause (a), (b) or (c) of Paragraph 2 hereof. Lennox shall promptly commence said performance and shall diligently pursue completion of its performance.

4. Method of Payment. The purchase price of the Pledged Stock (the "Purchase Price") shall be its Value as provided in Paragraph 2 hereof, and the full Purchase Price shall be paid in cash on the Closing Date as set forth in Paragraph 5 below.

5. Closing Date. Any purchase of the Pledged Stock by Lennox or a buyer procured by Lennox pursuant to Paragraph 2 hereof shall occur in Dallas, Texas at the principal office of Bank or such other address in Illinois as Bank shall designate, on a date mutually agreed by Bank and Lennox, which date shall be not later than the last date for performance by Lennox or such buyer under Paragraph 2 hereof (the "Closing Date"). At the closing, Bank shall deliver the certificates being purchased, duly endorsed or with duly completed stock powers, and the buyer of the Pledged Stock shall deliver to Bank, the Purchase Price required to be paid on the Closing Date pursuant to Paragraph 4 above, which shall be payable through a wire transfer or a cashier's check in United States dollars from a bank acceptable to Bank.

6. Representations, Warranties and Covenants.

(a) This Agreement has been duly authorized by all corporate or other actions necessary on the part of Borrower and Lennox, respectively. This Agreement constitutes a valid and binding agreement of Borrower and Lennox, and is enforceable against Borrower and Lennox, respectively, in accordance with its terms, except that such enforceability may be limited by (i) general principles of equity (regardless of whether relief is sought in an action at law or in equity) and (ii) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws from time to time in effect affecting enforcement of creditors' rights generally.

(b) Borrower hereby agrees that the disposition of the Pledged Stock in the manner and on such terms as are provided in this Agreement shall be deemed for all purposes as a "commercially reasonable" sale as required by the Texas Business and Commerce Code, regardless of whether the book, market or other value of the Pledged Stock is equal to, above or below the Purchase Price.

(c) BANK HAS MADE NO REPRESENTATION OR WARRANTY WHATSOEVER CONCERNING THE INVESTMENT VALUE OF THE PLEDGED STOCK. THE BORROWER AND LENNOX AGREE THAT THIS AGREEMENT CONTEMPLATES THAT NEITHER BORROWER NOR LENNOX SHALL BE ENTITLED TO ASSERT ANY SUCH REPRESENTATION OR WARRANTY BY BANK, AT ANY TIME. BORROWER AND LENNOX AGREE TO INDEMNIFY AND HOLD BANK HARMLESS WITH RESPECT TO ANY CLAIM MADE BY ANY PARTY HERETO, OR ANY SUCCESSOR OR ASSIGN, ASSERTING SUCH A REPRESENTATION OR WARRANTY BY BANK.

(d) Each of the parties hereto agree to undertake such additional agreements, execute such additional documents, and do such other acts and things as may be reasonably required to effect the purposes of this Agreement.

(e) To the extent that any provision of this Agreement is in conflict with any provision in any prior agreement between Borrower and Lennox, this Agreement shall control.

(f) Borrower shall reimburse Lennox for its reasonable out-of-pocket expenses (not including any Purchase Price paid by Lennox hereunder) in performing its obligations hereunder after an Event of Default has occurred.

7. Breach of Agreement. It is agreed that a breach by Lennox in the performance of its obligations hereunder cannot be adequately measured or compensated in money damages, and that any such breach would do irreparable injury to Bank. It is therefore agreed that in the event of any breach or threatened breach by Lennox of the terms and conditions set forth herein, Bank shall be entitled, in addition to any and all rights and remedies which it may have in law or in equity, to apply for and obtain injunctive relief requiring Lennox to be restrained from any such breach, threatened breach or to refrain from a continuation of any actual breach and mandating that Lennox perform under this Agreement.

8. Parties Bound. All representations, warranties, covenants and agreements made by or on behalf of Lennox and Borrower shall bind Lennox and Borrower and the heirs, devisees, executors, administrators, personal representatives, successors, trustees, receivers, and assigns of Borrower and Lennox and inure to the benefit of the successors and assigns of the Bank.

9. Miscellaneous.

(a) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that Lennox may not assign its rights, privileges or obligations hereunder at any time, and shall be required to adhere to and carry out the duties as set forth herein. Any attempted assignment by Lennox shall be null and void and shall not relieve it of any of its obligations, responsibilities, representations and warranties contained in this Agreement.

(b) All notice and other communications provided for herein shall be validly given, made or served, if in writing and delivered personally or sent by certified mail, return receipt requested, postage prepaid:

if to Bank: Harris Trust & Savings Bank
111 W. Monroe Street
Chicago, IL 60603

Attention: Kathryn Vander Zanden
Senior Vice President

if to Lennox: Lennox International Inc.
P. O. Box 799900
Dallas, Texas 75379-9900
Attention: Chief Financial Officer

if to Borrower: John E. Major
16720 Las Cuestas
Rancho Santa Fe, CA 92067
Attention: _____
_____

(c) This Agreement contains the entire agreement between the parties hereto with respect to the disposition of stock contemplated herein and supersedes all prior agreements or understandings, if any, between the parties hereto relating to the subject matter hereof, and may not be modified except by written agreement signed by all of the parties hereto.

(d) The captions of each paragraph hereof are entered as a matter of convenience only and shall not be considered to be of any effect in the construction of this Agreement.

(e) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. THIS AGREEMENT HAS BEEN ENTERED INTO IN DALLAS COUNTY, TEXAS, SHALL BE PERFORMABLE FOR ALL PURPOSES IN DALLAS COUNTY, TEXAS AND THE BORROWER, LENNOX AND THE BANK AGREE THAT DALLAS COUNTY, TEXAS IS PROPER VENUE FOR ANY ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND THAT NO SUCH COURT IS AN INCONVENIENT FORUM. BORROWER, LENNOX AND BANK AGREE THAT SERVICE OF PROCESS UPON ANY OF THEM MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, AT THEIR ADDRESSES SPECIFIED ABOVE OR DETERMINED IN ACCORDANCE WITH THE PROVISIONS OF THIS AGREEMENT. NOTHING HEREIN OR IN ANY OF THE NOTE OR SECURITY AGREEMENT SHALL AFFECT THE RIGHT OF THE BANK TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

(f) All representations and warranties contained herein shall survive the execution of this Agreement.

(g) This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

THIS STOCK DISPOSITION AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ Clyde Wyant
---
Clyde Wyant
Executive Vice President, Chief Financial Officer and Treasurer

BORROWER: John E. Major

By: /s/ John E. Major
---

BANK: Harris Trust & Savings Bank

By: /s/ Kathryn Vander Zanden
---
Kathryn Vander Zanden
Vice President

EXHIBIT 10.23

STOCK DISPOSITION AGREEMENT
(this "Agreement")

THIS AGREEMENT is effective as of the 19th day of Nov., 1998 and is by and among John E. Major and Susan M. Major ("Borrower"), LENNOX INTERNATIONAL INC., a Delaware corporation ("Lennox"), and Harry Trust & Savings Bank, a federal banking association, with its principal office located in Chicago, IL (the "Bank").

PRELIMINARY STATEMENTS:

WHEREAS, Borrower is the owner of 324 shares of the capital stock of Lennox (the "Pledged Stock"); and

WHEREAS, it is the desire of the parties hereto that the Bank make a term loan to Borrower in the principal amount of $350,000 maturing on Demand (the "Loan"), which loan shall be evidenced by a promissory note dated of even date herewith (together with any and all renewals, extensions, modifications and replacements thereof, the "Note") and secured by, among other things, the Pledged Stock pursuant to a Security Agreement executed by Borrower and delivered to Bank and dated of even date herewith ("Security Agreement"); and

WHEREAS, Lennox has determined that it is in its best interests to enter into this Agreement to make provision for the potential future disposition of its stock; and

WHEREAS, the Pledged Stock is subject to certain restrictions, including a right of first refusal in favor of Lennox under the terms of its Certificate of Incorporation; and

WHEREAS, the Pledged Stock has value to the Bank as security only to the extent that the Bank can be assured that, upon the default of Borrower under the Note, there will be available a ready buyer or market for the Pledged Stock.

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

AGREEMENTS:

1. Conditions on the Ownership and Restrictions on the Transfer of the Pledged Stock. The Borrower's ownership and the rights of the Bank with respect to the Pledged Stock are subject to the following:

(a) Pursuant to Article Sixteenth of the Lennox Restated Certificate of Incorporation, "No sale, assignment, transfer or other disposition... shall be effective unless and until there is compliance with the...terms and conditions" set forth therein. The Restated Certificate of Incorporation of Lennox is attached hereto and incorporated herein as EXHIBIT A.

The parties hereto understand and agree that the Borrower's rights in and to the Pledged Stock and any rights of the Bank thereto created as a result of the Loan and Security Agreement are expressly conditioned upon the above conditions set forth and referenced above in this Paragraph 1.

2. Disposition of Pledged Stock. At any time after the occurrence of an Event of Default, as defined in the Loan Agreement between Borrower and the Bank pursuant to which the Loan is being made (an "Event of Default"), the Bank shall have the right to request and Lennox agrees to use its best efforts to perform one of the following: (a) within sixty (60) days of such demand, procure a ready and willing buyer for the Pledged Stock at the Value (as defined in the Loan Agreement) of such shares; (b) within thirty (30) days of such demand, purchase from the Bank the Pledged Stock at the Value of such shares; or (c) if, at the time of an Event of Default, Lennox common stock is listed for trading on a stock exchange or other recognized securities market and has an average daily trading volume of 25,000 shares, then as soon as practicable, but within one hundred eighty (180) days of such demand, register the Pledged Stock pursuant to the Securities Act of 1933; provided that (i) Lennox shall have the option to perform under clause (a), (b) or (c) above so long as performance is completed within the number of days specified (during which time interest shall continue to accrue on the Note at the Default Rate (as defined in the Note), and (ii) neither the buyer under clause (a) above nor Lennox under clause (b) above shall be required to purchase Pledged Stock in excess of the number of shares pledged to secure the Note and required to pay Bank an amount equal to the aggregate amount of the then outstanding indebtedness secured by the Pledged Stock. Notwithstanding anything else to the contrary herein, Lennox shall not be required to take any action pursuant to this Agreement that would cause Lennox to be in default under (i) the Revolving Credit Agreement dated as of December 4, 1991, as amended, among Lennox, the banks named on the signature pages thereof, and The Northern Trust Company, as Agent, or (ii) any note purchase agreements entered into in December 1991, December 1993, and July 1995, between Lennox and various note purchasers, as in effect on the date hereof, where the outstanding amount of a long term note issued thereunder exceeds $5,000,000.

If an Event of Default shall occur, the Bank shall also have the right, subject to the conditions set forth in Paragraph 1 hereof, to procure a buyer for the Pledged Stock; provided that the Bank shall first offer the shares of the Pledged Stock to Lennox, whether or not the aggregate Value of the Pledged Stock shall be sufficient to pay in full all then outstanding indebtedness secured by the Pledged Stock; and provided, further, that Bank's obligation to make such offer shall terminate in the event Lennox fails to exercise its right of first refusal by paying Bank the Value of the Pledged Stock in cash within thirty (30) days of such offer.

3. Method of Demand. The right to demand performance by Lennox as described in Paragraph 2 hereof shall be exercised by Bank giving written notice to Lennox (at the address set forth in Paragraph 9(b) below) of the Event of Default and the Bank's demand for such performance by Lennox. Any delay by Bank in exercising such right after the occurrence of an Event of Default shall not operate as a waiver of such right or any other right provided for herein. Upon receipt of such demand, Lennox shall advise the Bank in writing within ten (10) business days whether it intends to perform under clause (a), (b) or (c) of Paragraph 2 hereof. Lennox shall promptly commence said performance and shall diligently pursue completion of its performance.

4. Method of Payment. The purchase price of the Pledged Stock (the "Purchase Price") shall be its Value as provided in Paragraph 2 hereof, and the full Purchase Price shall be paid in cash on the Closing Date as set forth in Paragraph 5 below.

5. Closing Date. Any purchase of the Pledged Stock by Lennox or a buyer procured by Lennox pursuant to Paragraph 2 hereof shall occur in Dallas, Texas at the principal office of Bank or such other address in Illinois as Bank shall designate, on a date mutually agreed by Bank and Lennox, which date shall be not later than the last date for performance by Lennox or such buyer under Paragraph 2 hereof (the "Closing Date"). At the closing, Bank shall deliver the certificates being purchased, duly endorsed or with duly completed stock powers, and the buyer of the Pledged Stock shall deliver to Bank, the Purchase Price required to be paid on the Closing Date pursuant to Paragraph 4 above, which shall be payable through a wire transfer or a cashier's check in United States dollars from a bank acceptable to Bank.

6. Representations, Warranties and Covenants.

(a) This Agreement has been duly authorized by all corporate or other actions necessary on the part of Borrower and Lennox, respectively. This Agreement constitutes a valid and binding agreement of Borrower and Lennox, and is enforceable against Borrower and Lennox, respectively, in accordance with its terms, except that such enforceability may be limited by (i) general principles of equity (regardless of whether relief is sought in an action at law or in equity) and (ii) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws from time to time in effect affecting enforcement of creditors' rights generally.

(b) Borrower hereby agrees that the disposition of the Pledged Stock in the manner and on such terms as are provided in this Agreement shall be deemed for all purposes as a "commercially reasonable" sale as required by the Texas Business and Commerce Code, regardless of whether the book, market or other value of the Pledged Stock is equal to, above or below the Purchase Price.

(c) BANK HAS MADE NO REPRESENTATION OR WARRANTY WHATSOEVER CONCERNING THE INVESTMENT VALUE OF THE PLEDGED STOCK. THE BORROWER AND LENNOX AGREE THAT THIS AGREEMENT CONTEMPLATES THAT NEITHER BORROWER NOR LENNOX SHALL BE ENTITLED TO ASSERT ANY SUCH REPRESENTATION OR WARRANTY BY BANK, AT ANY TIME. BORROWER AND LENNOX AGREE TO INDEMNIFY AND HOLD BANK HARMLESS WITH RESPECT TO ANY CLAIM MADE BY ANY PARTY HERETO, OR ANY SUCCESSOR OR ASSIGN, ASSERTING SUCH A REPRESENTATION OR WARRANTY BY BANK.

(d) Each of the parties hereto agree to undertake such additional agreements, execute such additional documents, and do such other acts and things as may be reasonably required to effect the purposes of this Agreement.

(e) To the extent that any provision of this Agreement is in conflict with any provision in any prior agreement between Borrower and Lennox, this Agreement shall control.

(f) Borrower shall reimburse Lennox for its reasonable out-of-pocket expenses (not including any Purchase Price paid by Lennox hereunder) in performing its obligations hereunder after an Event of Default has occurred.

7. Breach of Agreement. It is agreed that a breach by Lennox in the performance of its obligations hereunder cannot be adequately measured or compensated in money damages, and that any such breach would do irreparable injury to Bank. It is therefore agreed that in the event of any breach or threatened breach by Lennox of the terms and conditions set forth herein, Bank shall be entitled, in addition to any and all rights and remedies which it may have in law or in equity, to apply for and obtain injunctive relief requiring Lennox to be restrained from any such breach, threatened breach or to refrain from a continuation of any actual breach and mandating that Lennox perform under this Agreement.

8. Parties Bound. All representations, warranties, covenants and agreements made by or on behalf of Lennox and Borrower shall bind Lennox and Borrower and the heirs, devisees, executors, administrators, personal representatives, successors, trustees, receivers, and assigns of Borrower and Lennox and inure to the benefit of the successors and assigns of the Bank.

9. Miscellaneous.

(a) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that Lennox may not assign its rights, privileges or obligations hereunder at any time, and shall be required to adhere to and carry out the duties as set forth herein. Any attempted assignment by Lennox shall be null and void and shall not relieve it of any of its obligations, responsibilities, representations and warranties contained in this Agreement.

(b) All notice and other communications provided for herein shall be validly given, made or served, if in writing and delivered personally or sent by certified mail, return receipt requested, postage prepaid:

if to Bank: Harris Trust & Savings Bank
111 W. Monroe Street
Chicago, IL 60603

Attention: Kathryn Vander Zanden
Senior Vice President

if to Lennox: Lennox International Inc.
P. O. Box 799900
Dallas, Texas 75379-9900
Attention: Chief Financial Officer

if to Borrower: John E. Major & Susan M. Major
16720 Las Cuestas
Rancho Santa Fe, CA 92067
Attention:
---
---

(c) This Agreement contains the entire agreement between the parties hereto with respect to the disposition of stock contemplated herein and supersedes all prior agreements or understandings, if any, between the parties hereto relating to the subject matter hereof, and may not be modified except by written agreement signed by all of the parties hereto.

(d) The captions of each paragraph hereof are entered as a matter of convenience only and shall not be considered to be of any effect in the construction of this Agreement.

(e) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. THIS AGREEMENT HAS BEEN ENTERED INTO IN DALLAS COUNTY, TEXAS, SHALL BE PERFORMABLE FOR ALL PURPOSES IN DALLAS COUNTY, TEXAS AND THE BORROWER, LENNOX AND THE BANK AGREE THAT DALLAS COUNTY, TEXAS IS PROPER VENUE FOR ANY ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND THAT NO SUCH COURT IS AN INCONVENIENT FORUM. BORROWER, LENNOX AND BANK AGREE THAT SERVICE OF PROCESS UPON ANY OF THEM MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, AT THEIR ADDRESSES SPECIFIED ABOVE OR DETERMINED IN ACCORDANCE WITH THE PROVISIONS OF THIS AGREEMENT. NOTHING HEREIN OR IN ANY OF THE NOTE OR SECURITY AGREEMENT SHALL AFFECT THE RIGHT OF THE BANK TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

(f) All representations and warranties contained herein shall survive the execution of this Agreement.

(g) This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

THIS STOCK DISPOSITION AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ Clyde Wyant
---
Clyde Wyant
Executive Vice President,
Chief Financial Officer and Treasurer

BORROWER: John E. Major

By: /s/ John E. Major
---

Susan M. Major

By: /s/ Susan M. Major
---

BANK: Harris Trust & Savings Bank

By: /s/ Kathryn Vander Zanden
---
Kathryn Vander Zanden
Vice President

EXHIBIT 10.24

# STOCK DISPOSITION AGREEMENT
(this "Agreement")

THIS AGREEMENT is effective as of the 10th day of February, 1999 and is by and among David H. Anderson, Trustee for Leo E. Anderson Trust ("Borrower"), LENNOX INTERNATIONAL INC., a Delaware corporation ("Lennox"), and Northern Trust Bank of Texas, N.A., a federal banking association, with its principal office located in Dallas, Texas (the "Bank").

## PRELIMINARY STATEMENTS:

WHEREAS, Borrower is the owner of 1,270 shares of the capital stock of Lennox (the "Pledged Stock"); and

WHEREAS, it is the desire of the parties hereto that the Bank make a term loan to Borrower in the principal amount of $400,000 maturing as of February 10, 2000 (1) year from the date hereof (the "Loan"), which loan shall be evidenced by a promissory note dated of even date herewith (together with any and all renewals, extensions, modifications and replacements thereof, the "Note") and secured by, among other things, the Pledged Stock pursuant to a Security Agreement executed by Borrower and delivered to Bank and dated of even date herewith ("Security Agreement"); and

WHEREAS, Lennox has determined that it is in its best interests to enter into this Agreement to make provision for the potential future disposition of its stock; and

WHEREAS, the Pledged Stock is subject to certain restrictions, including a right of first refusal in favor of Lennox under the terms of its Certificate of Incorporation; and

WHEREAS, the Pledged Stock has value to the Bank as security only to the extent that the Bank can be assured that, upon the default of Borrower under the Note, there will be available a ready buyer or market for the Pledged Stock.

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

## AGREEMENTS:

1. Conditions on the Ownership and Restrictions on the Transfer of the Pledged Stock. The Borrower's ownership and the rights of the Bank with respect to the Pledged Stock are subject to the following:

(a) Pursuant to Article Sixteenth of the Lennox Restated Certificate of Incorporation, "No sale, assignment, transfer or other disposition... shall be effective unless and until there is compliance with the...terms and conditions" set forth therein. The Restated Certificate of Incorporation of Lennox is attached hereto and incorporated herein as EXHIBIT A.

The parties hereto understand and agree that the Borrower's rights in and to the Pledged Stock and any rights of the Bank thereto created as a result of the Loan and Security Agreement are expressly conditioned upon the above conditions set forth and referenced above in this Paragraph 1.

2. Disposition of Pledged Stock. At any time after the occurrence of an Event of Default, as defined in the Loan Agreement between Borrower and the Bank pursuant to which the Loan is being made (an "Event of Default"), the Bank shall have the right to request and Lennox agrees to use its best efforts to perform one of the following: (a) within sixty (60) days of such demand, procure a ready and willing buyer for the Pledged Stock at the Value (as defined in the Loan Agreement) of such shares; (b) within thirty (30) days of such demand, purchase from the Bank the Pledged Stock at the Value of such shares; or (c) if, at the time of an Event of Default, Lennox common stock is listed for trading on a stock exchange or other recognized securities market and has an average daily trading volume of 25,000 shares, then as soon as practicable, but within one hundred eighty (180) days of such demand, register the Pledged Stock pursuant to the Securities Act of 1933; provided that (i) Lennox shall have the option to perform under clause (a), (b) or (c) above so long as performance is completed within the number of days specified (during which time interest shall continue to accrue on the Note at the Default Rate (as defined in the Note), and (ii) neither the buyer under clause (a) above nor Lennox under clause (b) above shall be required to purchase Pledged Stock in excess of the number of shares pledged to secure the Note and required to pay Bank an amount equal to the aggregate amount of the then outstanding indebtedness secured by the Pledged Stock. Notwithstanding anything else to the contrary herein, Lennox shall not be required to take any action pursuant to this Agreement that would cause Lennox to be in default under (i) the Revolving Credit Agreement dated as of December 4, 1991, as amended, among Lennox, the banks named on the signature pages thereof, and The Northern Trust Company, as Agent, or (ii) any note purchase agreements entered into in December 1991, December 1993, and July 1995, between Lennox and various note purchasers, as in effect on the date hereof, where the outstanding amount of a long term note issued thereunder exceeds $5,000,000.

If an Event of Default shall occur, the Bank shall also have the right, subject to the conditions set forth in Paragraph 1 hereof, to procure a buyer for the Pledged Stock; provided that the Bank shall first offer the shares of the Pledged Stock to Lennox, whether or not the aggregate Value of the Pledged Stock shall be sufficient to pay in full all then outstanding indebtedness secured by the Pledged Stock; and provided, further, that Bank's obligation to make such offer shall terminate in the event Lennox fails to exercise its right of first refusal by paying Bank the Value of the Pledged Stock in cash within thirty (30) days of such offer.

3. Method of Demand. The right to demand performance by Lennox as described in Paragraph 2 hereof shall be exercised by Bank giving written notice to Lennox (at the address set forth in Paragraph 9(b) below) of the Event of Default and the Bank's demand for such performance by Lennox. Any delay by Bank in exercising such right after the occurrence of an Event of Default shall not operate as a waiver of such right or any other right provided for herein. Upon receipt of

such demand, Lennox shall advise the Bank in writing within ten (10) business days whether it intends to perform under clause (a), (b) or (c) of Paragraph 2 hereof. Lennox shall promptly commence said performance and shall diligently pursue completion of its performance.

4. Method of Payment. The purchase price of the Pledged Stock (the "Purchase Price") shall be its Value as provided in Paragraph 2 hereof, and the full Purchase Price shall be paid in cash on the Closing Date as set forth in Paragraph 5 below.

5. Closing Date. Any purchase of the Pledged Stock by Lennox or a buyer procured by Lennox pursuant to Paragraph 2 hereof shall occur in Dallas, Texas at the principal office of Bank or such other address in Dallas, Texas as Bank shall designate, on a date mutually agreed by Bank and Lennox, which date shall be not later than the last date for performance by Lennox or such buyer under Paragraph 2 hereof (the "Closing Date"). At the closing, Bank shall deliver the certificates being purchased, duly endorsed or with duly completed stock powers, and the buyer of the Pledged Stock shall deliver to Bank, the Purchase Price required to be paid on the Closing Date pursuant to Paragraph 4 above, which shall be payable through a wire transfer or a cashier's check in United States dollars from a bank acceptable to Bank.

6. Representations, Warranties and Covenants.

(a) This Agreement has been duly authorized by all corporate or other actions necessary on the part of Borrower and Lennox, respectively. This Agreement constitutes a valid and binding agreement of Borrower and Lennox, and is enforceable against Borrower and Lennox, respectively, in accordance with its terms, except that such enforceability may be limited by (i) general principles of equity (regardless of whether relief is sought in an action at law or in equity) and (ii) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws from time to time in effect affecting enforcement of creditors' rights generally.

(b) Borrower hereby agrees that the disposition of the Pledged Stock in the manner and on such terms as are provided in this Agreement shall be deemed for all purposes as a "commercially reasonable" sale as required by the Texas Business and Commerce Code, regardless of whether the book, market or other value of the Pledged Stock is equal to, above or below the Purchase Price.

(c) BANK HAS MADE NO REPRESENTATION OR WARRANTY WHATSOEVER CONCERNING THE INVESTMENT VALUE OF THE PLEDGED STOCK. THE BORROWER AND LENNOX AGREE THAT THIS AGREEMENT CONTEMPLATES THAT NEITHER BORROWER NOR LENNOX SHALL BE ENTITLED TO ASSERT ANY SUCH REPRESENTATION OR WARRANTY BY BANK, AT ANY TIME. BORROWER AND LENNOX AGREE TO INDEMNIFY AND HOLD BANK HARMLESS WITH RESPECT TO ANY CLAIM MADE BY ANY PARTY HERETO, OR ANY SUCCESSOR OR ASSIGN, ASSERTING SUCH A REPRESENTATION OR WARRANTY BY BANK.

(d) Each of the parties hereto agree to undertake such additional agreements, execute such additional documents, and do such other acts and things as may be reasonably required to effect the purposes of this Agreement.

(e) To the extent that any provision of this Agreement is in conflict with any provision in any prior agreement between Borrower and Lennox, this Agreement shall control.

(f) Borrower shall reimburse Lennox for its reasonable out-of-pocket expenses (not including any Purchase Price paid by Lennox hereunder) in performing its obligations hereunder after an Event of Default has occurred.

7. Breach of Agreement. It is agreed that a breach by Lennox in the performance of its obligations hereunder cannot be adequately measured or compensated in money damages, and that any such breach would do irreparable injury to Bank. It is therefore agreed that in the event of any breach or threatened breach by Lennox of the terms and conditions set forth herein, Bank shall be entitled, in addition to any and all rights and remedies which it may have in law or in equity, to apply for and obtain injunctive relief requiring Lennox to be restrained from any such breach, threatened breach or to refrain from a continuation of any actual breach and mandating that Lennox perform under this Agreement.

8. Parties Bound. All representations, warranties, covenants and agreements made by or on behalf of Lennox and Borrower shall bind Lennox and Borrower and the heirs, devisees, executors, administrators, personal representatives, successors, trustees, receivers, and assigns of Borrower and Lennox and inure to the benefit of the successors and assigns of the Bank.

9. Miscellaneous.

(a) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that Lennox may not assign its rights, privileges or obligations hereunder at any time, and shall be required to adhere to and carry out the duties as set forth herein. Any attempted assignment by Lennox shall be null and void and shall not relieve it of any of its obligations, responsibilities, representations and warranties contained in this Agreement.

(b) All notice and other communications provided for herein shall be validly given, made or served, if in writing and delivered personally or sent by certified mail, return receipt requested, postage prepaid:

if to Bank: Northern Trust Bank of Texas, N.A.
5540 Preston Road
Dallas, Texas 75205-2637
Attention: Marcia Messinger
Senior Vice President

if to Lennox: Lennox International Inc.
P. O. Box 799900
Dallas, Texas 75379-9900
Attention: Chief Financial Officer

if to Borrower: David H. Anderson, Trustee for
Leo E. Anderson Trust
1114 State Street, Suite 200
Santa Barbara, CA 93101

(c) This Agreement contains the entire agreement between the parties hereto with respect to the disposition of stock contemplated herein and supersedes all prior agreements or understandings, if any, between the parties hereto relating to the subject matter hereof, and may not be modified except by written agreement signed by all of the parties hereto.

(d) The captions of each paragraph hereof are entered as a matter of convenience only and shall not be considered to be of any effect in the construction of this Agreement.

(e) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. THIS AGREEMENT HAS BEEN ENTERED INTO IN DALLAS COUNTY, TEXAS, SHALL BE PERFORMABLE FOR ALL PURPOSES IN DALLAS COUNTY, TEXAS AND THE BORROWER, LENNOX AND THE BANK AGREE THAT DALLAS COUNTY, TEXAS IS PROPER VENUE FOR ANY ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND THAT NO SUCH COURT IS AN INCONVENIENT FORUM. BORROWER, LENNOX AND BANK AGREE THAT SERVICE OF PROCESS UPON ANY OF THEM MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, AT THEIR ADDRESSES SPECIFIED ABOVE OR DETERMINED IN ACCORDANCE WITH THE PROVISIONS OF THIS AGREEMENT. NOTHING HEREIN OR IN ANY OF THE NOTE OR SECURITY AGREEMENT SHALL AFFECT THE RIGHT OF THE BANK TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

(f) All representations and warranties contained herein shall survive the execution of this Agreement.

(g) This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

THIS STOCK DISPOSITION AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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

LENNOX: LENNOX INTERNATIONAL INC.

By: /s/ Clyde Wyant
---
Clyde Wyant
Executive Vice President, Chief Financial Officer and Treasurer

BORROWER: /s/ David H. Anderson, Trustee
---
David H. Anderson, Trustee for Leo E. Anderson Trust

BANK: Northern Trust Bank of Texas, N.A.

By: /s/ Marcia Messinger
---
Marcia Messinger
Private Banker

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our Firm) included in or made a part of this registration statement.

ARTHUR ANDERSEN LLP

Dallas, Texas

May , 1999

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1,000

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|---|---|
| 3-MOS | 3-MOS |
| DEC-31-1999 | DEC-31-1998 |
| JAN-01-1999 | JAN-01-1998 |
| MAR-31-1999 | MAR-31-1998 |
| 30,262 | 0 |
| 0 | 0 |
| 394,821 | 0 |
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| 797,205 | 0 |
| 606,155 | 0 |
| 340,252 | 0 |
| 1,292,534 | 0 |
| 581,926 | 0 |
| 0 | 0 |
| 0 | 0 |
| 0 | 0 |
| 11 | 0 |
| 374,308 | 0 |
| 1,292,534 | 0 |
| 489,059 | 379,646 |
| 489,059 | 379,646 |
| 337,481 | 261,802 |
| 337,481 | 261,802 |
| 2,518 | 2,612 |
| 0 | 0 |
| 6,558 | 2,620 |
| 13,961 | 15,629 |
| 7,331 | 7,323 |
| 6,630 | 8,306 |
| 0 | 0 |
| 0 | 0 |
| 0 | 0 |
| 6,630 | 8,306 |
| 6.16 | 7.96 |
| 6.02 | 7.81 |