UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from _____to ______

Commission file number 001-15149

LENNOX INTERNATIONAL INC.

Incorporated pursuant to the laws of the State of Delaware

Internal Revenue Service Employer Identification No. 42-0991521

2140 LAKE PARK BLVD., RICHARDSON, Texas, 75080
(972-497-5000)

Securities registered pursuant to Section 12(b) of the Act:

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging growth company	☐

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

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

As of October 11, 2019, the number of shares outstanding of the registrant’s common stock, par value $0.01 per share, was 38,531,575.

LENNOX INTERNATIONAL INC.
FORM 10-Q
For the three and nine months ended September 30, 2019

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Part I - Financial Information
Item 1. ***Financial Statements***

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
Consolidated Balance Sheets

(Amounts in millions, except shares and par values)	As of September 30, 2019	As of December 31, 2018
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 46.1	$ 46.3
Short-term investments	2.4	—
Accounts and notes receivable, net of allowances of $7.1 and $6.3 in 2019 and 2018, respectively	622.2	472.7
Inventories, net	585.3	509.8
Other assets	61.3	60.6
Total current assets	1,317.3	1,089.4
Property, plant and equipment, net of accumulated depreciation of $807.0 and $778.5 in 2019 and 2018, respectively	418.8	408.3
Right-of-use assets from operating leases	172.9	—
Goodwill	186.4	186.6
Deferred income taxes	47.6	67.0
Other assets, net	71.8	65.9
Total assets	**$ 2,214.8**	**$ 1,817.2**
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Current maturities of long-term debt	$ 394.3	$ 300.8
Current operating lease liabilities	51.6	—
Accounts payable	393.0	433.3
Accrued expenses	271.0	272.3
Income taxes payable	—	2.1
Total current liabilities	1,109.9	1,008.5
Long-term debt	1,056.8	740.5
Long-term operating lease liabilities	123.0	—
Pensions	72.5	82.8
Other liabilities	129.9	135.0
Total liabilities	**2,492.1**	**1,966.8**
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, $.01 par value, 25,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $.01 par value, 200,000,000 shares authorized, 87,170,197 shares issued	0.9	0.9
Additional paid-in capital	1,090.0	1,078.8
Retained earnings	2,064.4	1,855.0
Accumulated other comprehensive loss	(127.2)	(188.8)
Treasury stock, at cost, 48,642,428 shares and 47,312,248 shares for 2019 and 2018, respectively	(3,305.4)	(2,895.5)
Total stockholders' deficit	**(277.3)**	**(149.6)**
Total liabilities and stockholders' deficit	**$ 2,214.8**	**$ 1,817.2**

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

(Amounts in millions, except per share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales	**$ 1,032.9**	**$ 1,030.2**	**$ 2,922.2**	**$ 3,040.4**
Cost of goods sold	734.6	728.3	2,090.3	2,153.8
Gross profit	298.3	301.9	831.9	886.6
Operating Expenses:				
Selling, general and administrative expenses	143.4	149.4	441.6	466.1
Losses (gains) and other expenses, net	2.2	2.7	5.3	10.0
Restructuring charges	6.1	0.5	6.5	1.9
Loss (gain), net on sale of businesses and related property	0.2	6.2	9.1	25.8
(Gain) loss from insurance recoveries, net of losses incurred	(7.1)	0.3	(85.4)	0.3
Income from equity method investments	(3.3)	(2.4)	(10.5)	(10.8)
Operating income	**156.8**	**145.2**	**465.3**	**393.3**
Pension settlement	—	—	60.6	—
Interest expense, net	12.5	10.3	36.5	28.5
Other expense (income), net	0.6	1.1	1.7	2.4
Income from continuing operations before income taxes	143.7	133.8	366.5	362.4
Provision for income taxes	29.0	25.8	71.5	77.3
Income from continuing operations	**114.7**	**108.0**	**295.0**	**285.1**
Discontinued Operations:				
(Loss) income from discontinued operations before income taxes	—	—	(0.4)	0.4
Income tax expense	—	—	(0.1)	2.1
Loss from discontinued operations	—	—	(0.3)	(1.7)
Net income	**$ 114.7**	**$ 108.0**	**$ 294.7**	**$ 283.4**
Earnings per share – Basic:				
Income from continuing operations	$ 2.97	$ 2.68	$ 7.54	$ 6.98
Loss from discontinued operations	—	—	(0.01)	(0.04)
Net income	$ 2.97	$ 2.68	$ 7.53	$ 6.94
Earnings per share – Diluted:				
Income from continuing operations	$ 2.94	$ 2.65	$ 7.46	$ 6.90
Loss from discontinued operations	—	—	—	(0.04)
Net income	$ 2.94	$ 2.65	$ 7.46	$ 6.86
Weighted Average Number of Shares Outstanding - Basic	**38.6**	**40.3**	**39.1**	**40.8**
Weighted Average Number of Shares Outstanding - Diluted	**39.0**	**40.7**	**39.5**	**41.3**

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Unaudited)

(Amounts in millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Net income	**$ 114.7**	**$ 108.0**	**$ 294.7**	**$ 283.4**
Other comprehensive income:				
Foreign currency translation adjustments	(6.2)	3.6	(2.4)	(9.4)
Reclassification of foreign currency translation adjustments into earnings	—	5.0	2.1	27.9
Net change in pension and post-retirement liabilities	7.6	(2.5)	10.1	(6.3)
Reclassification of pension and post-retirement benefit losses into earnings	1.5	2.4	4.4	7.0
Pension settlement	—	—	60.6	—
Change in available-for-sale marketable equity securities	—	—	—	(1.8)
Net change in fair value of cash flow hedges	(3.1)	(3.8)	(2.3)	(8.9)
Reclassification of cash flow hedge losses (gains) into earnings	2.5	(0.3)	6.9	(7.3)
Other comprehensive income (loss) before income taxes	2.3	4.4	79.4	1.2
Income tax expense (benefit)	0.1	1.0	(17.8)	(19.4)
Other comprehensive income (loss), net of tax	**2.4**	**5.4**	**61.6**	**(18.2)**
Comprehensive income	**$ 117.1**	**$ 113.4**	**$ 356.3**	**$ 265.2**

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY
For the Three and Nine months ended September 30, 2019 and 2018 (Unaudited)
(In millions, except per share data)

(For the three months ended September 30, 2019)	Common Stock Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock at Cost		Total Stockholders' (Deficit) Equity
					Shares	Amount	
Balance as of June 30, 2019	**$ 0.9**	**$ 1,085.8**	**$1,979.4**	**$ (129.6)**	**48.1**	**$(3,154.0)**	**$ (217.5)**
Net income	—	—	114.7	—	—	—	114.7
Dividends, $0.77 per share	—	—	(29.7)	—	—	—	(29.7)
Foreign currency translation adjustments	—	—	—	(6.2)	—	—	(6.2)
Pension and post-retirement liability changes, net of tax	—	—	—	9.0	—	—	9.0
Stock-based compensation expense	—	4.2	—	—	—	—	4.2
Change in cash flow hedges, net of tax benefit of $0.1	—	—	—	(0.4)	—	—	(0.4)
Treasury shares reissued for common stock	—	—	—	—	—	1.0	1.0
Treasury stock purchases	—	—	—	—	0.5	(152.4)	(152.4)
Balance as of September 30, 2019	**$ 0.9**	**$ 1,090.0**	**$2,064.4**	**$ (127.2)**	**48.6**	**$(3,305.4)**	**$ (277.3)**

(For the three months ended September 30, 2018)	Common Stock Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock at Cost		Total Stockholders' (Deficit) Equity
					Shares	Amount	
Balance as of June 30, 2018	**$ 0.9**	**$ 1,068.4**	**$1,722.8**	**$ (181.0)**	**46.9**	**$(2,791.3)**	**$ (180.2)**
Net income	—	—	108.0	—	—	—	108.0
Dividends, $0.64 per share	—	—	(25.8)	—	—	—	(25.8)
Foreign currency translation adjustments	—	—	—	8.6	—	—	8.6
Stock-based compensation expense	—	7.4	—	—	—	—	7.4
Change in cash flow hedges, net of tax benefit of $1.0	—	—	—	(3.2)	—	—	(3.2)
Treasury shares reissued for common stock	—	(0.3)	—	—	—	1.1	0.8
Treasury stock purchases	—	—	—	—	—	(2.4)	(2.4)
Balance as of September 30, 2018	**$ 0.9**	**$ 1,075.5**	**$1,805.0**	**$ (175.6)**	**46.9**	**$(2,792.6)**	**$ (86.8)**

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY
For the Three and Nine months ended September 30, 2019 and 2018 (Unaudited)
(In millions, except per share data)

(For the nine months ended September 30, 2019)	Common Stock Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock at Cost		Total Stockholders' (Deficit) Equity
					Shares	Amount	
Balance as of December 31, 2018	**$ 0.9**	**$ 1,078.8**	**$1,855.0**	**$ (188.8)**	**47.3**	**$(2,895.5)**	**$ (149.6)**
Cumulative effect of adjustment upon adoption of new accounting standards (ASC 842)	—	—	(0.3)	—	—	—	(0.3)
Net income	—	—	294.7	—	—	—	294.7
Dividends, $2.18 per share	—	—	(85.0)	—	—	—	(85.0)
Foreign currency translation adjustments	—	—	—	(0.3)	—	—	(0.3)
Pension and post-retirement liability changes, net of tax expense of $16.4	—	—	—	58.6	—	—	58.6
Stock-based compensation expense	—	15.6	—	—	—	—	15.6
Change in cash flow hedges, net of tax expense of $1.3	—	—	—	3.3	—	—	3.3
Treasury shares reissued for common stock	—	(4.4)	—	—	(0.2)	7.0	2.6
Treasury stock purchases	—	—	—	—	1.5	(416.9)	(416.9)
Balance as of September 30, 2019	**$ 0.9**	**$ 1,090.0**	**$2,064.4**	**$ (127.2)**	**48.6**	**$(3,305.4)**	**$ (277.3)**

(For the nine months ended September 30, 2018)	Common Stock Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock at Cost		Total Stockholders' (Deficit) Equity
					Shares	Amount	
Balance as of December 31, 2017	**$ 0.9**	**$ 1,061.5**	**$1,575.9**	**$ (157.4)**	**45.4**	**$(2,430.8)**	**$ 50.1**
Cumulative effect of adjustment upon adoption of new accounting standards (ASU 2016-16), (ASU 2018-02), (ASU 2016-1)	—	—	18.3	(24.5)	—	—	(6.2)
Net income	—	—	283.4	—	—	—	283.4
Dividends, $1.79 per share	—	—	(72.6)	—	—	—	(72.6)
Foreign currency translation adjustments	—	—	—	18.5	—	—	18.5
Pension and post-retirement liability changes, net of tax expense of $0.2	—	—	—	0.5	—	—	0.5
Stock-based compensation expense	—	21.0	—	—	—	—	21.0
Change in cash flow hedges, net of tax benefit of $5.0	—	—	—	(12.7)	—	—	(12.7)
Treasury shares reissued for common stock	—	(7.0)	—	—	(0.3)	9.3	2.3
Treasury stock purchases	—	—	—	—	1.8	(371.1)	(371.1)
Balance as of September 30, 2018	**$ 0.9**	**$ 1,075.5**	**$1,805.0**	**$ (175.6)**	**$ 46.9**	**$(2,792.6)**	**$ (86.8)**

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

(Amounts in millions)	For the Nine Months Ended September 30,	
	2019	**2018**
Cash flows from operating activities:		
Net income	$ 294.7	$ 283.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain), net on sale of businesses and related property	9.1	25.8
Gain from insurance recoveries, net of losses incurred	(11.6)	—
Income from equity method investments	(10.5)	(10.8)
Dividends from Affiliates	9.3	6.6
Restructuring charges, net of cash paid	6.0	0.5
Provision for bad debts	4.0	3.8
Unrealized losses on derivative contracts	(0.1)	1.4
Stock-based compensation expense	15.6	21.0
Depreciation and amortization	53.1	49.4
Deferred income taxes	17.0	(5.6)
Pension expense	65.9	6.5
Pension contributions	(1.7)	(20.3)
Other items, net	(0.4)	0.3
Changes in assets and liabilities, net of effects of divestitures:		
Accounts and notes receivable	(178.2)	(114.0)
Inventories	(107.0)	(73.7)
Other current assets	1.5	(8.6)
Accounts payable	(24.5)	46.9
Accrued expenses	7.6	35.6
Income taxes payable and receivable	(8.2)	(1.4)
Other	(17.1)	(15.5)
Net cash provided by operating activities	**124.5**	**231.3**
Cash flows from investing activities:		
Proceeds from the disposal of property, plant and equipment	1.2	0.1
Purchases of property, plant and equipment	(77.0)	(60.9)
Net proceeds from sale of businesses	43.5	115.9
Purchases of short-term investments	(2.4)	—
Insurance recoveries received for property damage incurred from natural disaster	11.6	4.2
Net cash (used in) provided by investing activities	**(23.1)**	**59.3**
Cash flows from financing activities:		
Short-term debt payments	(5.3)	(41.1)
Short-term debt proceeds	5.3	39.6
Asset securitization borrowings	155.5	155.0
Asset securitization payments	(58.0)	(53.7)
Long-term debt payments	(35.0)	(32.9)
Borrowings from credit facility	1,938.5	1,820.0
Payments on credit facility	(1,608.5)	(1,766.5)
Proceeds from employee stock purchases	2.5	2.5
Repurchases of common stock	(400.0)	(350.2)
Repurchases of common stock to satisfy employee withholding tax obligations	(16.9)	(21.1)
Cash dividends paid	(80.9)	(68.2)
Net cash used in financing activities	**(102.8)**	**(316.6)**
Decrease in cash and cash equivalents	(1.4)	(26.0)
Effect of exchange rates on cash and cash equivalents	1.2	3.9
Cash and cash equivalents, beginning of period	46.3	68.2
Cash and cash equivalents, end of period	**$ 46.1**	**$ 46.1**

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

Supplemental disclosures of cash flow information:				
Interest paid	$	31.5	$	25.9
Income taxes paid (net of refunds)	$	78.7	$	87.2
Insurance recoveries received	$	138.0	$	45.0

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

1. General:

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

Basis of Presentation

The accompanying unaudited Consolidated Balance Sheet as of September 30, 2019, the accompanying unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2019 and 2018, the accompanying unaudited Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2019 and 2018, the accompanying unaudited Consolidated Statements of Stockholders' (Deficit) Equity for the three and nine months ended September 30, 2019 and 2018, and the accompanying unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018 should be read in conjunction with our audited consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2018. The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The accompanying consolidated financial statements contain all material adjustments, consisting principally of normal recurring adjustments, necessary for a fair presentation of our financial position, results of operations and cash flows. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to applicable rules and regulations, although we believe 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 that may be expected for a full year.

Our fiscal quarterly periods are comprised of approximately 13 weeks, but the number of days per quarter may vary year-over-year. Our quarterly reporting periods usually end on the Saturday closest to the last day of March, June and September. Our fourth quarter and fiscal year ends on December 31, regardless of the day of the week on which December 31 falls.

Use of Estimates

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

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

Recently Adopted Accounting Guidance

In August 2018, the SEC issued Release No. 33-10532 that amends and clarifies certain financial reporting requirements. The principal change to our financial reporting is the inclusion of the annual disclosure requirement of changes in stockholders’ equity in Rule 3-04 of Regulation S-X to interim periods.

We adopted other new accounting standards during the first quarter of 2019 and their impacts are discussed in their respective Notes to the Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. ASU 2016-13 is effective for SEC filers for interim and annual periods beginning after December 15, 2019. We are currently assessing the impact ASU 2016-13, but do not expect it to have a material impact on our financial statements.

2. Revenue Recognition:

The following table disaggregates our revenue by business segment by geography which provides information as to the major source of revenue. See Note 16 for additional information on our reportable business segments and the products and services sold in each segment.

	For the Three Months Ended September 30, 2019			
Primary Geographic Markets	**Residential Heating & Cooling**	**Commercial Heating & Cooling**	**Refrigeration**	**Consolidated**
United States	$ 597.3	$ 227.0	$ 82.5	$ 906.8
Canada	40.3	26.0	—	66.3
International	—	0.3	59.5	59.8
Total	**$ 637.6**	**$ 253.3**	**$ 142.0**	**$ 1,032.9**

	For the Three Months Ended September 30, 2018			
Primary Geographic Markets	**Residential Heating & Cooling**	**Commercial Heating & Cooling**	**Refrigeration**	**Consolidated**
United States	$ 553.8	$ 212.4	$ 114.0	$ 880.2
Canada	40.9	24.3	2.1	67.3
International	—	0.2	82.5	82.7
Total	**$ 594.7**	**$ 236.9**	**$ 198.6**	**$ 1,030.2**

	For the Nine Months Ended September 30, 2019			
Primary Geographic Markets	**Residential Heating & Cooling**	**Commercial Heating & Cooling**	**Refrigeration**	**Consolidated**
United States	$ 1,677.6	$ 623.3	$ 254.1	$ 2,555.0
Canada	114.6	63.8	0.7	179.1
International	—	0.8	187.3	188.1
Total	**$ 1,792.2**	**$ 687.9**	**$ 442.1**	**$ 2,922.2**

	For the Nine Months Ended September 30, 2018			
Primary Geographic Markets	**Residential Heating & Cooling**	**Commercial Heating & Cooling**	**Refrigeration**	**Consolidated**
United States	$ 1,640.9	$ 604.5	$ 322.4	$ 2,567.8
Canada	123.5	62.7	4.1	190.3
International	—	0.9	281.4	282.3
Total	**$ 1,764.4**	**$ 668.1**	**$ 607.9**	**$ 3,040.4**

Residential Heating & Cooling - We manufacture and market a broad range of furnaces, air conditioners, heat pumps, packaged heating and cooling systems, equipment and accessories to improve indoor air quality, comfort control products, replacement parts and supplies and related products for both the residential replacement and new construction markets in North America. These products are sold under various brand names and are sold either through direct sales to a network of independent installing dealers, including through our network of Lennox stores or to independent distributors. For the three months ended September 30, 2019 and 2018, direct sales represented 74% and 77% of revenues, and sales to independent distributors represented the remainder. For the nine months ended September 30, 2019 and 2018, direct sales represented 74% and 76% of revenues, and sales to independent distributors represented the remainder. Given the nature of our business, customer product orders are fulfilled at a point in time and not over a period of time.

Commercial Heating & Cooling - In North America, we manufacture and sell unitary heating and cooling equipment used in light commercial applications, such as low-rise office buildings, restaurants, retail centers, churches and schools. These products are distributed primarily through commercial contractors and directly to national account customers in the planned replacement, emergency replacement and new construction markets. Revenue for the products sold is recognized at a point in time when control transfers to the customer, which is generally at time of shipment. Lennox National Account Services provides installation, service and preventive maintenance for HVAC national account customers in the United States and Canada. Revenue related to service contracts is recognized as the services are performed under the contract based on the relative fair value of the services provided. For the three months ended September 30, 2019 and 2018, equipment sales represented 86% and 86% of revenues and the remainder of our revenue was generated from our service business. For the nine months ended September 30, 2019 and 2018, equipment sales represented 86% and 86% of revenues and the remainder was generated from our service business.

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

Variable Consideration - We engage in cooperative advertising, customer rebate, and other miscellaneous programs that result in payments or credits being issued to our customers. We record these customer discounts and incentives as a reduction of sales when the sales are recorded. For certain cooperative advertising programs, we also receive an identifiable benefit (goods or services) in exchange for the consideration given, and, accordingly, record a ratable portion of the expenditure to Selling, general and administrative (“SG&A”) expenses. All other advertising, promotions and marketing costs are expensed as incurred.

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

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

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

Net contract assets (liabilities) consisted of the following:

	September 30, 2019	December 31, 2018	$ Change	% Change
Contract assets	$ —	$ 2.5	$ (2.5)	(100.0)%
Contract liabilities - current	(8.4)	(13.0)	4.6	(35.4)%
Contract liabilities - noncurrent	(5.9)	(5.9)	—	— %
Total	$ (14.3)	$ (16.4)	$ 2.1	

For the three months ended September 30, 2019 and 2018, we recognized revenue of $0.2 million and $1.3 million and for the nine months ended September 30, 2019 and 2018, we recognized revenue of $2.8 million and $4.2 million related to our contract liabilities at January 1, 2019 and 2018, respectively. Impairment losses recognized in our receivables and contract assets were de minimis in 2018 and 2019.

3. Inventories:

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

	As of September 30, 2019	As of December 31, 2018
Finished goods	$ 404.2	$ 330.5
Work in process	7.2	10.0
Raw materials and parts	233.5	229.1
Subtotal	644.9	569.6
Excess of current cost over last-in, first-out cost	(59.6)	(59.8)
Total inventories, net	**$ 585.3**	**$ 509.8**

4. Goodwill:

The changes in the carrying amount of goodwill for the first nine months of 2019, in total and by segment, are summarized in the table below (in millions):

	Balance at December 31, 2018	Goodwill Reallocation [1]	Changes in foreign currency translation rates	Balance at September 30, 2019
Residential Heating & Cooling	$ 26.1	$ —	$ —	$ 26.1
Commercial Heating & Cooling	61.4	(0.3)	—	61.1
Refrigeration	99.1	0.3	(0.2)	99.2
Total Goodwill	**$ 186.6**	**$ —**	**$ (0.2)**	**$ 186.4**

[1] In 2019, we reorganized our external financial reporting structure by moving our European Commercial HVAC business from our Commercial segment to our Refrigeration segment as we manage both our commercial HVAC and refrigeration operations in Europe together. See Note 16 for additional information.

We perform our annual goodwill impairment test in the fourth quarter of each year, and we monitor our reporting units for indicators of impairment throughout the year to determine if a change in facts or circumstances warrants a re-evaluation of our goodwill.

5. Derivatives:

Objectives and Strategies for Using Derivative Instruments

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

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

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

Cash Flow Hedges

We have foreign exchange forward contracts and commodity futures contracts designated as cash flow hedges that are scheduled to mature through December 2020 and February 2021, respectively. Unrealized gains or losses from our cash flow hedges are included in Accumulated other comprehensive loss (“AOCL”) and are expected to be reclassified into earnings within the next 18 months based on the prices of the commodities and foreign currencies at the settlement dates. We recorded the following amounts in AOCL related to our cash flow hedges (in millions):

	As of September 30, 2019	As of December 31, 2018
Unrealized losses on unsettled contracts	$ 3.8	$ 8.4
Income tax benefit	(0.9)	(2.2)
Losses (gains) included in AOCL, net of tax [1]	$ 2.9	$ 6.2

[1] Assuming commodity and foreign currency prices remain constant, we expect to reclassify $2.8 million of derivative losses into earnings within the next 12 months.

6. Income Taxes:

As of September 30, 2019, we had approximately $2.7 million in total gross unrecognized tax benefits. Of this amount $2.7 million, if recognized, would be recorded through the Consolidated Statement of Operations.

We are currently under examination for our U.S. federal income taxes under the Internal Revenue Service's Compliance Assurance Program for 2018 and are subject to examination by numerous other taxing authorities in the U.S. and in foreign jurisdictions. We are generally no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by taxing authorities for years prior to 2011.

Since January 1, 2019, several states have enacted legislation effective for tax years beginning on or after January 1, 2019, including changes to tax rates and apportionment methods. The impact of these changes is immaterial.

7. Commitments and Contingencies:

Leases

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (ASC 842).* We adopted ASC 842 on January 1, 2019, using the effective date method, with the cumulative-effect adjustment to the opening balance sheet of retained earnings as of the effective date. The financial results reported in periods prior to January 1, 2019 are unchanged. Upon adoption, we recognized almost all of our leases greater than one year in duration on the balance sheet as right-of-use assets and lease liabilities. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification is based on criteria that are largely similar to those applied in current lease accounting standard, but without explicit bright lines. We have made certain assumptions in judgments when applying ASC 842. Those judgments of most significance are as follows:

- We elected the package of practical expedients available for transition which allow us to not reassess:
  - Whether expired or existing contracts contain leases under the new definition of a lease;
  - Lease classification for expired or existing leases; and
  - Whether previously capitalized initial direct costs would qualify for capitalization under ASC 842.
- We did not elect to use hindsight for transition when considering judgments and estimates such as assessments of lessee options to extend or terminate a lease or purchase the underlying asset.
- We did not elect to reassess whether land easements meet the definition of a lease if they were not accounted for as leases under the former rules.
- For all asset classes, we elected to not recognize a right-of-use asset and lease liability for leases with a term of 12 months or less.
- For all asset classes, we elected to not separate non-lease components from lease components to which they relate and have accounted for the combined lease and non-lease components as a single lease component.

We determine if an arrangement is a lease at inception. Operating leases are included in our Consolidated Balance Sheet as Right-of-use assets from operating leases, Current operating lease liabilities and Long-term operating lease liabilities. Finance leases are included in Property, plant and equipment, Current maturities of long-term debt and Long-term debt in our Consolidated

Balance Sheet. Many of our lease agreements contain renewal options; however, we do not recognize right-of-use assets or lease liabilities for renewal periods unless it is determined that we are reasonably certain of renewing the lease at inception or when a triggering event occurs. Some of our lease agreements contain rent escalation clauses (including index-based escalations), rent holidays, capital improvement funding or other lease concessions. We recognize our minimum rental expense on a straight-line basis based on the fixed components of a lease arrangement. We amortize this expense over the term of the lease beginning with the date of initial possession, which is the date we enter the leased space and begin to make improvements in preparation for its intended use. Variable lease components represent amounts that are not fixed in nature and are not tied to an index or rate, and are recognized as incurred.

Under certain of our third-party service agreements, we control a specific space or underlying asset used in providing the service by the third-party service provider. These arrangements meet the definition under ASC 842 and therefore are accounted for under ASC 842.

In determining our right-of-use assets and lease liabilities, we apply a discount rate to the minimum lease payments within each lease agreement. ASC 842 requires us to use the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. When we cannot readily determine the discount rate implicit in the lease agreement, we utilize our incremental borrowing rate. To estimate our specific incremental borrowing rates over various tenors (ranging from 1-year through 30-years), a comparable market yield curve consistent with our credit quality was calibrated to our publicly outstanding debt instruments.

We lease certain real and personal property under non-cancelable operating leases. Approximately 73% of our right-of-use assets and lease liabilities relate to our leases of real estate with the remaining amounts relating to our leases of IT equipment, fleet vehicles and manufacturing and distribution equipment.

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

	For the Three Months Ended September 30, 2019	**For the Nine Months Ended September 30, 2019**
Finance lease cost:		
Amortization of right-of-use assets	$ 1.9	$ 5.2
Interest on lease liabilities	0.2	0.5
Operating lease cost	14.7	44.0
Short-term lease cost	1.1	3.4
Variable lease cost	5.0	15.1
Total lease cost	**$ 22.9**	**$ 68.2**

Other information		
Cash paid for amounts included in the measurement lease liabilities:		
Operating cash flows from operating leases	$ 15.0	$ 42.4
Financing cash flows from finance leases	$ 2.0	$ 5.8
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 2.5	$ 8.5
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 10.3	$ 31.9

	As of September 30, 2019
Finance lease right-of-use assets	$ 24.4
Operating lease right-of-use assets	$ 172.9
Finance lease liability, current	$ 6.9
Finance lease liability, non-current	$ 23.7
Operating lease liability, current	$ 51.6
Operating lease liability, non-current	$ 123.0
Weighted-average remaining lease term - finance leases	5.2 years
Weighted-average remaining lease term - operating leases	4.2 years
Weighted-average discount rate - finance leases	2.10%
Weighted-average discount rate – operating leases	3.81%

Future annual minimum lease payments and finance lease commitments as of September 30, 2019 were as follows (in millions):

	Operating Leases	Finance Leases
2019 (excluding the nine months ended September 30, 2019)	$ 14.9	$ 2.0
2020	55.3	7.1
2021	42.9	5.5
2022	30.3	3.6
2023	23.3	1.6
2024 and thereafter	22.5	11.9
Total minimum lease payments	$ 189.2	$ 31.7
Less imputed interest	(14.6)	(1.1)
Lease liability	$ 174.6	$ 30.6

The Company adopted ASU 2016-02 on January 1, 2019 as noted above, and as required, the following disclosure is provided for periods prior to adoption. Future annual minimum lease payments and capital lease commitments as of December 31, 2018 were as follows (in millions):

	Operating Leases	Capital Leases
2019	$ 47.4	$ 6.6
2020	38.4	5.4
2021	27.2	3.8
2022	17.9	2.1
2023	12.7	0.9
Thereafter	16.1	12.8
Total minimum lease payments	$ 159.7	$ 31.6
Less amount representing interest		(2.1)
Present value of minimum payments		$ 29.5

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

Our obligations under the headquarters lease are secured by a pledge of our interest in the leased property. The lease contains customary lease covenants and events of default as well as events of default if (i) indebtedness of $75 million or more is not paid when due, (ii) there is a change of control or (iii) we fail to comply with certain covenants incorporated from our existing credit facility agreement. We believe we were in compliance with these financial covenants as of September 30, 2019.

Product Warranties and Product Related Contingencies

We provide warranties to customers for some of our products and record liabilities for the estimated future warranty-related costs based on failure rates, cost experience and other factors. We periodically review the assumptions used to determine the product warranty liabilities and will adjust the liabilities in future periods for changes in assumptions, as necessary.

Liabilities for estimated product warranty costs related to continuing operations are included in the following captions on the accompanying Consolidated Balance Sheets (in millions):

	As of September 30, 2019	As of December 31, 2018
Accrued expenses	$ 38.2	$ 37.9
Other liabilities	75.8	73.7
Total warranty liability	**$ 114.0**	**$ 111.6**

The changes in product warranty liabilities related to continuing operations for the nine months ended September 30, 2019 were as follows (in millions):

Total warranty liability as of December 31, 2018	**$ 111.6**
Warranty claims paid	(28.2)
Changes resulting from issuance of new warranties	36.0
Changes in estimates associated with pre-existing liabilities	(4.8)
Changes in foreign currency translation rates and other	(0.2)
Warranty liability from divestitures	(0.4)
Total warranty liability as of September 30, 2019	**$ 114.0**

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

During the second quarter of 2017, we identified a product quality issue in a defective vendor-supplied component affecting a product line in the Residential Heating & Cooling segment. This defect was isolated, the vendor is supplying corrected components, and we are manufacturing products with the corrected components. We incurred and recorded insignificant expenses associated with this product quality in 2017. In the second quarter of 2019, the vendor agreed to reimburse us for certain losses incurred due to this quality issue. These reimbursements include cash payments in 2019 and price reductions on annual qualifying purchases from this vendor through 2024. Reimbursements we receive from the vendor will offset the costs we have incurred related to this product quality matter.

Litigation

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

Some of these claims and lawsuits allege personal injury or health problems resulting from exposure to asbestos that was integrated into certain of our products. We have never manufactured asbestos and have not incorporated asbestos-containing components into our products for several decades. A substantial majority of these asbestos-related claims have been covered by insurance or other forms of indemnity or have been dismissed without payment. The remainder of our closed cases have been resolved for amounts that are not material, individually or in the aggregate. Our defense costs for asbestos-related claims are generally covered by insurance. However, our insurance coverage for settlements and judgments for asbestos-related claims varies depending on several factors and are subject to policy limits. We may have greater financial exposure for future settlements and judgments. The following table summarizes the expenses, net of probable insurance recoveries, for known and future asbestos-related litigation recorded in Losses (gains) and other expenses, net in the Consolidated Statements of Operations.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Expense for asbestos-related litigation	$ 1.5	$ 1.4	$ 3.3	$ 3.3

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

Marshalltown Tornado and Recovery

On July 19, 2018, our manufacturing facility in Marshalltown, Iowa was severely damaged by a tornado. We have insurance for the repair or replacement of our assets that suffered damage or loss, and we are working closely with our insurance carriers and claims adjusters to ascertain the amount of insurance recoveries due to us as a result of the damage and loss we suffered. Our insurance policies also provide business interruption coverage, including lost profits, and reimbursement for other expenses and costs that have been incurred relating to the damages and losses suffered. These costs and insurance recoveries are shown in (Gain) loss from insurance recoveries, net of losses incurred in the Consolidated Statements of Operations.

The following table summarizes the Gain from insurance recoveries, net of losses incurred:

(Amounts in millions)	For the Three months Ended September 30,		For the Nine months Ended September 30,	
	2019	2018	2019	2018
Insurance recoveries received	**$ 10.0**	**$ 45.0**	**$ 138.0**	**$ 45.0**
Insurance recoveries receivable	**—**	**4.1**	**—**	**4.1**
Less losses and expenses incurred:				
Site clean-up and remediation	(3.5)	28.4	19.8	28.4
Factory inefficiencies due to lower productivity	0.8	4.9	9.3	4.9
Write-off of property, plant and equipment	—	4.2	—	4.2
Write-off of inventory	—	5.2	—	5.2
Other	5.6	6.7	23.5	6.7
Total losses and expenses	**$ 2.9**	**$ 49.4**	**$ 52.6**	**$ 49.4**
Total gain (loss) from insurance recoveries	**$ 7.1**	**$ (0.3)**	**$ 85.4**	**$ (0.3)**
Components of (Gain) loss from insurance recoveries, net of losses incurred:				
Insurance proceeds for lost profits	(8.3)	0.3	(73.8)	0.3
(Gain) loss from insurance recoveries, net of losses incurred	1.2	—	(11.6)	—

8. Lines of Credit and Financing Arrangements:

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

	As of September 30, 2019	As of December 31, 2018
Current maturities of long-term debt:		
Asset Securitization Program	$ 365.5	$ 268.0
Finance lease obligations	6.9	3.5
Domestic credit facility	22.5	30.0
Debt issuance costs	(0.6)	(0.7)
Total current maturities of long-term debt	$ 394.3	$ 300.8
Long-Term Debt:		
Finance lease obligations	23.7	15.7
Domestic credit facility	685.5	378.0
Senior unsecured notes	350.0	350.0
Debt issuance costs	(2.4)	(3.2)
Total long-term debt	$ 1,056.8	$ 740.5
Total debt	$ 1,451.1	$ 1,041.3

Short-Term Debt

Foreign Obligations

Through several of our foreign subsidiaries, we have facilities available to assist in financing seasonal borrowing needs for our foreign locations. We had no outstanding foreign obligations as of September 30, 2019 or December 31, 2018. There were $5.3 million in proceeds and repayments on these facilities for the nine months ended September 30, 2019. Proceeds and repayments on these facilities were $39.6 million and $41.1 million, respectively, for the nine months ended September 30, 2018.

Asset Securitization Program

Under the Asset Securitization Program ("ASP"), we are eligible to sell beneficial interests in a portion of our trade accounts receivable to a financial institution for cash. The ASP contains a provision whereby we retain the right to repurchase all of the outstanding beneficial interests transferred. As a result of the repurchase right, the transfer of the receivables under the ASP is not accounted for as a sale. Accordingly, the cash received from the transfer of the beneficial interests in our trade accounts receivable is reflected as secured borrowings in the accompanying Consolidated Balance Sheets and proceeds received are included in Cash flows from financing activities in the accompanying Consolidated Statements of Cash Flows. Our continued involvement with the transferred assets includes servicing, collection and administration of the transferred beneficial interests. The accounts receivable securitized under the ASP are high-quality domestic customer accounts that have not aged significantly. The receivables represented by the retained interest that we service are exposed to the risk of loss for any uncollectible amounts in the pool of receivables transferred under the ASP. The ASP will expire in November 2019 and we intend to renew the ASP prior to its expiration.

The ASP provides for a maximum securitization amount ranging from $225.0 million to $380.0 million, depending on the period. The maximum capacity under the ASP is the lesser of the maximum securitization amount or 100% of the net pool balance less allowances, as defined by the ASP. Eligibility for securitization is limited based on the amount and quality of the qualifying accounts receivable and is calculated monthly. The eligible amounts available and beneficial interests sold were as follows (in millions):

	As of September 30, 2019	As of December 31, 2018
Eligible amount available under the ASP on qualified accounts receivable	$ 380.0	$ 290.0
Less: Beneficial interest transferred	(365.5)	(268.0)
Remaining amount available	$ 14.5	$ 22.0

We pay certain discount fees to use the ASP and to have the facility available to us. These fees relate to both the used and unused portions of the securitization. The used fee is based on the beneficial interest sold and calculated on either the average LIBOR rate or floating commercial paper rate determined by the purchaser of the beneficial interest, plus a program fee of 0.70%. The average rates as of September 30, 2019 and December 31, 2018 were 2.79% and 3.27%, respectively. The unused fee is based on 101% of the maximum available amount less the beneficial interest transferred and is calculated at a 0.35% fixed rate throughout the term of the agreement. We recorded these fees in Interest expense, net in the accompanying Consolidated Statements of Operations.

The ASP contains certain restrictive covenants relating to the quality of our accounts receivable and cross-default provisions with our Sixth Amended and Restated Credit Facility Agreement ("Domestic Credit Facility"), senior unsecured notes and any other indebtedness we may have over $75.0 million. The administrative agent under the ASP is also a participant in our Domestic Credit Facility. The participating financial institutions have investment grade credit ratings. As of September 30, 2019, we believe we were in compliance with all covenant requirements.

Long-Term Debt

Domestic Credit Facility

On January 22, 2019, we amended our Domestic Credit Facility to provide for a $350.0 million increase in revolving commitments. The Domestic Credit Facility currently consists of a $1,000.0 million unsecured revolving credit facility and a $190.0 million unsecured term loan that matures in August 2021 (the "Maturity Date"). Under our Domestic Credit Facility, we had outstanding borrowings of $708.0 million, of which $160.0 million was the term loan balance, as well as $2.5 million committed to standby letters of credit as of September 30, 2019. Subject to covenant limitations, $449.5 million was available for future borrowings. The unsecured term loan also matures on the Maturity Date and requires quarterly principal repayments of $7.5 million. The revolving credit facility includes a subfacility for swingline loans of up to $65.0 million.

Our weighted average borrowing rate on the facility was as follows:

	As of September 30, 2019	As of December 31, 2018
Weighted average borrowing rate	3.31%	3.74%

Our Domestic Credit Facility is guaranteed by certain of our subsidiaries and contains financial covenants relating to leverage and interest coverage. Other covenants contained in the Domestic Credit Facility restrict, among other things, certain mergers, asset dispositions, guarantees, debt, liens, and affiliate transactions. The financial covenants require us to maintain a defined Consolidated Indebtedness to Adjusted EBITDA Ratio and a Cash Flow (defined as EBITDA minus capital expenditures) to Net Interest Expense Ratio. The required ratios under our Domestic Credit Facility are detailed below:

Consolidated Indebtedness to Adjusted EBITDA Ratio no greater than	3.5 : 1.0
Cash Flow to Net Interest Expense Ratio no less than	3.0 : 1.0

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

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

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

If any event of default occurs and is continuing, lenders with a majority of the aggregate commitments may require the administrative agent to terminate our right to borrow under our Domestic Credit Facility and accelerate amounts due under our Domestic Credit Facility (except for a bankruptcy event of default, in which case such amounts will automatically become due and payable and the lenders’ commitments will automatically terminate). As of September 30, 2019, we believe we were in compliance with all covenant requirements.

Senior Unsecured Notes

We issued $350.0 million of senior unsecured notes in November 2016 (the "Notes") which will mature on November 15, 2023 with interest being paid on May 15 and November 15 at 3.00% per annum semiannually. The Notes are guaranteed, on a senior unsecured basis, by each of our domestic subsidiaries that guarantee indebtedness under our Domestic Credit Facility. The indenture governing the Notes contains covenants that, among other things, limit our ability and the ability of the subsidiary guarantors to: create or incur certain liens; enter into certain sale and leaseback transactions; and enter into certain mergers, consolidations and transfers of substantially all of our assets. The indenture also contains a cross default provision which is triggered if we default on other debt of at least $75.0 million in principal which is then accelerated, and such acceleration is not rescinded within 30 days of the notice date. As of September 30, 2019, we believe we were in compliance with all covenant requirements.

9. Pension and Post-Retirement Benefit Plans:

On March 10, 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 changes the income statement presentation of defined benefit plan expense by requiring separation between operating expense (service cost component) and non-operating expense (all other components, including interest cost, amortization of prior service cost, curtailments and settlements, etc.). The operating expense component is reported with similar compensation costs while the non-operating components are reported in Other expense (income), net in the Statement of Operations. In addition, only the service cost component is eligible for capitalization as part of an asset such as inventory or property, plant and equipment. We elected the practical expedient to use the prior year's disclosure as a basis for the retroactive adoption of the ASU. The ASU did not have a material impact on our financial results.

On April 3, 2019, we entered into an agreement with Pacific Life Insurance Company to purchase a group annuity contract and transfer $100.0 million of our pension plan assets and $105.6 million of related pension benefit obligations. In the second quarter of 2019, we recognized a $60.6 million pension settlement charge in the Statement of Operations and reclassified $5.6 million of pension benefit obligations to AOCL as a result of this transaction.

The components of net periodic benefit cost for pensions benefits were as follows (in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Service cost	$ 1.2	$ 1.3	$ 3.6	$ 4.0
Interest cost	2.7	3.1	8.1	9.3
Expected return on plan assets	(3.6)	(4.7)	(10.8)	(14.1)
Amortization of prior service cost	0.1	0.1	0.1	0.1
Recognized actuarial loss	1.4	2.3	4.3	6.9
Other	—	0.3	—	0.3
Settlements and curtailments	—	—	60.6	—
Net periodic benefit cost	**$ 1.8**	**$ 2.4**	**$ 65.9**	**$ 6.5**

In January 2018, we reduced our estimated long-term rate of return on plan assets for U.S. pension plans from 7.5% to 6.5%. A 25 basis point decrease in the long-term rate of return will result in a $0.4 million increase in net periodic benefit cost for U.S. pension plans.

10. Stock-Based Compensation:

We issue various long-term incentive awards, including performance share units, restricted stock units and stock appreciation rights under the Lennox International Inc. 2019 Incentive Plan, as amended and restated. Stock-based compensation expense related to continuing operations is included in Selling, general and administrative expenses in the accompanying Consolidated Statements of Operations as follows (in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Stock-based compensation expense [1]	$ 4.2	$ 7.4	$ 15.6	$ 21.0

[1] All expense was recorded in our Corporate and Other business segment.

11. Stock Repurchases:

Our Board of Directors has authorized a total of $2.5 billion to repurchase shares of our common stock (collectively referred to as the "Share Repurchase Plans"), including a $500 million share repurchase authorization in March 2018. Under this program, we may repurchase shares from time to time in open market transactions and in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The repurchase program does not require the repurchase of a specific number of shares and may be terminated at any time. As of September 30, 2019, $46 million of shares may be repurchased under the Share Repurchase Plans.

We repurchased 0.4 million shares for $100.0 million during the first quarter of 2019, 0.6 million shares for $150.0 million during the second quarter of 2019 and 0.5 million shares for $150.0 million during the third quarter of 2019, respectively, from open market transactions.

We also repurchased 0.1 million shares for $16.9 million during the nine months ended September 30, 2019 from employees who surrendered shares to satisfy minimum tax withholding obligations upon the exercise of long-term incentive awards.

12. Comprehensive Income (Loss):

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		Affected Line Item(s) in the Consolidated Statements of Operations
	2019	2018	2019	2018	
Gains/(Losses) on cash flow hedges:					
Commodity futures contracts/foreign exchange forward contracts	$ (2.5)	$ 0.3	$ (6.9)	$ 7.3	Cost of goods sold
Income tax benefit (expense)	0.5	(0.1)	1.6	(1.7)	Provision for income taxes
Net of tax	$ (2.0)	$ 0.2	$ (5.3)	$ 5.6	
Defined Benefit Plan items:					
Pension and post-retirement benefit costs	$ (1.5)	$ (2.4)	$ (4.4)	$ (7.0)	Cost of goods sold; Selling, general and administrative expenses
Pension settlement	—	—	(60.6)	—	Pension settlement
Income tax benefit	0.4	0.6	16.2	1.7	Provision for income taxes
Net of tax	$ (1.1)	$ (1.8)	$ (48.8)	$ (5.3)	
Foreign Currency Translation Adjustments:					
Foreign currency adjustments on sale of businesses	$ —	$ (5.0)	$ (2.1)	$ (27.9)	Loss (gain), net on sale of businesses and related property
Net of tax	$ —	$ (5.0)	$ (2.1)	$ (27.9)	
Total reclassifications from AOCL	**$ (3.1)**	**$ (6.6)**	**$ (56.2)**	**$ (27.6)**	

The following table provides information on changes in AOCL, by component (net of tax), for the nine months ended September 30, 2019 (in millions):

	Gains (Losses) on Cash Flow Hedges	Defined Benefit Pension Plan Items	Foreign Currency Translation Adjustments	Total AOCL
Balance as of December 31, 2018	**$ (6.2)**	**$ (154.5)**	**$ (28.1)**	**$ (188.8)**
Other comprehensive income (loss) before reclassifications	(2.0)	9.8	(2.4)	5.4
Amounts reclassified from AOCL	5.3	48.8	2.1	56.2
Net other comprehensive (loss) income	3.3	58.6	(0.3)	61.6
Balance as of Septemer 30, 2019	**$ (2.9)**	**$ (95.9)**	**$ (28.4)**	**$ (127.2)**

13. Restructuring Charges:

We record restructuring charges associated with management-approved restructuring plans when we reorganize or remove duplicative headcount or infrastructure within our businesses. Restructuring charges include severance costs to eliminate a specified number of employees, infrastructure charges to vacate facilities and consolidate operations, contract cancellation costs, accelerated depreciation for impaired assets and other related activities. The timing of associated cash payments is dependent upon the type of restructuring charge and can extend over a multi-year period. Restructuring charges are not included in our calculation of segment profit (loss), as more fully explained in Note 16.

Restructuring Activities in 2019

In the third quarter of 2019, the Commercial Heating & Cooling and Corporate segments incurred restructuring charges primarily related to activities to re-align resources and its product portfolio. Information regarding the restructuring charges for all ongoing activities is presented in the following table (in millions):

	Charges Incurred in 2019	Charges Incurred to Date	Total Charges Expected to be Incurred
Severance and related expense	$ 1.5	$ 3.9	$ 4.1
Asset write-offs and accelerated depreciation	5.3	5.3	5.3
Lease termination	(0.3)	0.4	0.4
Other	—	—	1.4
Total restructuring charges	$ 6.5	$ 9.6	$ 11.2

While restructuring charges are excluded from our calculation of segment profit (loss), the table below presents the restructuring charges associated with each segment (in millions):

	Charges Incurred in 2019	Charges Incurred to Date	Total Charges Expected to be Incurred
Commercial Heating & Cooling	0.7	2.4	4.0
Refrigeration	0.7	2.1	2.1
Corporate & Other	5.1	5.1	5.1
Total restructuring charges	$ 6.5	$ 9.6	$ 11.2

14. Divestitures:

2019 Divestiture:

During the first quarter of 2019, we obtained Board of Directors' approval and signed an agreement with EPTA S.p.A., a private Italian company, for the sale of our Kysor Warren business. The sale was completed on March 29, 2019. The following table summarizes the net loss recognized in connection with this divestiture:

(Amounts in millions)	**For the Nine Months Ended September 30, 2019**
Cash received from the buyer	$ 49.0
Net assets sold	(50.5)
AOCI reclassification adjustments, primarily foreign currency translation	(2.1)
Direct costs to sell	(5.5)
Loss on sale of business	**$ (9.1)**

2018 Divestitures:

Australia, New Zealand and Asia Divestiture

During the first quarter of 2018, we obtained Board of Directors' approval and signed an agreement with Beijer Ref AB, a Stockholm Stock Exchange-listed company, for the sale of our Australia, New Zealand and Asia business, except for the Milperra property that was sold during the second quarter of 2018. We completed the sale to Beijer Ref AB in the second quarter of 2018 with the final post-completion adjustment being recorded in the third quarter of 2018. The following table summarizes the net loss recognized in connection with this divestiture:

(Amounts in millions)		**For the Year Ended December 31, 2018**
Cash received from the buyer	$	82.9
Net assets sold [1]		(87.2)
AOCI reclassification adjustments, primarily foreign currency translation		(3.2)
Direct costs to sell		(5.8)
Loss on sale of business	**$**	**(13.3)**

[1] Includes $10.3 million of net assets that were written down during the quarter ended March 31, 2018 based on the expected proceeds from the sale, net of selling costs for the sale for our Australia, New Zealand and Asia business.

The Milperra property was sold during the quarter ended June 30, 2018. We received net cash proceeds of $37.2 million net of direct costs to sell of $1.5 million. The net gain recognized in connection with this sale was $23.8 million.

South America Divestiture

During the second quarter of 2018, we obtained Board of Directors' approval and signed an agreement with Elgin SA, a private Brazilian company, for the sale of our South America business. The sale was subject to Brazilian antitrust approval. We obtained antitrust approval and completed the sale to Elgin SA in the third quarter of 2018. The following table summarizes the net loss recognized in connection with this divestiture:

(Amounts in millions)		**For the Year Ended December 31, 2018**
Cash received from the buyer	$	4.2
Net assets sold [2]		(14.1)
AOCI reclassification adjustments, primarily foreign currency translation		(24.7)
Direct costs to sell		(2.9)
Loss on sale of business	**$**	**(37.5)**

[2] Includes $1.2 million of net assets that were written down during the quarter ended June 30, 2018 based on the expected proceeds from the sale, net of selling costs for the sale for our South America business.

The total Loss (gain), net on sale of businesses and related property in our Consolidated Statements of Operations for year ended December 31, 2018 of $27.0 million is comprised of the $13.3 million loss on the sale of our Australia, New Zealand and Asia business, the $23.8 million gain on the sale of our Milperra property, and the $37.5 million loss on the sale of our South America business.

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 our stock-based compensation plans.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	**$ 114.7**	**$ 108.0**	**$ 294.7**	**$ 283.4**
Add: Loss from discontinued operations	—	—	0.3	1.7
Income from continuing operations	**$ 114.7**	**$ 108.0**	**$ 295.0**	**$ 285.1**
Weighted-average shares outstanding – basic	**38.6**	**40.3**	**39.1**	**40.8**
Add: Potential effect of dilutive securities attributable to stock-based payments	0.4	0.4	0.4	0.5
Weighted-average shares outstanding – diluted	**39.0**	**40.7**	**39.5**	**41.3**
Earnings per share – Basic:				
Income from continuing operations	$ 2.97	$ 2.68	$ 7.54	$ 6.98
Loss from discontinued operations	—	—	(0.01)	(0.04)
Net income	$ 2.97	$ 2.68	$ 7.53	$ 6.94
Earnings per share – Diluted:				
Income from continuing operations	$ 2.94	$ 2.65	$ 7.46	$ 6.90
Loss from discontinued operations	—	—	—	(0.04)
Net income	$ 2.94	$ 2.65	$ 7.46	$ 6.86

The following stock appreciation rights and restricted stock units were outstanding but not included in the diluted earnings per share calculation because the assumed exercise of such rights would have been anti-dilutive (in millions, except for per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Weighted-average number of shares	—	0.2	—	0.2
Price per share	$ —	$ 205.53	$ —	$ 205.53

16. Reportable Business Segments:

We operate in three reportable business segments of the heating, ventilation, air conditioning and refrigeration ("HVACR") industry. Our segments are organized primarily by the nature of the products and services we provide. The following table describes each segment:

Segment	Product or Services	Markets Served	Geographic Areas
Residential Heating & Cooling	Furnaces, air conditioners, heat pumps, packaged heating and cooling systems, indoor air quality equipment, comfort control products, replacement parts	Residential Replacement; Residential New Construction	United States Canada
Commercial Heating & Cooling	Unitary heating and air conditioning equipment, applied systems, controls, installation and service of commercial heating and cooling equipment	Light Commercial	United States Canada Central America South America
Refrigeration	Condensing units, unit coolers, fluid coolers, air cooled condensers, air handlers, process chillers, controls, compressorized racks, supermarket display cases and systems	Light Commercial; Food Preservation; Non-Food/Industrial	United States Canada Europe[(1)] Asia Pacific[(2)] South America[(2)] Central America

[(1)]Effective January 1, 2019, we realigned our segment structure. We shifted financial reporting of the European Commercial HVAC business from our Commercial Heating & Cooling segment to our Refrigeration segment as we manage both our commercial HVAC and refrigeration operations in Europe together. We have revised our historical segment results to present them on a comparable basis.

[(2)]Our businesses in the Asia Pacific and South America area were sold in the second and third quarters of 2018, respectively. Refer to Note 14 for details regarding the divestiture of these businesses.

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

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

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

Segment Data

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales				
Residential Heating & Cooling	$ 637.6	$ 594.7	$ 1,792.2	$ 1,764.4
Commercial Heating & Cooling	253.3	236.9	687.9	668.1
Refrigeration	142.0	198.6	442.1	607.9
	$ 1,032.9	**$ 1,030.2**	**$ 2,922.2**	**$ 3,040.4**
Segment profit (loss) [(1)]				
Residential Heating & Cooling	$ 126.5	$ 113.0	$ 366.6	$ 317.9
Commercial Heating & Cooling	47.1	44.8	116.0	117.6
Refrigeration	19.8	24.9	47.3	57.1
Corporate and other	(18.1)	(28.1)	(54.3)	(61.8)
Total segment profit	175.3	154.6	475.6	430.8
Reconciliation to Operating income:				
Special inventory write down	—	—	—	0.2
Special product quality adjustment	(0.5)	—	(1.0)	—
Loss (gain), net on sale of businesses and related property	0.2	6.2	9.1	25.8
Loss (gain) from insurance recoveries, net of losses incurred	1.2	0.3	(11.6)	0.3
Prior quarter partial advance of insurance recoveries related to lost profits	8.0	—	—	—
Items in losses (gains) and other expenses, net that are excluded from segment profit (loss) [(1)]	3.5	2.4	7.3	9.3
Restructuring charges	6.1	0.5	6.5	1.9
Operating income	**$ 156.8**	**$ 145.2**	**$ 465.3**	**$ 393.3**

[(1)] We define segment profit (loss) as a segment's operating income included in the accompanying Consolidated Statements of Operations, excluding:
The following items in Losses (gains) and other expenses, net:
  - Net change in unrealized losses (gains) on unsettled futures contracts,
  - Special legal contingency charges,
  - Asbestos-related litigation,
  - Environmental liabilities,
  - Other items, net,
- Special inventory write down,
- Special product quality adjustment,
- Loss (gain) on sale of businesses and related property,
- Prior quarter partial advance of insurance recoveries related to lost profits,
- Loss (gain) from insurance recoveries, net of losses incurred; and,
- Restructuring charges.

Total Assets by Segment

	As of September 30, 2019	As of December 31, 2018
Total Assets:		
Residential Heating & Cooling	$ 1,165.3	$ 837.4
Commercial Heating & Cooling	423.4	349.5
Refrigeration	415.7	462.9
Corporate and other	210.4	167.4
Total assets	$ 2,214.8	$ 1,817.2

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

17. Fair Value Measurements:

Fair Value Hierarchy

The methodologies used to determine the fair value of our financial assets and liabilities at September 30, 2019 were the same as those used at December 31, 2018.

Assets and Liabilities Carried at Fair Value on a Recurring Basis

Derivatives were classified as Level 2 and primarily valued using estimated future cash flows based on observed prices from exchange-traded derivatives. We also considered the counterparty's creditworthiness, or our own creditworthiness, as appropriate. Adjustments were recorded to reflect the risk of credit default, however, they were insignificant to the overall value of the derivatives. Refer to Note 5 for more information related to our derivative instruments.

Other Fair Value Disclosures

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

The fair value of our senior unsecured notes in Long-term debt, classified as Level 2, was based on the amount of future cash flows using current market rates for debt instruments of similar maturities and credit risk. The following table presents their fair value (in millions):

	As of September 30, 2019	As of December 31, 2018
Senior unsecured notes	$ 357.1	$ 338.4

18. Condensed Consolidating Financial Statements:

Our senior unsecured notes are unconditionally guaranteed by certain of our subsidiaries (the “Guarantor Subsidiaries”) and are not guaranteed by our other subsidiaries (the “Non-Guarantor Subsidiaries”). The Guarantor Subsidiaries are 100% owned, all guarantees are full and unconditional, and all guarantees are joint and several. As a result of the guarantee arrangements, we are required to present the following condensed consolidating financial statements.

The condensed consolidating financial statements reflect our investments in our subsidiaries using the equity method of accounting. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. Our condensed consolidating financial statements and our Guarantor Subsidiaries and Non-Guarantor Subsidiaries as of September 30, 2019 and December 31, 2018, and for the three and nine months ended September 30, 2019 and 2018 are shown on the following pages.

Lennox International Inc. and Subsidiaries
Condensed Consolidating Balance Sheets
As of September 30, 2019
(Unaudited)

(Amounts in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 1.4	$ 26.0	$ 18.7	$ —	$ 46.1
Short-term investments	—	—	2.4	—	$ 2.4
Accounts and notes receivable, net	—	72.0	550.2	—	622.2
Inventories, net	—	509.2	78.3	(2.2)	585.3
Other assets	3.4	42.8	49.4	(34.3)	61.3
Total current assets	4.8	650.0	699.0	(36.5)	1,317.3
Property, plant and equipment, net	—	365.4	53.4	—	418.8
Right-of-use assets from operating leases	—	149.0	23.9	—	172.9
Goodwill	—	166.1	20.3	—	186.4
Investment in subsidiaries	1,651.7	422.1	50.2	(2,124.0)	—
Deferred income taxes	(12.2)	49.5	22.5	(12.2)	47.6
Other assets, net	1.4	54.6	1.6	14.2	71.8
Intercompany (payables) receivables, net	(872.4)	857.5	134.8	(119.9)	—
Total assets	**$ 773.3**	**$ 2,714.2**	**$ 1,005.7**	**$ (2,278.4)**	**$ 2,214.8**
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY					
Current liabilities:					
Current maturities of long-term debt	21.9	5.8	366.6	—	394.3
Current operating lease liabilities	—	44.4	7.2	—	51.6
Accounts payable	29.7	317.6	45.7	—	393.0
Accrued expenses	11.2	219.1	40.7	—	271.0
Income taxes (receivable) payable	(45.7)	52.3	44.2	(50.8)	—
Total current liabilities	17.1	639.2	504.4	(50.8)	1,109.9
Long-term debt	1,033.2	21.7	1.9	—	1,056.8
Long-term operating lease liabilities	—	106.1	16.9	—	123.0
Pensions	—	64.9	7.6	—	72.5
Other liabilities	0.3	122.7	6.9	—	129.9
Total liabilities	**1,050.6**	**954.6**	**537.7**	**(50.8)**	**2,492.1**
Commitments and contingencies					
Total stockholders' (deficit) equity	**(277.3)**	**1,759.6**	**468.0**	**(2,227.6)**	**(277.3)**
Total liabilities and stockholders' (deficit) equity	**$ 773.3**	**$ 2,714.2**	**$ 1,005.7**	**$ (2,278.4)**	**$ 2,214.8**

Lennox International Inc. and Subsidiaries
Condensed Consolidating Balance Sheets
As of December 31, 2018

(Amounts in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 1.8	$ 15.4	$ 29.1	$ —	$ 46.3
Accounts and notes receivable, net	—	44.3	428.4	—	472.7
Inventories, net	—	411.4	103.9	(5.5)	509.8
Other assets	3.3	36.2	54.7	(33.6)	60.6
Total current assets	5.1	507.3	616.1	(39.1)	1,089.4
Property, plant and equipment, net	—	293.3	118.6	(3.6)	408.3
Goodwill	—	166.1	20.5	—	186.6
Investment in subsidiaries	1,311.9	357.8	(0.5)	(1,669.2)	—
Deferred income taxes	1.4	54.4	23.4	(12.2)	67.0
Other assets, net	1.5	48.1	17.8	(1.5)	65.9
Intercompany (payables) receivables, net	(715.5)	675.8	142.6	(102.9)	—
Total assets	**$ 604.4**	**$ 2,102.8**	**$ 938.5**	**$ (1,828.5)**	**$ 1,817.2**
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY					
Current liabilities:					
Current maturities of long-term debt	29.4	2.8	268.6	—	300.8
Accounts payable	25.5	295.7	112.1	—	433.3
Accrued expenses	12.1	213.8	46.4	—	272.3
Income taxes (receivable) payable	(38.5)	40.6	50.8	(50.8)	2.1
Total current liabilities	28.5	552.9	477.9	(50.8)	1,008.5
Long-term debt	724.9	15.0	0.6	—	740.5
Pensions	—	75.1	7.7	—	82.8
Other liabilities	0.6	126.4	8.0	—	135.0
Total liabilities	**754.0**	**769.4**	**494.2**	**(50.8)**	**1,966.8**
Commitments and contingencies					
Total stockholders' (deficit) equity	**(149.6)**	**1,333.4**	**444.3**	**(1,777.7)**	**(149.6)**
Total liabilities and stockholders' (deficit) equity	**$ 604.4**	**$ 2,102.8**	**$ 938.5**	**$ (1,828.5)**	**$ 1,817.2**

Lennox International Inc. and Subsidiaries
Condensed Consolidating Statements of Operations and Comprehensive Income
For the Three Months Ended September 30, 2019
(Unaudited)

(Amounts in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$ 950.0	$ 139.5	$ (56.6)	$ 1,032.9
Cost of goods sold	—	681.2	109.8	(56.4)	734.6
Gross profit	—	268.8	29.7	(0.2)	298.3
Operating expenses:					
Selling, general and administrative expenses	—	139.9	3.5	—	143.4
Losses (gains) and other expenses, net	0.2	1.5	0.6	(0.1)	2.2
Restructuring charges	—	6.0	0.1	—	6.1
Loss on sale of business	—	0.2	—	—	0.2
Gain from insurance recoveries, net of losses incurred	—	(7.1)	—	—	(7.1)
Income from equity method investments	(116.4)	(20.1)	(2.3)	135.5	(3.3)
Operating income	**116.2**	**148.4**	**27.8**	**(135.6)**	**156.8**
Interest expense, net	2.1	7.7	2.7	—	12.5
Other expense (income), net	—	0.5	0.1	—	0.6
Income from continuing operations before income taxes	114.1	140.2	25.0	(135.6)	143.7
Provision for income tax (benefit) expense	(0.6)	23.0	6.6	—	29.0
Income from continuing operations	**114.7**	**117.2**	**18.4**	**(135.6)**	**114.7**
Net income (loss)	**$ 114.7**	**$ 117.2**	**$ 18.4**	**$ (135.6)**	**$ 114.7**
Other comprehensive (loss) income, net of tax	**(0.3)**	**7.7**	**(5.0)**	**—**	**2.4**
Comprehensive income	**$ 114.4**	**$ 124.9**	**$ 13.4**	**$ (135.6)**	**$ 117.1**

Lennox International Inc. and Subsidiaries
Condensed Consolidating Statements of Operations and Comprehensive Income
For the Nine Months Ended September 30, 2019
(Unaudited)

(Amounts in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$ 2,692.1	$ 407.2	$ (177.1)	$ 2,922.2
Cost of goods sold	—	1,935.6	330.5	(175.8)	2,090.3
Gross profit	—	756.5	76.7	(1.3)	831.9
Operating expenses:					
Selling, general and administrative expenses	—	423.6	18.0	—	441.6
(Gains) losses and other expenses, net	(0.2)	4.4	1.3	(0.2)	5.3
Restructuring charges	—	6.2	0.3	—	6.5
Loss on sale of business	—	1.3	7.8	—	9.1
Gain from insurance recoveries, net of losses incurred	—	(85.4)	—	—	(85.4)
Income from equity method investments	(299.6)	(37.2)	(8.2)	334.5	(10.5)
Operating income	**299.8**	**443.6**	**57.5**	**(335.6)**	**465.3**
Pension settlement	—	60.6	—	—	60.6
Interest expense, net	6.7	23.1	6.7	—	36.5
Other expense (income), net	—	1.5	0.2	—	1.7
Income from continuing operations before income taxes	293.1	358.4	50.6	(335.6)	366.5
Provision for income tax (benefit) expense	(1.6)	56.6	16.8	(0.3)	71.5
Income from continuing operations	**294.7**	**301.8**	**33.8**	**(335.3)**	**295.0**
Loss from discontinued operations, net of tax	—	—	(0.3)	—	(0.3)
Net income	**$ 294.7**	**$ 301.8**	**$ 33.5**	**$ (335.3)**	**$ 294.7**
Other comprehensive income (loss), net of tax	**4.1**	**58.1**	**(0.6)**	**—**	**61.6**
Comprehensive income	**$ 298.8**	**$ 359.9**	**$ 32.9**	**$ (335.3)**	**$ 356.3**

Lennox International Inc. and Subsidiaries
Condensed Consolidating Statements of Operations and Comprehensive Income
For the Three Months Ended September 30, 2018
(Unaudited)

(Amounts in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$ 930.5	$ 283.6	$ (183.9)	$ 1,030.2
Cost of goods sold	—	660.5	252.1	(184.3)	728.3
Gross profit	—	270.0	31.5	0.4	301.9
Operating expenses:					
Selling, general and administrative expenses	—	138.4	11.3	(0.3)	149.4
Losses (gains) and other expenses, net	0.2	1.9	0.6	—	2.7
Restructuring charges	—	—	0.5	—	0.5
(Gain) loss, net on sale of businesses and related property	—	40.1	(33.9)	—	6.2
(Gain) loss from insurance recoveries, net of losses incurred	—	(1.7)	2.0	—	0.3
Income from equity method investments	(109.7)	(45.7)	(1.6)	154.6	(2.4)
Operating income	**109.5**	**137.0**	**52.6**	**(153.9)**	**145.2**
Interest expense, net	2.0	5.0	3.3	—	10.3
Other expense, net	—	0.7	0.4	—	1.1
Income from continuing operations before income taxes	107.5	131.3	48.9	(153.9)	133.8
Provision for income tax (benefit) expense	(0.5)	13.3	12.9	0.1	25.8
Income from continuing operations	**108.0**	**118.0**	**36.0**	**(154.0)**	**108.0**
Loss from discontinued operations, net of tax	—	—	—	—	—
Net income	**$ 108.0**	**$ 118.0**	**$ 36.0**	**$ (154.0)**	**$ 108.0**
Other comprehensive (loss) income, net of tax	**(2.5)**	**1.2**	**6.7**	**—**	**5.4**
Comprehensive income	**$ 105.5**	**$ 119.2**	**$ 42.7**	**$ (154.0)**	**$ 113.4**

Lennox International Inc. and Subsidiaries
Condensed Consolidating Statements of Operations and Comprehensive Income
For the Nine Months Ended September 30, 2018
(Unaudited)

(Amounts in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ —	$ 2,704.6	$ 866.4	$ (530.6)	$ 3,040.4
Cost of goods sold	—	1,938.8	744.0	(529.0)	2,153.8
Gross profit	—	765.8	122.4	(1.6)	886.6
Operating expenses:					
Selling, general and administrative expenses	—	423.0	43.6	(0.5)	466.1
Losses (gains) and other expenses, net	1.7	2.3	6.3	(0.3)	10.0
Restructuring charges	—	0.8	1.1	—	1.9
(Gain) loss, net on sale of businesses and related property	—	39.1	(13.3)	—	25.8
(Gain) loss from insurance recoveries, net of losses incurred	—	(1.7)	2.0	—	0.3
Income from equity method investments	(289.9)	(67.4)	(8.4)	354.9	(10.8)
Operating income	**288.2**	**369.7**	**91.1**	**(355.7)**	**393.3**
Interest expense, net	6.8	14.4	7.3	—	28.5
Other expense, net	—	2.0	0.4	—	2.4
Income from continuing operations before income taxes	281.4	353.3	83.4	(355.7)	362.4
Provision for income tax (benefit) expense	(2.0)	62.6	16.5	0.2	77.3
Income from continuing operations	**283.4**	**290.7**	**66.9**	**(355.9)**	**285.1**
Loss from discontinued operations, net of tax	—	—	(1.7)	—	(1.7)
Net income	**$ 283.4**	**$ 290.7**	**$ 65.2**	**$ (355.9)**	**$ 283.4**
Other comprehensive (loss) income, net of tax	**$ (11.9)**	**$ (7.5)**	**$ 1.2**	**$ —**	**$ (18.2)**
Comprehensive income	**$ 271.5**	**$ 283.2**	**$ 66.4**	**$ (355.9)**	**$ 265.2**

Lennox International Inc. and Subsidiaries
Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2019
(Unaudited)

(Amounts in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities	**$ 21.0**	**$ 217.7**	**$ (114.2)**	**$ —**	**$ 124.5**
Cash flows from investing activities:					
Proceeds from the disposal of property, plant and equipment	—	0.8	0.4	—	1.2
Purchases of property, plant and equipment	—	(71.6)	(5.4)	—	(77.0)
Net proceeds from sale of business	—	42.9	0.6	—	43.5
Insurance recoveries received for property damage incurred from natural disaster	—	11.6	—	—	11.6
Purchases of short-term investments	—	—	(2.4)	—	(2.4)
Net cash used in investing activities	**—**	**(16.3)**	**(6.8)**	**—**	**(23.1)**
Cash flows from financing activities:					
Short-term debt payments	—	—	(5.3)	—	(5.3)
Short-term debt proceeds	—	—	5.3	—	5.3
Asset securitization borrowings	—	—	155.5	—	155.5
Asset securitization payments	—	—	(58.0)	—	(58.0)
Long-term debt payments	(30.0)	(3.0)	(2.0)	—	(35.0)
Borrowings from credit facility	1,938.5	—	—	—	1,938.5
Payments on credit facility	(1,608.5)	—	—	—	(1,608.5)
Proceeds from employee stock purchases	2.5	—	—	—	2.5
Repurchases of common stock	(400.0)	—	—	—	(400.0)
Repurchases of common stock to satisfy employee withholding tax obligations	(16.9)	—	—	—	(16.9)
Intercompany financing activity	173.9	(188.2)	14.3	—	—
Cash dividends paid	(80.9)	—	—	—	(80.9)
Net cash (used in) provided by financing activities	**(21.4)**	**(191.2)**	**109.8**	**—**	**(102.8)**
(Decrease) increase in cash and cash equivalents	(0.4)	10.2	(11.2)	—	(1.4)
Effect of exchange rates on cash and cash equivalents	—	0.4	0.8	—	1.2
Cash and cash equivalents, beginning of period	1.8	15.4	29.1	—	46.3
Cash and cash equivalents, end of period	**$ 1.4**	**$ 26.0**	**$ 18.7**	**$ —**	**$ 46.1**

Lennox International Inc. and Subsidiaries
Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2018
(Unaudited)

(Amounts in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities	**$ 57.2**	**$ 362.5**	**$ (188.4)**	**$ —**	**$ 231.3**
Cash flows from investing activities:					
Proceeds from the disposal of property, plant and equipment	—	—	0.1	—	0.1
Purchases of property, plant and equipment	—	(46.1)	(14.8)	—	(60.9)
Net proceeds from sale of businesses and related property	—	4.0	111.9	—	115.9
Insurance recoveries received for property damage incurred from natural disaster	—	4.2	—	—	4.2
Net cash (used in) provided by investing activities	**—**	**(37.9)**	**97.2**	**—**	**59.3**
Cash flows from financing activities:					
Short-term debt payments	—	—	(41.1)	—	(41.1)
Short-term debt proceeds	—	—	39.6	—	39.6
Asset securitization borrowings	—	—	155.0	—	155.0
Asset securitization payments	—	—	(53.7)	—	(53.7)
Long-term debt payments	(30.0)	(2.8)	(0.1)	—	(32.9)
Long-term borrowings	—	—	—	—	—
Borrowings from credit facility	1,820.0	—	—	—	1,820.0
Payments on credit facility	(1,766.5)	—	—	—	(1,766.5)
Proceeds from employee stock purchases	2.5	—	—	—	2.5
Repurchases of common stock	(350.2)	—	—	—	(350.2)
Repurchases of common stock to satisfy employee withholding tax obligations	(21.1)	—	—	—	(21.1)
Intercompany financing activity	356.1	(323.0)	(33.1)	—	—
Cash dividends paid	(68.2)	—	—	—	(68.2)
Net cash (used in) provided by financing activities	**(57.4)**	**(325.8)**	**66.6**	**—**	**(316.6)**
Decrease in cash and cash equivalents	(0.2)	(1.2)	(24.6)	—	(26.0)
Effect of exchange rates on cash and cash equivalents	—	(2.8)	6.7	—	3.9
Cash and cash equivalents, beginning of period	1.6	28.0	38.6	—	68.2
Cash and cash equivalents, end of period	**$ 1.4**	**$ 24.0**	**$ 20.7**	**$ —**	**$ 46.1**

19. Subsequent Event:

On October 15, 2019, we entered into an agreement with Pacific Life Insurance Company to purchase a group annuity contract and transfer $75.0 million of our pension plan assets and $77.9 million of related benefit obligations. This transaction requires a remeasurement of the pension plan and we expect to recognize a $38.5 million non-cash pension settlement pre-tax loss in the fourth quarter of 2019 for this remeasurement.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on information currently available to management as well as management’s assumptions and beliefs as of the date such statements were made. All statements, other than statements of historical fact, included in this Quarterly Report on Form 10-Q constitute forward-looking statements, including but not limited to statements identified by forward-looking terminology, such as the words “may,” “will,” “should,” “plan,” “anticipate,” “believe,” “intend,” “estimate” and “expect” and similar expressions. Such statements reflect our current views with respect to future events, based on what we believe are reasonable assumptions; however, such statements are subject to certain risks and uncertainties. In addition to the specific uncertainties discussed elsewhere in this Quarterly Report on Form 10-Q, the risk factors set forth in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018, and those set forth in Part II, “Item 1A. Risk Factors” of this report, if any, may affect our performance and results of operations. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those in the forward-looking statements. We disclaim any intention or obligation to update or review any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by law.

Business Overview

We operate in three reportable business segments of the heating, ventilation, air conditioning and refrigeration (“HVACR”) industry. Our reportable segments are Residential Heating & Cooling, Commercial Heating & Cooling, and Refrigeration. For additional information regarding our reportable segments, see Note 16 in the Notes to the Consolidated Financial Statements.

Our fiscal quarterly periods are comprised of approximately 13 weeks, but the number of days per quarter may vary year-over-year. Our quarterly reporting periods usually end on the Saturday closest to the last day of March, June and September. Our fourth quarter and fiscal year ends on December 31, regardless of the day of the week on which December 31 falls. 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 respective calendar quarter.

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

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

Marshalltown Tornado

On July 19, 2018, our manufacturing facility in Marshalltown, Iowa was damaged by a tornado. Insurance covers the repair or replacement of our assets that suffered damage or loss, and we are working closely with our insurance carriers and claims adjusters to ascertain the amount of insurance recoveries due to us as a result of the damage and loss we suffered. Our insurance policies also provide business interruption coverage, including lost profits, and reimbursement for other expenses and costs that have been incurred relating to the damages and losses suffered.

In the third quarter of 2019, we incurred expenses of $3 million related to damages caused by the tornado, which included site clean-up and demolition, factory inefficiencies, freight to move product to other warehouses and sales and marketing promotional costs. We received insurance recoveries of $10 million in the third quarter of 2019 and allocated the first $2 million of these proceeds to cover our expenses and rebuilding costs incurred during the quarter and allocated the remaining $8 million for lost profits. These amounts are included in (Gain) loss from insurance recoveries, net of losses incurred in the Consolidated Statements of Operations.

For the year ended December 31, 2019, we expect to receive insurance proceeds of $94 million related to lost profits and $154 million to fund the reconstruction of the facility and as reimbursement for other losses and expenses expected to be incurred. We expect to receive a cumulative total of $121 million in insurance proceeds related to lost profits and a cumulative total of $251 million to fund the reconstruction of the facility and as reimbursement for other losses and expenses expected to be incurred.

Financial Overview

Results for the third quarter of 2019 were driven by year over year sales and profit growth in our Residential Heating & Cooling and Commercial Heating & Cooling segments. The Residential Heating & Cooling segment saw a 7% increase in net sales primarily on higher volumes and their segment profit was up $14 million, including the impact of insurance proceeds received for lost profits. The Commercial Heating & Cooling segment had a 7% increase in net sales and a $2 million increase in segment profit which were driven by higher volumes and higher price and mix. Sales in our Refrigeration segment decreased by 28% primarily due to the sale of our South America and Kysor Warren businesses in prior quarters, and segment profit declined $5 million.

Financial Highlights

- Net sales increased $3 million to $1,033 million in the third quarter of 2019. Growth in our Residential Heating & Cooling and Commercial Heating & Cooling segments were offset by a sales decline in our Refrigeration segment due to the sale of our South America and Kysor Warren businesses in prior quarters.
- Operating income in the third quarter of 2019 increased $12 million to $157 million due primarily to insurance proceeds for lost profits related to the Marshalltown tornado.
- Net income for the third quarter of 2019 increased $7 million to $115 million.
- Diluted earnings per share from continuing operations were $2.94 per share in the third quarter of 2019 compared to $2.65 per share in the third quarter of 2018.
- For the nine months ended September 30, 2019, we returned $81 million to shareholders through dividend payments and repurchased $400 million of common stock.

Third Quarter of 2019 Compared to Third Quarter of 2018 - Consolidated Results

The following table provides a summary of our financial results, including information presented as a percentage of net sales:

	For the Three Months Ended September 30,				
	Dollars (in millions)		Percent Change	Percent of Sales	
	2019	2018	Fav/(Unfav)	2019	2018
Net sales	**$ 1,032.9**	**$ 1,030.2**	**0.3 %**	**100.0 %**	**100.0 %**
Cost of goods sold	734.6	728.3	(0.9)	71.1	70.7
Gross profit	298.3	301.9	(1.2)	28.9	29.3
Selling, general and administrative expenses	143.4	149.4	4.0	13.9	14.5
Losses (gains) and other expenses, net	2.2	2.7	18.5	0.2	0.3
Restructuring charges	6.1	0.5	(1,120.0)	0.6	—
Loss (gain) on sale of businesses and related property	0.2	6.2	96.8	—	0.6
(Gain) loss from insurance recoveries, net of losses incurred	(7.1)	0.3	2,466.7	(0.7)	—
Income from equity method investments	(3.3)	(2.4)	37.5	(0.3)	(0.2)
Operating income	**$ 156.8**	**$ 145.2**	**8.0 %**	**15.2 %**	**14.1 %**

Net Sales

Net sales were up $3 million, or flat in percentage terms, in the third quarter of 2019 compared to the third quarter of 2018. Higher sales volume across all of our segments contributed 4% and favorable combined price and mix in our Residential Heating & Cooling and Commercial Heating & Cooing segments contributed 1%. These were partially offset by a 5% decline related to the loss of sales related to our South America and Kysor Warren businesses.

Gross Profit

Gross profit margin in the third quarter of 2019 decreased to 28.9% compared to 29.3% in the third quarter of 2018. We saw decreases in profit margin of 150 basis points ("bps") from lower factory efficiency and higher other product costs, and 70 bps from higher freight and distribution costs. Partially offsetting these decreases were positive margin increases of 40 bps from favorable price and mix, 40 bps from sourcing and engineering-led cost reductions, 20 bps from lower commodity costs, 10 bps from favorable product warranty costs, and 70 bps from the divested South America and Kysor Warren businesses which had lower margins.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, or SG&A declined $6 million to $143 million in the third quarter of 2019 compared to $149 million in the third quarter of 2018 primarily due to the sale of our South America and Kysor Warren businesses. As a percentage of net sales, SG&A decreased 60 bps to 13.9% primarily due to a decline in SG&A from our divested business and lower short-term and long-term incentive compensation costs.

Losses (Gains) and Other Expenses, Net

Losses (gains) and other expenses, net for the third quarter of 2019 and 2018 included the following (in millions):

	For the Three Months Ended September 30,	
	2019	**2018**
Realized losses (gains) on settled future contracts	$ 0.1	$ 0.2
Foreign currency exchange gains	(0.3)	0.1
Other operating (gains) losses	(1.2)	—
Net change in unrealized losses (gains) on unsettled futures contracts	0.1	0.2
Special legal contingency charges	0.3	0.1
Asbestos-related litigation	1.5	1.4
Environmental liabilities	1.1	0.2
Other items, net	0.6	0.5
Losses (gains) and other expenses, net (pre-tax)	$ 2.2	$ 2.7

The net change in unrealized losses (gains) on unsettled futures contracts was due to changes in commodity prices relative to the unsettled futures contract prices. For more information on our futures contracts, see Note 5 in the Notes to the Consolidated Financial Statements. For more information on special legal contingency charges and asbestos-related litigation, see Note 7 in the Notes to the Consolidated Financial Statements. The environmental liabilities relate to estimated remediation costs for contamination at some of our facilities. Refer to Note 14 in the Notes to the Consolidated Financial Statements for more information on the divestiture costs.

Restructuring Charges

Restructuring charges were $6 million in the third quarter of 2019 and primarily related to activities to re-align resources and the product portfolio in our Commercial Heating & Cooling and Corporate segments. For additional information on our restructuring activities, refer to Note 13 in the Notes to the Consolidated Financial Statements.

Loss on Sale of Businesses

We recognized a loss of $0.2 million in the third quarter of 2019 related to the sale of our Kysor Warren business. Refer to Note 14 in the Notes to the Consolidated Financial Statements for additional information.

Income from Equity Method Investments

We participate in two joint ventures that are engaged in the manufacture and sale of compressors, unit coolers and condensing units. We exert significant influence over these affiliates based upon our ownership, but do not control them due to venture partner participation. Accordingly, these joint ventures have been accounted for under the equity method and their financial position and results of operations are not consolidated. Income from equity method investments of $3 million in the third quarter of 2019 increased $1 million compared to the third quarter of 2018 on improved operating performance of the joint ventures.

Interest Expense, net

Interest expense, net of $13 million in the third quarter of 2019 was up from $10 million in the third quarter of 2018 due to an increase in our average net borrowings.

Income Taxes

Our effective tax rate increased to 20.2% for the third quarter of 2019 compared to 19.3% for the third quarter of 2018 primarily due to the recording of unrecognized tax benefits. We expect our annual effective tax rate to be between 22% and 23%, excluding the impact of excess tax benefits recorded as a reduction of income taxes under ASU No. 2016-09.

Third Quarter of 2019 Compared to Third Quarter of 2018 - Results by Segment

Residential Heating & Cooling

The following table presents our Residential Heating & Cooling segment's net sales and profit for the third quarter of 2019 and 2018 (dollars in millions):

	For the Three Months Ended September 30,			
	2019	2018	Difference	% Change
Net sales	$ 637.6	$ 594.7	$ 42.9	7.2%
Profit	$ 126.5	$ 113.0	$ 13.5	11.9%
% of net sales	19.8%	19.0%		

Net sales increased 7% in the third quarter of 2019 compared to the third quarter of 2018. Sales volume was higher by 6% and price and mix combined was higher by 1%.

Segment profit in the third quarter of 2019 increased $14 million compared to the third quarter of 2018 due to $16 million of insurance proceeds for lost profits due to the Marshalltown tornado, $9 million of higher sales volume, $3 million of higher combined price and mix, $3 million from lower commodities, $3 million from tariff rebates, and $2 million of sourcing and engineering-led cost reductions. Partially offsetting these increases was $7 million of higher SG&A expense, $6 million from lower factory efficiency, $6 million of higher freight and distribution expense, and $3 million of higher other product costs.

Commercial Heating & Cooling

The following table presents our Commercial Heating & Cooling segment's net sales and profit for the third quarter of 2019 and 2018 (dollars in millions):

	For the Three Months Ended September 30,			
	2019	2018	Difference	% Change
Net sales	$ 253.3	$ 236.9	$ 16.4	6.9%
Profit	$ 47.1	$ 44.8	$ 2.3	5.1%
% of net sales	18.6%	18.9%		

Net sales increased 7% in the third quarter of 2019 compared to the third quarter of 2018. Sales volume was higher 4% and price and mix combined was higher by 3%.

Segment profit in the third quarter of 2019 increased $2 million compared to the third quarter of 2018 due to $5 million of higher price and mix combined, $3 million of higher sales volume, $1 million of sourcing and engineering-led cost reductions, and $1 million of higher equity method income. Partially offsetting these increases was $2 million from lower factory efficiency, $2 million of higher SG&A expense, $1 million of higher commodities, $1 million of higher tariffs on Chinese imports, $1 million of higher freight and distribution expense, and $1 million of higher other product costs.

Refrigeration

The following table presents our Refrigeration segment's net sales and profit for the third quarter of 2019 and 2018 (dollars in millions):

	For the Three Months Ended September 30,			
	2019	2018	Difference	% Change
Net sales	$ 142.0	$ 198.6	$ (56.6)	(28.5)%
Profit	$ 19.8	$ 24.9	$ (5.1)	(20.5)%
% of net sales	13.9%	12.5%		

Net sales decreased 28% in the third quarter of 2019 compared to the third quarter of 2018. The loss of sales from the divested Kysor Warren and South America businesses contributed 27%, unfavorable foreign currency exchange rates contributed 1% and unfavorable mix contributed 1%, partially offset by 1% higher sales volume.

Segment profit in the third quarter of 2019 decreased $5 million compared to the third quarter of 2018 due to $3 million of lower profit due to the divested Kysor Warren and South America businesses, $2 million from lower factory efficiency, $1 million of higher SG&A, $1 million of higher tariffs on Chinese imports, and $1 million of lower sales of refrigerant allocations in Europe. Partially offsetting these decreases were $1 million of sourcing and engineering-led cost reductions, $1 million of higher sales volume, and $1 million of lower freight and distribution expense.

Corporate and Other

Corporate and other expenses decreased $10 million in the third quarter of 2019 compared to the third quarter of 2018 primarily due to lower short-term and long-term incentive compensation and higher income from equity method investments.

Year-to-Date through September 30, 2019 Compared to Year-to-Date through September 30, 2018 - Consolidated Results

The following table provides a summary of our financial results, including information presented as a percentage of net sales:

	For the Nine Months Ended September 30,				
	Dollars (in millions)		Percent Change Fav/(Unfav)	Percent of Sales	
	2019	2018		2019	2018
Net sales	**$ 2,922.2**	**$ 3,040.4**	**(3.9)**	**100.0 %**	**100.0 %**
Cost of goods sold	2,090.3	2,153.8	2.9	71.5	70.8
Gross profit	831.9	886.6	(6.2)	28.5	29.2
Selling, general and administrative expenses	441.6	466.1	5.3	15.1	15.3
Losses (gains) and other expenses, net	5.3	10.0	47.0	0.2	0.3
Restructuring charges	6.5	1.9	(242.1)	0.2	0.1
Loss (gain), net sale of businesses and related property	9.1	25.8	64.7	0.3	0.8
(Gain) loss from insurance recoveries, net of losses incurred	(85.4)	0.3	28,566.7	(2.9)	—
Income from equity method investments	(10.5)	(10.8)	(2.8)	(0.4)	(0.4)
Operating income	**$ 465.3**	**$ 393.3**	**18.3**	**15.9 %**	**12.9 %**

Net Sales

Net sales decreased 4% in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to a 5% decline related to the sale of our Australia, New Zealand, Asia and South America and Kysor Warren businesses and 1% from unfavorable foreign currency exchange rates, partially offset by 2% from favorable price and mix combined.

Gross Profit

Gross profit margins for the nine months ended September 30, 2019 decreased 70 bps to 28.5% compared to the nine months ended September 30, 2018. Our profit margin decreased 50 bps from higher commodity costs, 100 bps from higher freight and distribution costs, 20 bps from tariffs on Chinese imports and 110 bps from other product costs. These were partially offset by 100 bps from favorable price and mix combined, 50 bps from sourcing and engineering-led cost reductions, 10 bps from favorable warranty costs, and 50 bps from the divested Australia, New Zealand, Asia, South America and Kysor Warren businesses which had lower margins.

Selling, General and Administrative Expenses

SG&A was $442 million for the nine months ended September 30, 2019 compared to $466 million for the nine months ended September 30, 2018, and declined primarily due to the sale of our Australia, New Zealand, Asia, South America and Kysor Warren businesses. As a percentage of net sales, SG&A decreased 20 bps to 15.1% from 15.3%.

Losses (gains) and Other Expenses, Net

Losses (gains) and other expenses, net for the nine months ended September 30, 2019 and 2018 included the following (in millions):

	For the Nine Months Ended September 30,	
	2019	2018
Realized losses (gains) on settled future contracts	$ 0.4	$ (0.6)
Foreign currency exchange (gains) losses	(1.0)	1.2
(Gain) loss on disposal of fixed assets	(0.2)	0.1
Other operating (gains) losses	(1.2)	—
Net change in unrealized losses (gains) on unsettled futures contracts	(0.2)	1.4
Special legal contingency charges	0.5	1.8
Asbestos-related litigation	3.3	3.3
Environmental liabilities	2.4	1.4
Other items, net	1.3	1.4
Losses (gains) and other expenses, net (pre-tax)	$ 5.3	$ 10.0

The net change in unrealized losses on unsettled futures contracts was due to changes in commodity prices relative to the unsettled futures contract prices. For more information on our futures contracts, see Note 5 in the Notes to the Consolidated Financial Statements. For more information on special legal contingency charges and asbestos-related litigation, see Note 7 in the Notes to the Consolidated Financial Statements. The environmental liabilities relate to estimated remediation costs for contamination at some of our facilities.

Restructuring Charges

Restructuring charges were $7 million in the nine months ended September 30, 2019 and primarily related to activities to re-align resources and the product portfolio in our Commercial Heating & Cooling and Corporate segments. For additional information on our restructuring activities, refer to Note 13 in the Notes to the Consolidated Financial Statements.

Income from Equity Method Investments

Income from equity method investments of $11 million for the nine months ended September 30, 2019 was flat compared to the nine months ended September 30, 2018.

Pension Settlement

On April 3, 2019, we entered into an agreement with Pacific Life Insurance Company to purchase a group annuity contract and transfer $100.0 million of our pension plan assets and $105.6 million of related pension benefit obligations. For the nine months ended September 30, 2019, we recognized a $60.6 million pension settlement charge in the Statement of Operations and reclassified $5.6 million of pension benefit obligations to AOCL as a result of this transaction. For additional information, refer to Note 9 in the Notes to the Consolidated Financial Statements.

Interest Expense, net

Interest expense, net of $37 million in the nine months ended September 30, 2019 increased from $29 million in the nine months ended September 30, 2018 primarily due to an increase in our average net borrowings.

Income Taxes

Our effective tax rate declined to 19.5% for the nine months ended September 30, 2019 compared to 21.3% for the nine months ended September 30, 2018 primarily due to the mix of earnings between U.S. and foreign jurisdictions.

Year-to-Date through September 30, 2019 Compared to Year-to-Date through September 30, 2018 - Results by Segment

Residential Heating & Cooling

The following table presents our Residential Heating & Cooling segment's net sales and profit for the nine months ended September 30, 2019 and 2018 (dollars in millions):

	For the Nine Months Ended September 30,			
	2019	2018	Difference	% Change
Net sales	$ 1,792.2	$ 1,764.4	$ 27.8	1.6%
Profit	$ 366.6	$ 317.9	$ 48.7	15.3%
% of net sales	20.5%	18.0%		

Net sales increased 2% in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to higher combined price and mix.

Segment profit increased $49 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to $74 million of insurance proceeds for lost profits related to the Marshalltown tornado, $33 million of favorable price and mix, $11 million of sourcing and engineering-led cost reductions, and $1 million of higher equity method income. Partially offsetting these increases is $25 million of higher freight and distribution expenses, $11 million of higher SG&A, $9 million from lower factory efficiency, $8 million of higher commodity costs, $7 million of lower sales volume, $8 million of higher other product costs, $1 million of higher tariffs on imported Chinese components, and $1 million of unfavorable foreign exchange rates.

Commercial Heating & Cooling

The following table presents our Commercial Heating & Cooling segment's net sales and profit for the nine months ended September 30, 2019 and 2018 (dollars in millions):

	For the Nine Months Ended September 30,			
	2019	2018	Difference	% Change
Net sales	$ 687.9	$ 668.1	$ 19.8	3.0 %
Profit	$ 116.0	$ 117.6	$ (1.6)	(1.4)%
% of net sales	16.9%	17.6%		

Net sales increased 3% in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to 4% higher combined price and mix partially offset by 1% lower sales volume.

Segment profit decreased $2 million in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to $7 million of higher other product costs, $5 million from lower factory efficiency, $5 million of higher commodity costs, $4 million of higher freight and distribution expense, $4 million of higher SG&A expense, $3 million of lower sales volume, and $2 million of higher tariffs on Chinese imports. Partially offsetting these decreases was $23 million of higher price and mix combined, $4 million of sourcing and engineering-led cost reductions, and $1 million of higher equity method income.

Refrigeration

The following table presents our Refrigeration segment's net sales and profit for the nine months ended September 30, 2019 and 2018 (dollars in millions):

	For the Nine Months Ended September 30,			
	2019	2018	Difference	% Change
Net sales	$ 442.1	$ 607.9	$ (165.8)	(27.3)%
Profit	$ 47.3	$ 57.1	$ (9.8)	(17.2)%
% of net sales	10.7%	9.4%		

Net sales decreased 27% in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The loss of sales from our divested Australia, New Zealand, Asia, South America and Kysor Warren businesses contributed 27% and unfavorable foreign currency exchange rates contributed 1%, partially offset by 1% favorable combined price and mix.

Segment profit in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 decreased $10 million due to $4 million of lower profit due to the divested Australia, New Zealand, Asia, South America and Kysor Warren businesses, $3 million of higher commodity costs, $3 million of lower European refrigerant allocation sales, $2 million from lower factory efficiency, $2 million of higher tariffs on Chinese imports, $2 million of higher other product costs, $1 million of higher SG&A expense, $1 million of higher freight and distribution expense, and $1 million of lower equity method income. Partially offsetting these declines was $5 million of sourcing and engineering-led cost reductions, $3 million of higher combined price and mix, and $1 million of higher sales volume.

Corporate and Other

Corporate and other expenses decreased $8 million in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to lower short-term and long-term incentive compensation.

Liquidity and Capital Resources

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

Statement of Cash Flows

The following table summarizes our cash flow activity for the nine months ended September 30, 2019 and 2018 (in millions):

	For the Nine Months Ended September 30,	
	2019	2018
Net cash provided by operating activities	$ 124.5	$ 231.3
Net cash (used in) provided by investing activities	(23.1)	59.3
Net cash used in financing activities	(102.8)	(316.6)

Net Cash Provided by Operating Activities - The net cash used in operating activities in the nine months ended September 30, 2019 and 2018 reflects the seasonal increase in working capital requirements. The decrease in cash provided by operating activities in the nine months ended September 30, 2019 compared to the same period in 2018 was primarily due to the timing of working capital payments and the supply disruption in 2018 caused by the tornado at our Marshalltown facility.

Net Cash Provided by (Used in) Investing Activities - Capital expenditures were $77 million in the nine months ended September 30, 2019 compared to $61 million in the same period of 2018. Capital expenditures in 2019 were primarily related to the reconstruction of the Marshalltown facility as well as equipment and investments in systems and software to support the overall enterprise. Net proceeds of $44 million in the first quarter of 2019 were provided by the sale of our Kysor Warren business. We also received $12 million in insurance proceeds to fund the reconstruction of our Marshalltown facility.

Net Cash Provided by (Used in) Financing Activities - Net cash used in financing activities in the nine months ended September 30, 2019 was $103 million compared to $317 million in the same period of 2018. The decrease in cash used in financing activities is largely due to higher net borrowings on our revolving credit facility partially offset by an increase in share repurchases in 2019 compared to 2018. We repurchased $400 million of shares for the nine months ended September 30, 2019 compared to $350 million of shares in the same period of 2018. We also returned $81 million to shareholders through dividend payments in the nine months ended September 30, 2019. For additional information on share repurchases, refer to Note 11 in the Notes to the Consolidated Financial Statements.

Debt Position

The following table details our lines of credit and financing arrangements as of September 30, 2019 (in millions):

		Outstanding Borrowings
Current maturities of long-term debt:		
Asset Securitization Program	$	365.5
Capital lease obligations	$	6.9
Domestic credit facility(1)		22.5
Debt issuance costs		(0.6)
Total current maturities of long-term debt	$	394.3
Long-term debt:		
Asset Securitization Program (2)		—
Capital lease obligations		23.7
Domestic credit facility(1)		685.5
Senior unsecured notes		350.0
Debt issuance costs		(2.4)
Total long-term debt		1,056.8
Total debt	**$**	**1,451.1**

(1) The available future borrowings on our domestic credit facility are $449.5 million after being reduced by the outstanding borrowings and $2.5 million in outstanding standby letters of credit. We also had $29.6 million in outstanding standby letters of credit outside of the domestic credit facility as of September 30, 2019.

(2) The maximum securitization amount ranges from $225.0 million to $380.0 million, depending on the period. The maximum capacity of the ASP is the lesser of the maximum securitization amount or 100% of the net pool balance less reserves, as defined under the ASP.

Financial Leverage

We periodically review our capital structure to ensure the appropriate levels of leverage and liquidity. We may access the capital markets, as necessary, based on business needs and to take advantage of favorable interest rate environments or other market conditions. We also evaluate our debt-to-capital and debt-to-EBITDA ratios to determine, among other considerations, the appropriate targets for capital expenditures and share repurchases under our share repurchase programs. Our debt-to-total-capital ratio increased to 123.6% at September 30, 2019 from 116.8% at December 31, 2018.

As of September 30, 2019, our senior credit ratings were Baa3 with a stable outlook, and BBB with a stable outlook, by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Rating Group ("S&P"), respectively. The security ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating. Our goal is to maintain investment grade ratings from Moody's and S&P to help ensure the capital markets remain available to us.

Liquidity

We believe our cash and cash equivalents of $46 million, future cash generated from operations and available future borrowings are sufficient to fund operations, planned capital expenditures, future contractual obligations, potential share repurchases and dividends and other needs in the foreseeable future. Included in our cash and cash equivalents of $46 million as of September 30, 2019 was $19 million of cash held in foreign locations. Our cash held in foreign locations is used for investing and operating activities in those locations, and we generally do not have the need or intent to repatriate those funds to the United States. An actual repatriation in the future from our non-U.S. subsidiaries could be subject to foreign withholding taxes and U.S. state taxes.

Our expected capital expenditures for 2019 are $100 million, excluding capital expenditures made in conjunction with repair of our Marshalltown facility as those repairs will be covered by insurance. We also continue to increase shareholder value through the $400 million of share repurchases completed in the nine months ended September 30, 2019.

Off Balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which the company has: (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or that engages in leasing, hedging or research and development arrangements with us. We have no off-balance sheet arrangements that we believe may have a material current or future effect on our financial condition, liquidity or results of operations.

Commitments, Contingencies and Guarantees

For information regarding our commitments, contingencies and guarantees, see Note 7 in the Notes to the Consolidated Financial Statements.

Recent Accounting Pronouncements

See Note 1 in the Notes to the Consolidated Financial Statements for disclosure of recent accounting pronouncements and the potential impact on our financial statements and disclosures.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

For quantitative and qualitative disclosures about market risk affecting LII, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. Our exposure to market risk has not changed materially since December 31, 2018.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our current management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2019, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

In the first quarter of 2019, we implemented new controls as part of our efforts to adopt ASU 2016-02. We implemented new controls related to the adoption process, a new IT system to capture, calculate, and account for leases, and gather the necessary data to properly account for leases under ASC 842. There were no other changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. ***Legal Proceedings***

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

Item 1A. ***Risk Factors***

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, which could materially affect our business, financial condition or results of operations. There have been no material changes to our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

In the third quarter of 2019, we purchased shares of our common stock as follows:

	Total Number of Shares Purchased [(1)]	Average Price Paid per Share (including fees)	Total Number of Shares Purchased As Part of Publicly Announced Plans	Approximate Dollar Value of Shares that may yet be Purchased under our Share Repurchase Plans (in millions) [(2)]
July 1 through July 27	522,371	$ 288.25	520,375	45.8
July 27 through August 24	6,849	260.85	—	45.8
August 24 through September 30	318	251.65	—	45.8
	529,538		520,375	

[(1)] Includes 9,163 shares of common stock we repurchased in July, August and September of 2019 surrendered to LII to satisfy employee tax-withholding obligations in connection with the exercise of long-term incentive awards.

[(2)] After $100.0 million, $150.0 million and $150.0 million share repurchase from stock market transactions during the first, second and third quarters, respectively. The stock repurchase was executed pursuant to a previously announced repurchase plan. See Note 11 in the Notes to the Consolidated Financial Statements for further details.

Item 6. Exhibits

3.1	Restated Certificate of Incorporation of Lennox International Inc. (“LII”) (filed as Exhibit 3.1 to LII’s Registration Statement on Form S-1 (Registration Statement No. 333-75725) filed on April 6, 1999 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of LII (filed as Exhibit 3.1 to LII’s Current Report on Form 8-K filed on December 16, 2013 and incorporated herein by reference).
4.1	Specimen Stock Certificate for the Common Stock, par value $.01 per share, of LII (filed as Exhibit 4.1 to LII’s Amendment to Registration Statement on Form S-1/A (Registration No. 333-75725) filed on June 16, 1999 and incorporated herein by reference).
4.2	Indenture, dated as of May 3, 2010, between LII and U.S. Bank National Association, as trustee (filed as Exhibit 4.3 to LII’s Post-Effective Amendment No. 1 to Registration Statement on S-3 (Registration No. 333-155796) filed on May 3, 2010, and incorporated herein by reference).
4.3	Form of Supplemental Indenture among LII, the guarantors party thereto and U.S. Bank National Association, as trustee (filed as Exhibit 4.11 to LII’s Post-Effective Amendment No. 1 to Registration Statement on S-3 (Registration No. 333-155796) filed on May 3, 2010, and incorporated herein by reference).
4.4	Sixth Supplemental Indenture, dated as of November 3, 2016, among LII, each other existing Guarantor under the Indenture, dated as of May 3, 2010, as subsequently supplemented, and US Bank National Association, as trustee (filed as Exhibit 4.2 to LII’s Current Report on Form 8-K filed on November 3, 2016, and incorporated herein by reference).
4.5	Seventh Supplemental Indenture, dated as of January 23, 2019, among LII Mexico Holdings Ltd., Lennox International Inc., each other existing Guarantor under the Indenture, dated as of May 3, 2010, as subsequently supplemented, and US Bank National Association, as trustee (filed as Exhibit 2.5 to LII's Annual Report on Form 10-K filed on February 19, 2019 and incorporated herein by reference).
4.6	Form of 3.000% Notes due 2023 (filed as Exhibit A in Exhibit 4.2 to LII’s Current Report on Form 8-K filed on November 3, 2016, and incorporated herein by reference).
31.1	Certification of the principal executive officer (filed herewith).
31.2	Certification of the principal financial officer (filed herewith).
32.1	Certification of the principal executive officer and the principal financial officer pursuant to 18 U.S.C. Section 1350 (furnished herewith).
101	INS XBRL Instance Document. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101	SCH Inline XBRL Taxonomy Extension Schema Document
101	CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
101	LAB Inline XBRL Taxonomy Extension Label Linkbase Document
101	PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
101	DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

SIGNATURE

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

LENNOX INTERNATIONAL INC.

By: /s/ Joseph W. Reitmeier
Joseph W. Reitmeier
Chief Financial Officer
(on behalf of registrant and as principal financial officer)

Date: October 21, 2019

Exhibit 31.1

CERTIFICATION

I, Todd M. Bluedorn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lennox International Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 21, 2019

/s/ Todd M. Bluedorn

Todd M. Bluedorn
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Joseph W. Reitmeier, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lennox International Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 21, 2019

/s/ Joseph W. Reitmeier

Joseph W. Reitmeier

Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Lennox International Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned, Todd M. Bluedorn, Chief Executive Officer of the Company, and Joseph W. Reitmeier, Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to his or her knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Todd M. Bluedorn

Todd M. Bluedorn
Chief Executive Officer

October 21, 2019

/s/ Joseph W. Reitmeier

Joseph W. Reitmeier
Chief Financial Officer

October 21, 2019

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