
**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, 2022
OR**

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

For the transition period from _____ to _____

Commission file number 001-15149

LENNOX INTERNATIONAL INC.

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

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

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

As of October 14, 2022, the number of shares outstanding of the registrant's common stock, par value \$0.01 per share, was 35,438,759.

LENNOX INTERNATIONAL INC.
FORM 10-Q
For the three and nine months September 30, 2022

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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, 2022 (Unaudited)	As of December 31, 2021
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 40.7	\$ 31.0
Short-term investments	7.5	5.5
Accounts and notes receivable, net of allowances of \$13.2 and \$10.7 in 2022 and 2021, respectively	708.4	508.3
Inventories, net	743.4	510.9
Other assets	94.1	119.7
Total current assets	1,594.1	1,175.4
Property, plant and equipment, net of accumulated depreciation of \$905.7 and \$888.8 in 2022 and 2021, respectively	520.4	515.1
Right-of-use assets from operating leases	200.5	196.1
Goodwill	185.9	186.6
Deferred income taxes	34.2	11.3
Other assets, net	90.7	87.4
Total assets	\$ 2,625.8	\$ 2,171.9
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Current maturities of long-term debt	\$ 11.1	\$ 11.3
Current operating lease liabilities	61.3	54.8
Accounts payable	430.5	402.1
Accrued expenses	409.6	358.9
Income taxes payable	19.2	—
Total current liabilities	931.7	827.1
Long-term debt	1,593.4	1,226.5
Long-term operating lease liabilities	143.6	145.0
Pensions	86.5	83.3
Other liabilities	175.8	159.0
Total liabilities	2,931.0	2,440.9
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, \$0.01 par value, 25,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 200,000,000 shares authorized, 87,170,197 shares issued	0.9	0.9
Additional paid-in capital	1,150.4	1,133.7
Retained earnings	3,013.9	2,719.3
Accumulated other comprehensive loss	(132.5)	(88.1)
Treasury stock, at cost, 51,735,764 shares and 50,536,125 shares for 2022 and 2021, respectively	(4,337.9)	(4,034.8)
Total stockholders' deficit	(305.2)	(269.0)
Total liabilities and stockholders' deficit	\$ 2,625.8	\$ 2,171.9

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

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

<i>(Amounts in millions, except per share data)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Net sales	\$ 1,244.9	\$ 1,059.9	\$ 3,624.6	\$ 3,229.3
Cost of goods sold	910.7	764.7	2,625.1	2,294.5
Gross profit	334.2	295.2	999.5	934.8
Operating Expenses:				
Selling, general and administrative expenses	147.3	134.2	472.2	447.4
Losses (gains) and other expenses, net	3.3	2.1	5.4	4.7
Restructuring charges	0.2	0.3	1.2	1.6
Income from equity method investments	(2.4)	(4.1)	(3.9)	(11.6)
Operating income	185.8	162.7	524.6	492.7
Pension settlements	—	0.3	0.3	1.1
Interest expense, net	10.5	6.5	26.1	18.8
Other expense (income), net	0.7	1.1	1.9	2.9
Income from continuing operations before income taxes	174.6	154.8	496.3	469.9
Provision for income taxes	32.7	28.5	93.6	89.4
Income from continuing operations	141.9	126.3	402.7	380.5
Discontinued Operations:				
Loss from discontinued operations before income taxes	—	—	—	(0.1)
Income tax benefit	—	—	—	—
Loss from discontinued operations	—	—	—	(0.1)
Net income	\$ 141.9	\$ 126.3	\$ 402.7	\$ 380.4
Earnings per share – Basic:				
Income from continuing operations	\$ 4.00	\$ 3.43	\$ 11.25	\$ 10.17
Loss from discontinued operations	—	—	—	—
Net income	\$ 4.00	\$ 3.43	\$ 11.25	\$ 10.17
Earnings per share – Diluted:				
Income from continuing operations	\$ 3.99	\$ 3.41	\$ 11.22	\$ 10.10
Loss from discontinued operations	—	—	—	—
Net income	\$ 3.99	\$ 3.41	\$ 11.22	\$ 10.10
Weighted Average Number of Shares Outstanding - Basic	35.4	36.8	35.8	37.4
Weighted Average Number of Shares Outstanding - Diluted	35.5	37.0	35.9	37.7

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

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

<i>(Amounts in millions)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 141.9	\$ 126.3	\$ 402.7	\$ 380.4
<i>Other comprehensive income (loss):</i>				
Foreign currency translation adjustments	(11.6)	(6.7)	(20.7)	(5.1)
Net change in pension and post-retirement liabilities	(0.8)	(1.8)	(3.5)	(7.1)
Reclassification of pension and post-retirement benefit losses into earnings	1.5	1.8	4.4	6.0
Pension settlements	—	0.3	0.3	1.1
Share of equity method investments other comprehensive income	—	—	0.7	—
Net change in fair value of cash flow hedges	(8.4)	6.3	(19.7)	26.9
Reclassification of cash flow hedge losses (gains) into earnings	3.7	(7.8)	(12.5)	(21.3)
Other comprehensive (loss) income before taxes	(15.6)	(7.9)	(51.0)	0.5
Tax benefit (expense)	1.0	(0.4)	6.6	(4.7)
Other comprehensive loss, net of tax	(14.6)	(8.3)	(44.4)	(4.2)
Comprehensive income	\$ 127.3	\$ 118.0	\$ 358.3	\$ 376.2

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
For the three and nine months ended September 30, 2022 and 2021 (Unaudited)
(In millions, except per share data)

	Common Stock Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock at Cost		Total Stockholders' Deficit
					Shares	Amount	
<i>(For the three months ended September 30, 2022)</i>							
Balance as of June 30, 2022	\$ 0.9	\$ 1,144.0	\$ 2,909.5	\$ (117.9)	51.7	\$ (4,337.8)	\$ (401.3)
Net income	—	—	141.9	—	—	—	141.9
Dividends, \$1.06 per share	—	—	(37.5)	—	—	—	(37.5)
Foreign currency translation adjustments	—	—	—	(11.6)	—	—	(11.6)
Pension and post-retirement liability changes, net of tax expense of \$0.2	—	—	—	0.5	—	—	0.5
Stock-based compensation expense	—	5.8	—	—	—	—	5.8
Change in cash flow hedges, net of tax benefit of \$1.2	—	—	—	(3.5)	—	—	(3.5)
Treasury shares reissued for common stock	—	0.6	—	—	—	0.3	0.9
Treasury stock purchases	—	—	—	—	—	(0.4)	(0.4)
Balance as of September 30, 2022	\$ 0.9	\$ 1,150.4	\$ 3,013.9	\$ (132.5)	51.7	\$ (4,337.9)	\$ (305.2)
<i>(For the three months ended September 30, 2021)</i>							
Balance as of June 30, 2021	\$ 0.9	\$ 1,128.9	\$ 2,576.6	\$ (93.1)	50.0	\$ (3,826.6)	\$ (213.3)
Net income	—	—	126.3	—	—	—	126.3
Dividends, \$0.92 per share	—	—	(33.8)	—	—	—	(33.8)
Foreign currency translation adjustments	—	—	—	(6.7)	—	—	(6.7)
Pension and post-retirement liability changes, net of tax benefit of \$0.6	—	—	—	(0.4)	—	—	(0.4)
Stock-based compensation expense	—	(0.6)	—	—	—	—	(0.6)
Change in cash flow hedges, net of tax expense of \$0.2	—	—	—	(1.2)	—	—	(1.2)
Treasury shares reissued for common stock	—	(0.8)	—	—	0.6	1.6	0.8
Treasury stock purchases	—	—	—	—	—	(205.9)	(205.9)
Balance as of September 30, 2021	\$ 0.9	\$ 1,127.5	\$ 2,669.1	\$ (101.4)	50.6	\$ (4,030.9)	\$ (334.8)

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
For the three and nine months ended September 30, 2022 and 2021 (Unaudited)
(In millions, except per share data)

	Common Stock Issued	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock at Cost		Total Stockholders' Deficit
					Shares	Amount	
<i>(For the nine months ended September 30, 2022)</i>							
Balance as of December 31, 2021	\$ 0.9	\$ 1,133.7	\$ 2,719.3	\$ (88.1)	50.5	\$ (4,034.8)	\$ (269.0)
Net income	—	—	402.7	—	—	—	402.7
Dividends, \$3.04 per share	—	—	(108.1)	—	—	—	(108.1)
Foreign currency translation adjustments	—	—	—	(20.7)	—	—	(20.7)
Pension and post-retirement liability changes, net of tax expense of \$0.7	—	—	—	0.5	—	—	0.5
Share of equity method investments other comprehensive income	—	—	—	0.7	—	—	0.7
Stock-based compensation expense	—	16.4	—	—	—	—	16.4
Change in cash flow hedges, net of tax benefit of \$7.3	—	—	—	(24.9)	—	—	(24.9)
Treasury shares reissued for common stock	—	0.3	—	—	(0.1)	2.4	2.7
Treasury stock purchases	—	—	—	—	1.3	(305.5)	(305.5)
Balance as of September 30, 2022	\$ 0.9	\$ 1,150.4	\$ 3,013.9	\$ (132.5)	51.7	\$ (4,337.9)	\$ (305.2)
<i>(For the nine months ended September 30, 2021)</i>							
Balance as of December 31, 2020	\$ 0.9	\$ 1,113.2	\$ 2,385.8	\$ (97.2)	48.8	\$ (3,419.8)	\$ (17.1)
Net income	—	—	380.4	—	—	—	380.4
Dividends, \$2.61 per share	—	—	(97.1)	—	—	—	(97.1)
Foreign currency translation adjustments	—	—	—	(5.1)	—	—	(5.1)
Pension and post-retirement liability changes, net of tax expense of \$3.8	—	—	—	(3.8)	—	—	(3.8)
Stock-based compensation expense	—	16.8	—	—	—	—	16.8
Change in cash flow hedges, net of tax expense of \$0.9	—	—	—	4.7	—	—	4.7
Treasury shares reissued for common stock	—	(2.5)	—	—	(0.1)	5.0	2.5
Treasury stock purchases	—	—	—	—	1.9	(616.1)	(616.1)
Balance as of September 30, 2021	\$ 0.9	\$ 1,127.5	\$ 2,669.1	\$ (101.4)	50.6	\$ (4,030.9)	\$ (334.8)

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

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

(Amounts in millions)

	For the Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 402.7	\$ 380.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from equity method investments	(3.9)	(11.6)
Dividends from affiliates	1.2	9.1
Restructuring charges, net of cash paid	0.7	1.1
Provision for credit losses	4.3	4.3
Unrealized losses (gains), net on derivative contracts	0.8	(0.2)
Stock-based compensation expense	16.4	16.8
Depreciation and amortization	56.2	53.3
Deferred income taxes	(16.6)	(2.2)
Pension expense	5.1	8.4
Pension contributions	(0.7)	(1.1)
Other items, net	(1.4)	0.1
Changes in assets and liabilities:		
Accounts and notes receivable	(214.9)	(139.5)
Inventories	(245.7)	(21.1)
Other current assets	(5.1)	(13.1)
Accounts payable	78.7	65.0
Accrued expenses	36.0	49.4
Income taxes payable and receivable, net	35.5	(10.3)
Leases, net	0.8	—
Other, net	20.0	7.5
Net cash provided by operating activities	170.1	396.3
Cash flows from investing activities:		
Proceeds from the disposal of property, plant and equipment	1.2	0.7
Purchases of property, plant and equipment	(67.0)	(68.5)
(Purchases of) proceeds from short-term investments, net	(2.4)	0.2
Net cash used in investing activities	(68.2)	(67.6)
Cash flows from financing activities:		
Asset securitization borrowings	382.0	504.0
Asset securitization payments	(232.0)	(214.0)
Long-term debt payments	(9.8)	(3.0)
Borrowings from credit facility	1,967.5	1,021.4
Payments on credit facility	(1,752.0)	(1,012.5)
Proceeds from employee stock purchases	2.7	2.5
Repurchases of common stock	(300.0)	(600.0)
Repurchases of common stock to satisfy employee withholding tax obligations	(5.5)	(16.1)
Cash dividends paid	(142.0)	(92.8)
Net cash used in financing activities	(89.1)	(410.5)
Increase (decrease) in cash and cash equivalents	12.8	(81.8)
Effect of exchange rates on cash and cash equivalents	(3.1)	(2.7)
Cash and cash equivalents, beginning of period	31.0	123.9
Cash and cash equivalents, end of period	\$ 40.7	\$ 39.4
Supplemental disclosures of cash flow information:		
Interest paid	\$ 23.2	\$ 17.7
Income taxes paid (net of refunds)	\$ 75.4	\$ 101.6

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

LENNOX INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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, 2022, the accompanying unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2022 and 2021, the accompanying unaudited Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2022 and 2021, the accompanying unaudited Consolidated Statements of Stockholders' Deficit for the three and nine months ended September 30, 2022 and 2021, and the accompanying unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2022 and 2021 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, 2021.

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. For convenience, the 13-week periods comprising each fiscal quarter are denoted by the last day of the respective calendar quarter.

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.

Impact of COVID-19 Pandemic

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

Executive Leadership Transition

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

2. 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 and supplies	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, and variable refrigerant flow commercial products	Light Commercial	United States Canada
Refrigeration	Condensing units, unit coolers, fluid coolers, air cooled condensers, air handlers, process chillers, controls, and compressorized racks	Light Commercial; Food Preservation; Non-Food/Industrial	United States Canada Europe

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 stock-based incentive awards provided to employees throughout LII. We record these stock-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,	
	2022	2021	2022	2021
Net sales				
Residential Heating & Cooling	\$ 835.3	\$ 711.0	\$ 2,494.9	\$ 2,155.3
Commercial Heating & Cooling	252.9	211.5	660.2	663.4
Refrigeration	156.7	137.4	469.5	410.6
	<u>\$ 1,244.9</u>	<u>\$ 1,059.9</u>	<u>\$ 3,624.6</u>	<u>\$ 3,229.3</u>
Segment profit (loss) ⁽¹⁾				
Residential Heating & Cooling	\$ 153.8	\$ 144.0	\$ 477.7	\$ 430.1
Commercial Heating & Cooling	29.6	22.6	53.1	95.3
Refrigeration	22.4	14.5	60.0	35.8
Corporate and other	(16.5)	(16.3)	(57.1)	(59.2)
Total segment profit	189.3	164.8	533.7	502.0
Reconciliation to Operating income:				
Special product quality adjustments	—	(1.1)	—	(1.0)
Items in Losses (gains) and other expenses, net that are excluded from segment profit (loss) ⁽¹⁾	3.3	2.9	7.9	8.7
Restructuring charges	0.2	0.3	1.2	1.6
Operating income	<u>\$ 185.8</u>	<u>\$ 162.7</u>	<u>\$ 524.6</u>	<u>\$ 492.7</u>

⁽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,
 - Environmental liabilities and special litigation charges,
 - Charges incurred related to COVID-19 pandemic, and
 - Other items, net,
- Special product quality adjustments, and
- Restructuring charges.

3. 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 were as follows (in millions, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 141.9	\$ 126.3	\$ 402.7	\$ 380.4
Exclude: Income from discontinued operations	—	—	—	0.1
Income from continuing operations	<u>\$ 141.9</u>	<u>\$ 126.3</u>	<u>\$ 402.7</u>	<u>\$ 380.5</u>
Weighted-average shares outstanding – basic	35.4	36.8	35.8	37.4
Add: Potential effect of dilutive securities attributable to stock-based payments	0.1	0.2	0.1	0.3
Weighted-average shares outstanding – diluted	<u>35.5</u>	<u>37.0</u>	<u>35.9</u>	<u>37.7</u>
Earnings per share – Basic:				
Income from continuing operations	\$ 4.00	\$ 3.43	\$ 11.25	\$ 10.17
Income from discontinued operations	—	—	—	—
Net income	<u>\$ 4.00</u>	<u>\$ 3.43</u>	<u>\$ 11.25</u>	<u>\$ 10.17</u>
Earnings per share – Diluted:				
Income from continuing operations	\$ 3.99	\$ 3.41	\$ 11.22	\$ 10.10
Income from discontinued operations	—	—	—	—
Net income	<u>\$ 3.99</u>	<u>\$ 3.41</u>	<u>\$ 11.22</u>	<u>\$ 10.10</u>

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,	
	2022	2021	2022	2021
Weighted-average number of shares	0.3	—	0.3	—

4. Commitments and Contingencies:

Leases

We determine if an arrangement is a lease at inception. Operating leases are included in our Consolidated Balance Sheets 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 Sheets. We do not recognize a right-of-use asset and lease liability for leases with a term of 12 months or less. We do 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.

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. 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 periods (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 79% of our right-of-use assets and lease liabilities relate to our leases of real estate with the remaining amounts primarily relating to our leases of IT equipment, fleet vehicles and manufacturing and distribution equipment.

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 experience, 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, 2022	As of December 31, 2021
Accrued expenses	\$ 39.8	\$ 37.2
Other liabilities	110.4	97.0
Total warranty liability	\$ 150.2	\$ 134.2

The changes in product warranty liabilities related to continuing operations for the nine months ended September 30, 2022 were as follows (in millions):

Total warranty liability as of December 31, 2021	\$ 134.2
Warranty claims paid	(27.1)
Changes resulting from issuance of new warranties	41.8
Changes in estimates associated with pre-existing liabilities	2.7
Changes in foreign currency translation rates and other	(1.4)
Total warranty liability as of September 30, 2022	\$ 150.2

Litigation

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

It is management's opinion that none of these claims or lawsuits or any threatened litigation will have a material adverse effect 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.

5. Stock Repurchases:

In July 2021, our Board of Directors authorized an additional \$1.0 billion, for a total of \$4.0 billion, to repurchase shares of our common stock (collectively referred to as the "Share Repurchase Plans"). 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, 2022, \$546 million was available for repurchase under the Share Repurchase Plans.

In February 2022, we entered into a fixed dollar accelerated share repurchase transaction with Wells Fargo Bank, to effect an accelerated stock buyback of our common stock. We paid Wells Fargo Bank \$200.0 million and Wells Fargo Bank initially delivered to us approximately 87% of the shares expected to be purchased. The ASR was completed in April 2022 and Wells Fargo Bank delivered a total of 0.8 million shares of common stock repurchased under this ASR Agreement.

In May 2022, we entered into a fixed dollar accelerated share repurchase transaction with Bank of America, to effect an accelerated stock buyback of our common stock. We paid Bank of America \$100.0 million and Bank of America delivered to us common stock representing approximately 85% of the shares expected to be purchased. The ASR was completed in June 2022 and Bank of America delivered a total of 0.5 million shares of common stock repurchased under this ASR Agreement.

We also repurchased shares for \$5.5 million during the nine months ended September 30, 2022 from employees who tendered their shares to satisfy minimum tax withholding obligations upon the vesting and exercise of stock-based compensation awards.

6. 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 2 for additional information on our reportable business segments and the products and services sold in each segment.

For the Three Months Ended September 30, 2022				
Primary Geographic Markets	Residential Heating & Cooling	Commercial Heating & Cooling	Refrigeration	Consolidated
United States	\$ 779.8	\$ 232.5	\$ 99.4	\$ 1,111.7
Canada	55.5	20.3	—	75.8
Other international	—	0.1	57.3	57.4
Total	\$ 835.3	\$ 252.9	\$ 156.7	\$ 1,244.9

For the Three Months Ended September 30, 2021				
Primary Geographic Markets	Residential Heating & Cooling	Commercial Heating & Cooling	Refrigeration	Consolidated
United States	\$ 655.0	\$ 194.0	\$ 81.2	\$ 930.2
Canada	56.0	16.8	—	72.8
Other international	—	0.7	56.2	56.9
Total	\$ 711.0	\$ 211.5	\$ 137.4	\$ 1,059.9

For the Nine Months Ended September 30, 2022				
Primary Geographic Markets	Residential Heating & Cooling	Commercial Heating & Cooling	Refrigeration	Consolidated
United States	\$ 2,311.2	\$ 616.4	\$ 299.0	\$ 3,226.6
Canada	183.7	43.2	—	226.9
Other international	—	0.6	170.5	171.1
Total	\$ 2,494.9	\$ 660.2	\$ 469.5	\$ 3,624.6

For the Nine Months Ended September 30, 2021				
Primary Geographic Markets	Residential Heating & Cooling	Commercial Heating & Cooling	Refrigeration	Consolidated
United States	\$ 1,976.8	\$ 605.0	\$ 239.1	\$ 2,820.9
Canada	178.5	57.6	—	236.1
Other international	—	0.8	171.5	172.3
Total	\$ 2,155.3	\$ 663.4	\$ 410.6	\$ 3,229.3

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, 2022 and 2021, direct sales represented 72% and 73% of revenues, and sales to independent distributors represented the remainder. For the nine months ended September 30, 2022 and 2021, direct sales represented 70% and 72% of revenues, and sales to independent distributors represented the remainder.

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. Lennox National Account Services provides installation, service and preventive maintenance for HVAC national account customers in the United States and Canada. For the three months ended September 30, 2022 and 2021, equipment sales represented 83% and 81% of revenues and the remainder of our revenue was generated from our service business. For the nine months ended September 30, 2022 and 2021, equipment sales represented 82% and 83% of revenues and the remainder of our revenue was generated from our service business.

Refrigeration - We manufacture and market equipment for the global commercial refrigeration markets under the Heatcraft Worldwide Refrigeration name. Our products are used in the food retail, food service, cold storage as well as non-food refrigeration markets. We sell these products to distributors, installing contractors, engineering design firms, original equipment manufacturers and end-users. In Europe, we also manufacture and sell unitary heating and cooling products and applied systems. Less than 1% of segment revenue relates to services for start-up and commissioning activities.

Contract Liabilities - Our contract liabilities consist of advance payments and deferred revenue. Net contract liabilities consisted of the following:

	September 30, 2022	December 31, 2021	\$ Change	% Change
Contract liabilities - current	\$ (11.8)	\$ (10.2)	\$ (1.6)	15.7 %
Contract liabilities - noncurrent	(6.0)	(5.5)	(0.5)	9.1 %
Total	\$ (17.8)	\$ (15.7)	\$ (2.1)	

For the three months ended September 30, 2022 and 2021, we recognized revenue of \$3.6 million and \$0.6 million and for the nine months ended September 30, 2022 and 2021 we recognized revenue of \$9.5 million and \$2.9 million related to our contract liabilities at January 1, 2022 and 2021, respectively. Impairment losses recognized in our receivables and contract assets were de minimis in 2022 and 2021.

7. Other Financial Statement Details:

Inventories:

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

	As of September 30, 2022	As of December 31, 2021
Finished goods	\$ 498.1	\$ 310.8
Work in process	12.8	12.4
Raw materials and parts	332.1	262.1
Subtotal	843.0	585.3
Excess of current cost over last-in, first-out cost	(99.6)	(74.4)
Total inventories, net	\$ 743.4	\$ 510.9

Goodwill:

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

	Balance at December 31, 2021	Changes in foreign currency translation rates	Balance at September 30, 2022
Residential Heating & Cooling	\$ 26.1	\$ —	\$ 26.1
Commercial Heating & Cooling	61.1	—	61.1
Refrigeration	99.4	(0.7)	98.7
Total Goodwill	\$ 186.6	\$ (0.7)	\$ 185.9

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. We have not recorded any goodwill impairments for the nine months ended September 30, 2022.

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 February 2024. 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):

	<u>As of September 30, 2022</u>	<u>As of December 31, 2021</u>
Unrealized losses (gains), net on unsettled contracts	\$ 18.7	\$ (13.4)
Income tax (benefit) expense	(4.5)	2.7
Unrealized losses (gains), net included in AOCL, net of tax ⁽¹⁾	\$ 14.2	\$ (10.7)

⁽¹⁾ Assuming commodity prices and foreign currency exchange rates remain constant, we expect to reclassify \$13.6 million of derivative losses as of September 30, 2022 into earnings within the next 12 months.

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):

	<u>For the Three Months Ended September 30,</u>		<u>For the Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Stock-based compensation expense ⁽¹⁾	\$ 5.8	\$ (0.6)	\$ 16.4	\$ 16.8

⁽¹⁾ All expense was recorded in our Corporate and Other business segment.

8. Pension Benefit Plans:

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Service cost	\$ 1.1	\$ 1.5	\$ 3.2	\$ 4.6
Interest cost	1.5	1.0	4.5	4.1
Expected return on plan assets	(2.3)	(1.7)	(7.0)	(7.1)
Amortization of prior service cost	—	0.1	—	0.1
Recognized actuarial loss	1.5	1.8	4.4	6.0
Other	0.2	—	0.2	(0.4)
Settlements and curtailments	—	0.3	0.3	1.1
Net periodic benefit cost	\$ 2.0	\$ 3.0	\$ 5.6	\$ 8.4

9. Income Taxes:

As of September 30, 2022, we had approximately \$3.7 million in total gross unrecognized tax benefits which, if recognized, would be recorded through the Consolidated Statements of Operations.

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

10. 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, 2022		As of December 31, 2021	
<i>Current maturities of long-term debt:</i>				
Total current maturities of long-term debt	\$	11.1	\$	11.3
<i>Long-Term Debt:</i>				
Asset securitization program	\$	400.0	\$	250.0
Finance lease obligations		28.6		29.0
Credit agreement		222.0		6.5
Senior unsecured notes		950.0		950.0
Debt issuance costs		(7.2)		(9.0)
Total long-term debt	\$	1,593.4	\$	1,226.5
Total debt	\$	1,604.5	\$	1,237.8

Short-Term Debt

Foreign Obligations

Through several of our foreign subsidiaries, we have facilities available to assist us in financing seasonal borrowing needs for our foreign locations. We had no outstanding foreign obligations as of September 30, 2022 or December 31, 2021 and there were no borrowings or repayments on these facilities during the nine months ended September 30, 2022.

Long-Term Debt

Asset Securitization Program

Under the Asset Securitization Program (“ASP”), we are eligible to sell beneficial interests in a portion of our trade accounts receivable to a financial institution for cash. The ASP contains a provision whereby we retain the right to repurchase all of the outstanding beneficial interests transferred. As a result of the repurchase right, the transfer of the receivables under the ASP is not accounted for as a sale. Accordingly, the cash received from the transfer of the beneficial interests in our trade accounts receivable is reflected as secured borrowings in the accompanying Consolidated Balance 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.

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

	As of September 30, 2022	As of December 31, 2021
Eligible amount available under the ASP on qualified accounts receivable	\$ 443.3	\$ 335.6
Less: Beneficial interest transferred	(400.0)	(250.0)
Remaining amount available	<u>\$ 43.3</u>	<u>\$ 85.6</u>

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 interests 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, 2022 and December 31, 2021 were 3.85% and 0.82%, respectively. The unused fee is based on 101% of the maximum available amount less the beneficial interest transferred and is calculated at a rate ranging between 0.25% and 0.35%, depending on the available borrowings, throughout the term of the agreement. We recorded these fees in Interest expense, net in the accompanying Consolidated Statements of Operations.

The ASP contains certain restrictive covenants relating to the quality of our accounts receivable and cross-default provisions with our Credit Agreement (as defined below), senior unsecured notes and any other indebtedness we may have over \$75.0 million. The administrative agent under the ASP is also a participant in our Credit Agreement, as defined below. The participating financial institutions have investment grade credit ratings. As of September 30, 2022, we believe we were in compliance with all covenant requirements.

Credit Agreement

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

The Credit Agreement consists of a \$750.0 million unsecured revolving credit facility. We had outstanding borrowings of \$222.0 million as well as \$2.0 million committed to standby letters of credit as of September 30, 2022. Subject to covenant limitations, \$526.0 million was available for future borrowings. The Credit Agreement will expire and outstanding loans will be required to be repaid in July 2026, unless maturity is extended by the lenders pursuant to two one-year extension options that we may request under the Credit Agreement.

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

	As of September 30, 2022	As of December 31, 2021
Weighted average borrowing rate	4.21 %	1.38 %

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

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

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

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

If any event of default occurs and is continuing, the administrative agent, or lenders with a majority of the aggregate commitments may require the administrative agent to, terminate our right to borrow under our Credit Agreement and accelerate amounts due under our Credit Agreement (except for a bankruptcy event of default, in which case such amounts will automatically become due and payable and the lenders' commitments will automatically terminate). As of September 30, 2022, we believe we were in compliance with all covenant requirements.

Senior Unsecured Notes

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

All the Notes are guaranteed, on a senior unsecured basis, by certain of our subsidiaries that guarantee indebtedness under our Credit Agreement. The indenture governing the Notes contains covenants that, among other things, limit our ability and the ability of the subsidiary guarantors to: create or incur certain liens; enter into certain sale and leaseback transactions; and enter into certain mergers, consolidations and transfers of substantially all of our assets. The indenture also contains a cross default provision which is triggered if we default on other debt of at least \$75.0 million in principal which is then accelerated, and such acceleration is not rescinded within 30 days of the notice date. As of September 30, 2022, we believe we were in compliance with all covenant requirements.

11. Comprehensive Income (Loss):

The following table provides information on items reclassified 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
	2022	2021	2022	2021	
(Losses) Gains on Cash Flow Hedges:					
Derivatives contracts	\$ (3.7)	\$ 7.8	\$ 12.5	\$ 21.3	Cost of goods sold; Losses (gains) and other expenses, net
Income tax benefit (expense)	0.8	(1.8)	(2.9)	(4.9)	Provision for income taxes
Net of tax	\$ (2.9)	\$ 6.0	\$ 9.6	\$ 16.4	
Defined Benefit Plan items:					
Pension and post-retirement benefit costs	\$ (1.5)	\$ (1.8)	\$ (4.4)	\$ (6.0)	Other expense (income), net
Pension settlements	—	(0.3)	(0.3)	(1.1)	Pension settlements
Income tax benefit	0.4	0.6	1.2	1.8	Provision for income taxes
Net of tax	\$ (1.1)	\$ (1.5)	\$ (3.5)	\$ (5.3)	
Total reclassifications from AOCL	\$ (4.0)	\$ 4.5	\$ 6.1	\$ 11.1	

The following table provides information on changes in AOCL, by component (net of tax), for the nine months ended September 30, 2022 (in millions):

	(Losses) Gains on Cash Flow Hedges	Share of equity method investments other comprehensive income	Defined Benefit Pension Plan Items	Foreign Currency Translation Adjustments	Total AOCL
Balance as of December 31, 2021	\$ 10.7	\$ (1.2)	\$ (68.8)	\$ (28.8)	\$ (88.1)
Other comprehensive (loss) income before reclassifications	(15.3)	0.7	(3.0)	(20.7)	(38.3)
Amounts reclassified from AOCL	(9.6)	—	3.5	—	(6.1)
Net other comprehensive (loss) income	(24.9)	0.7	0.5	(20.7)	(44.4)
Balance as of September 30, 2022	\$ (14.2)	\$ (0.5)	\$ (68.3)	\$ (49.5)	\$ (132.5)

12. Fair Value Measurements:

Fair Value Hierarchy

The methodologies used to determine the fair value of our financial assets and liabilities at September 30, 2022 were the same as those used at December 31, 2021.

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 7 for more information related to our derivative instruments.

Other Fair Value Disclosures

The carrying amounts of Cash and cash equivalents, Short-term investments, 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 Credit Agreement in Long-term debt also approximates fair value due to its variable-rate characteristics.

The fair value of our senior unsecured notes in Long-term debt, 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, 2022	As of December 31, 2021
Senior unsecured notes	\$ 870.1	\$ 959.2

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, 2021, 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 2 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 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.

Impact of COVID-19 Pandemic

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

Executive Leadership Transition

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

Financial Overview

Results for the third quarter of 2022 were driven by overall year-over-year sales and profit increases. Net sales increased 17% and segment profit increased \$10 million for the Residential Heating & Cooling segment. Net sales increased 20% and segment profit increased \$7 million for the Commercial Heating & Cooling segment. Net sales increased 14% and segment profit increased \$8 million for the Refrigeration segment.

Financial Highlights

- Net sales increased \$185 million to \$1,245 million in the third quarter of 2022 driven by favorable price, volume, and mix partially offset by unfavorable foreign currency.
- Operating income in the third quarter of 2022 increased \$23 million to \$186 million primarily driven by higher net sales partially offset by rising costs.
- Net income for the third quarter of 2022 was \$142 million.
- Diluted earnings per share was \$3.99 per share in the third quarter of 2022 compared to \$3.41 per share in the third quarter of 2021.
- For the nine months ended September 30, 2022, we returned \$142 million to shareholders through dividend payments and repurchased \$300 million of common stock through our share repurchase program.

Three Months Ended September 30, 2022 Compared to Three Months Ended September 30, 2021 - 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 Fav/(Unfav)	Percent of Sales	
	2022	2021		2022	2021
Net sales	\$ 1,244.9	\$ 1,059.9	17.5 %	100.0 %	100.0 %
Cost of goods sold	910.7	764.7	(19.1)	73.2	72.1
Gross profit	334.2	295.2	13.2	26.8	27.9
Selling, general and administrative expenses	147.3	134.2	(9.8)	11.8	12.7
Losses (gains) and other expenses, net	3.3	2.1	(57.1)	0.3	0.2
Restructuring charges	0.2	0.3	33.3	—	—
Income from equity method investments	(2.4)	(4.1)	(41.5)	(0.2)	(0.4)
Operating income	\$ 185.8	\$ 162.7	14.2 %	14.9 %	15.4 %

Net Sales

Net sales for the third quarter of 2022 compared to the third quarter of 2021 increased as a result of favorable price of 11%, an increase in sales volume of 5%, and favorable product mix of 2% which was partially offset by unfavorable foreign currency of 1%.

Gross Profit

Gross profit margins in the third quarter of 2022 decreased 110 basis points ("bps") to 26.8% compared to 27.9% in the third quarter of 2021. Gross margins decreased 220 bps from higher commodity costs, 200 bps from other product costs including adjustments for LIFO, 190 bps from higher component costs, 120 bps from factory inefficiencies, 50 bps from higher freight and distribution costs, and 10 bps from unfavorable mix. Partially offsetting these decreases was 680 bps from favorable price.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") increased \$13 million to \$147 million in the third quarter of 2022 compared to \$134 million in the third quarter of 2021 due to higher employee related costs. As a percentage of net sales, SG&A decreased 90 bps to 11.8%.

Losses (gains) and Other Expenses, Net

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

	For the Three Months Ended September 30,	
	2022	2021
Realized losses (gains) on settled future contracts	\$ 0.3	\$ (0.2)
Foreign currency exchange losses	0.3	—
Gain on disposal of fixed assets	(0.4)	(0.1)
Other operating income	(0.2)	(0.5)
Net change in unrealized losses (gains) on unsettled futures contracts	—	0.2
Environmental liabilities and special litigation charges	3.1	2.2
Charges incurred related to COVID-19 pandemic	0.2	0.8
Other items, net	—	(0.3)
Losses (gains) and other expenses, net (pre-tax)	<u>\$ 3.3</u>	<u>\$ 2.1</u>

Restructuring Charges

Restructuring charges were immaterial in the third quarter of 2022 and 2021. Restructuring charges related to ongoing cost reduction actions taken in prior periods.

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. We recognized income from equity method investments of \$2 million in the third quarter of 2022 and \$4 million in the third quarter of 2021. The decline was due to lower operating results at the equity method investees due to higher material costs.

Interest Expense, net

Interest expense, net increased to \$11 million in the third quarter of 2022 from \$7 million in the third quarter of 2021 due to higher borrowings and higher borrowing costs during the period.

Income Taxes

Our effective tax rate was 18.7% for the third quarter of 2022 compared to 18.4% for the third quarter of 2021. The increase in rate is primarily due to a decrease in excess tax benefits. We expect our annual effective tax rate in 2022 to be 18-20%.

Third Quarter of 2022 Compared to Third Quarter of 2021 - 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 2022 and 2021 (dollars in millions):

	For the Three Months Ended September 30,				Difference	% Change
	2022		2021			
Net sales	\$	835.3	\$	711.0	\$ 124.3	17.5 %
Profit	\$	153.8	\$	144.0	\$ 9.8	6.8 %
% of net sales		18.4 %		20.3 %		

Net sales increased 17% in the third quarter of 2022 compared to 2021, as price increased 10% and sales volume increased by 7%. Product mix was neutral for the quarter.

Segment profit in the third quarter of 2022 compared to 2021 increased by \$10 million, driven by \$77 million from higher price, \$15 million from higher sales volume, and \$2 million from lower product warranty costs. Partially offsetting these increases were \$21 million from higher other product costs including adjustments for LIFO, \$20 million from higher commodity costs, \$14 million from higher component costs, \$11 million from unfavorable product mix, \$7 million from higher distribution and freight charges, \$6 million from higher SG&A costs, \$3 million from factory inefficiencies, \$1 million from unfavorable foreign currency, and \$1 million from lower earnings from our equity method investments.

Commercial Heating & Cooling

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

	For the Three Months Ended September 30,				Difference	% Change
	2022		2021			
Net sales	\$	252.9	\$	211.5	\$ 41.4	19.6 %
Profit	\$	29.6	\$	22.6	\$ 7.0	31.0 %
% of net sales		11.7 %		10.7 %		

Net sales increased 20% in the third quarter of 2022 compared to 2021 as higher factory output enabled us to convert more order backlog into sales. Product mix was 11% favorable and price increased by 9%. Sales volume was neutral for the quarter.

Segment profit in the third quarter of 2022 compared to 2021 increased \$7 million due to \$20 million from favorable price and \$13 million from favorable product mix. Partially offsetting these increases was \$9 million from factory inefficiencies, \$5 million from higher component costs, \$4 million from higher commodity costs, \$3 million from higher other product costs including adjustments for LIFO, \$2 million from higher SG&A costs, \$2 million from lower sales volume, and \$1 million from lower miscellaneous other costs.

Refrigeration

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

	For the Three Months Ended September 30,		Difference	% Change
	2022	2021		
Net sales	\$ 156.7	\$ 137.4	\$ 19.3	14.0 %
Profit	\$ 22.4	\$ 14.5	\$ 7.9	54.5 %
% of net sales	14.3 %	10.6 %		

Net sales increased 14% in the third quarter of 2022 compared to 2021, as price increased 16% and sales volume increased by 5%. Partially offsetting these increases were unfavorable foreign currency of 7%. Product mix was neutral for the quarter.

Segment profit in the third quarter of 2022 compared to 2021 increased by \$8 million driven by \$22 million from higher price, \$3 million from higher sales volume, and \$1 million from favorable product mix. Partially offsetting these increases were \$5 million from higher SG&A, \$4 million from commodity costs, \$4 million from higher component costs, \$3 million from factory inefficiencies, \$1 million from freight and distribution costs, and \$1 million from unfavorable foreign currency.

Corporate and Other

There were no material changes in Corporate and Other costs during the third quarter of 2022 as compared to the third quarter of 2021.

Year-to-Date through September 30, 2022 Compared to Year-to-Date through September 30, 2021 - 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	
	2022	2021		2022	2021
Net sales	\$ 3,624.6	\$ 3,229.3	12.2 %	100.0 %	100.0 %
Cost of goods sold	2,625.1	2,294.5	(14.4)	72.4	71.1
Gross profit	999.5	934.8	6.9	27.6	28.9
Selling, general and administrative expenses	472.2	447.4	(5.5)	13.0	13.9
Losses (gains) and other expenses, net	5.4	4.7	(14.9)	0.1	0.1
Restructuring charges	1.2	1.6	25.0	—	—
Income from equity method investments	(3.9)	(11.6)	(66.4)	(0.1)	(0.4)
Operating income	\$ 524.6	\$ 492.7	6.5 %	14.5 %	15.3 %

Net Sales

Net sales increased 12% for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 due to higher price of 11%, higher sales volume of 1%, and favorable mix of 1%. Partially offsetting these increases was unfavorable foreign currency of 1%.

Gross Profit

Gross profit margins for the nine months ended September 30, 2022 decreased 130 bps to 27.6% compared to 28.9% for the nine months ended September 30, 2021. Gross margins decreased 250 bps from higher commodity costs, 180 bps from higher component costs, 150 bps from higher other product costs including adjustments for LIFO, 100 bps from factory inefficiencies, 90 bps from higher freight and distribution costs, and 50 bps from unfavorable mix. Partially offsetting these decreases were 670 bps from higher price and 20 bps from miscellaneous other costs.

Selling, General and Administrative Expenses

SG&A increased \$25 million to \$472 million for the nine months ended September 30, 2022 compared to \$447 million for the nine months ended September 30, 2021 primarily due to higher employee related costs. As a percentage of net sales, SG&A decreased 90 bps to 13.0% from 13.9%.

Losses (gains) and Other Expenses, Net

Losses (gains) and other expenses, net for the nine months ended September 30, 2022 and 2021 included the following (in millions):

	For the Nine Months Ended September 30,	
	2022	2021
Realized gains on settled future contracts	\$ (0.1)	\$ (0.9)
Foreign currency exchange gains	(0.5)	(1.6)
Gain on disposal of fixed assets	(1.3)	(0.6)
Other operating income	(0.6)	(0.9)
Net change in unrealized losses (gains) on unsettled futures contracts	1.2	0.1
Environmental liabilities and special litigation charges	6.2	7.3
Charges incurred related to COVID-19 pandemic	0.8	1.9
Other items, net	(0.3)	(0.6)
Losses (gains) and other expenses, net (pre-tax)	<u>\$ 5.4</u>	<u>\$ 4.7</u>

Restructuring Charges

Restructuring charges were \$1 million for the nine months ended September 30, 2022 and \$2 million for the nine months ended September 30, 2021. Restructuring charges related to ongoing cost reduction actions taken in prior periods.

Income from Equity Method Investments

Income from equity method investments decreased \$8 million to \$4 million for the nine months ended September 30, 2022 as compared to \$12 million for the nine months ended September 30, 2021. The decline was due to lower operating results at the equity method investees due to higher material costs.

Interest Expense, net

Interest expense, net increased \$7 million for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 primarily due to higher borrowings and higher borrowing costs.

Income Taxes

Our effective tax rate decreased to 18.9% for the nine months ended September 30, 2022 compared to 19.0% for the nine months ended September 30, 2021 primarily due to a favorable mix of income to low tax jurisdictions.

Year-to-Date through September 30, 2022 Compared to Year-to-Date through September 30, 2021 - 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, 2022 and 2021 (dollars in millions):

	For the Nine Months Ended September 30,		Difference	% Change
	2022	2021		
Net sales	\$ 2,494.9	\$ 2,155.3	\$ 339.6	15.8 %
Profit	\$ 477.7	\$ 430.1	\$ 47.6	11.1 %
% of net sales	19.1 %	20.0 %		

Net sales increased 16% for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 as price increased by 12% and sales volume increased by 4%. Product mix was neutral.

Segment profit for the first nine months of 2022 compared to 2021 increased \$48 million primarily due to \$256 million from favorable price, \$31 million from higher sales volume, and \$2 million from miscellaneous income. Partially offsetting these increases were \$70 million from higher commodity costs, \$40 million from increased component costs, \$40 million from higher other product costs including adjustments for LIFO, \$30 million from unfavorable mix, \$24 million from higher freight and distribution costs, \$12 million from factory inefficiencies, \$12 million from higher SG&A costs, \$7 million from lower income from equity method investments, and \$6 million from unfavorable foreign currency.

Commercial Heating & Cooling

The following table presents our Commercial Heating & Cooling segment's net sales and profit for the nine months ended September 30, 2022 and 2021 (dollars in millions):

	For the Nine Months Ended September 30,		Difference	% Change
	2022	2021		
Net sales	\$ 660.2	\$ 663.4	\$ (3.2)	(0.5)%
Profit	\$ 53.1	\$ 95.3	\$ (42.2)	(44.3)%
% of net sales	8.0 %	14.4 %		

Net sales decreased 0.5% for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 as sales volume decreased by 13%. Partially offsetting the decrease was favorable mix of 7% and favorable price of 6%.

Segment profit for the first nine months of 2022 compared to 2021 decreased \$42 million primarily due to \$34 million from lower sales volume primarily due to supply chain constraints, \$20 million from factory inefficiencies, \$17 million from higher component costs, \$12 million from higher other product costs including adjustments for LIFO, \$9 million from increased SG&A costs, \$9 million from higher commodity costs, and \$5 million from higher freight and distribution costs. Partially offsetting these decreases were \$37 million from higher price, \$25 million from favorable product mix, \$1 million from foreign currency, and \$1 million from lower product warranty costs.

Refrigeration

The following table presents our Refrigeration segment's net sales and profit for the nine months ended September 30, 2022 and 2021 (dollars in millions):

	For the Nine Months Ended September 30,			
	2022	2021	Difference	% Change
Net sales	\$ 469.5	\$ 410.6	\$ 58.9	14.3 %
Profit	\$ 60.0	\$ 35.8	\$ 24.2	67.6 %
% of net sales	12.8 %	8.7 %		

Net sales increased 14% for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 as price increased by 12% and sales volume increased by 8%. Partially offsetting these increases was unfavorable foreign currency of 5% and unfavorable mix of 1%.

Segment profit for the first nine months of 2022 compared to 2021 increased \$24 million primarily due to \$50 million from favorable price, \$13 million from higher sales volume, \$1 million from favorable mix, and \$1 million from lower tariff costs. Partially offsetting these increases were \$14 million from higher commodity costs, \$10 million from higher SG&A costs, \$8 million from higher component costs, \$4 million from factory inefficiencies, \$3 million from higher freight and distribution costs, and \$2 million from higher other product costs.

Corporate and Other

Corporate and other expenses decreased \$2 million in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 primarily due to lower employee related costs.

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, 2022 and 2021 (in millions):

	For the Nine Months Ended September 30,	
	2022	2021
Net cash provided by operating activities	\$ 170.1	\$ 396.3
Net cash used in investing activities	(68.2)	(67.6)
Net cash used in financing activities	(89.1)	(410.5)

Net Cash Provided By Operating Activities - The change in net cash provided by operating activities for the nine months ended September 30, 2022 compared to the net cash provided by operating activities for the same period in 2021 reflects less favorable changes in working capital.

Net Cash Used In Investing Activities - Capital expenditures were \$67 million for the nine months ended September 30, 2022 compared to \$69 million in the same period of 2021. Capital expenditures in 2022 were primarily related to the expansion of manufacturing capacity and equipment, and investments in systems and software to support the overall enterprise.

Net Cash Used In Financing Activities - Net cash used in financing activities for the nine months ended September 30, 2022 decreased to \$89 million compared to \$411 million used in the same period of 2021. The change was primarily due to increased net borrowings in the current year as compared to the prior year and less spent on share repurchases. We repurchased \$300 million of shares for the nine months ended September 30, 2022 and returned \$142 million to shareholders through

dividend payments. For additional information on share repurchases, refer to Note 5 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, 2022 (in millions):

	Outstanding Borrowings
Current maturities of long-term debt:	
Finance lease obligations	\$ 11.1
Total current maturities of long-term debt	\$ 11.1
Long-term debt:	
Asset Securitization Program ⁽²⁾	400.0
Finance lease obligations	28.6
Credit agreement ⁽¹⁾	222.0
Senior unsecured notes	950.0
Debt issuance costs	(7.2)
Total long-term debt	1,593.4
Total debt	\$ 1,604.5

⁽¹⁾ The available future borrowings on our Credit Agreement (as defined below) are \$526.0 million, after being reduced by the outstanding borrowings and \$2.0 million in outstanding standby letters of credit. Refer to Note 10 in the Notes to the Consolidated Financial Statements for more information.

⁽²⁾ The maximum securitization amount ranges from \$300.0 million to \$450.0 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. Refer to Note 10 in the Notes to the Consolidated Financial Statements for more information.

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

July 2021 Credit Agreement

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

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

The Credit Agreement is guaranteed by certain of our subsidiaries and contains customary covenants applicable to us and our subsidiaries including limitations on indebtedness, liens, dividends, stock repurchases, mergers and sales of all or substantially all of our assets. In addition, the Credit Agreement contains a financial covenant requiring us to maintain, as of the last day of each fiscal quarter for the four prior fiscal quarters, a Total Net Leverage Ratio of no more than 3.50 to 1.00 (or, at our election, on up to two occasions following a material acquisition, 4.00 to 1.00). The Credit Agreement is subject to customary events of default, including non-payment of principal or other amounts under the Credit Agreement, material inaccuracy of representations and warranties, breach of covenants, cross-default to other indebtedness in excess of \$75 million, judgements in excess of \$75 million, certain voluntary and involuntary bankruptcy events, and the occurrence of a change of control. As of September 30, 2022, we believe we were in compliance with all covenant requirements.

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% at September 30, 2022 from 128% at December 31, 2021.

As of September 30, 2022, our senior credit ratings were Baa2 with a stable outlook, and BBB with a stable outlook, by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Rating Group ("S&P"), respectively. The security ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating. Our goal is to maintain investment grade ratings from Moody's and S&P to help ensure the capital markets remain available to us.

Liquidity

We believe our cash and cash equivalents of \$41 million, future cash generated from operations and available borrowing capacity 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 \$41 million as of September 30, 2022 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.

Guarantees related to our Debt Obligations

Our senior unsecured notes were issued by Lennox International Inc. (the "Parent") and are unconditionally guaranteed by certain of our subsidiaries (the "Guarantor Subsidiaries"). The Guarantor Subsidiaries are 100% owned and consolidated, all guarantees are full and unconditional, and all guarantees are joint and several.

Off Balance Sheet Arrangements

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 4 in the Notes to the Consolidated Financial Statements.

Recent Accounting Pronouncements

There were no recent accounting pronouncements that are expected to have a material 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, 2021. Our exposure to market risk has not changed materially since December 31, 2021.

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, 2022, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that 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, 2021, 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, 2021.

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

In the third quarter of 2022, 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 31	3	214.00	—	\$ 546.0
August 1 through August 31	1,587	244.15	—	\$ 546.0
September 1 through September 30	153	257.62	—	\$ 546.0
	<u>1,743</u>		<u>—</u>	

⁽¹⁾ Represents shares of common stock we repurchased in July, August and September of 2022 to satisfy employee tax-withholding obligations in connection with the exercise of long-term incentive awards.

⁽²⁾ After \$100.0 million related to the repurchase under the ASR agreement executed in May 2022. The stock repurchase was executed pursuant to a previously announced repurchase plan. See Note 5 in the Notes to the Consolidated Financial Statement for further details.

Item 6. Exhibits

- 3.1 [Restated Certificate of Incorporation of Lennox International Inc. \(“LII”\)\(filed as Exhibit 3.1 to LII's Annual Report on Form 10-K filed on February 15, 2022 and incorporated herein by reference\).](#)
- 3.2 [Amended and Restated Bylaws of LII \(filed as Exhibit 3.2 to LII's Annual Report on Form 10-K filed on February 15, 2022 and incorporated herein by reference\).](#)
- 4.1 [Indenture, dated as of May 3, 2010, between LII and U.S. Bank National Association, as trustee \(filed as Exhibit 4.3 to LII’s Post-Effective Amendment No. 1 to Registration Statement on S-3 \(Registration No. 333-155796\) filed on May 3, 2010 and incorporated herein by reference\)](#)
- 4.2 [Sixth Supplemental Indenture, dated as of November 3, 2016, among LII, each other existing Guarantor under the Indenture, dated as of May 3 2010, as subsequently supplemented, and U.S. Bank National Association, as trustee \(filed as Exhibit 4.2 to LII’s Current Report on Form 8-K filed on November 3, 2016 and incorporated herein by reference\).](#)
- 4.3 [Form of 3.000% Notes due 2023 \(filed as Exhibit A in Exhibit 4.2 to LII’s Current Report on Form 8-K filed on November 3, 2016 and incorporated herein by reference\).](#)
- 4.4 [Ninth Supplemental Indenture, dated as of July 30, 2020, among LII, each existing Guarantor under the Indenture, dated as of May 3, 2010, as subsequently supplemented, and U.S. Bank National Association, as trustee \(filed as Exhibit 4.2 to LII’s Current Report on Form 8-K filed on July 30, 2020 and incorporated herein by reference\).](#)
- 4.5 [Form of 1.350% Notes due 2025 \(filed as Exhibit A in Exhibit 4.2 to LII’s Current Report on Form 8-K filed on July 30, 2020 and incorporated herein by reference\).](#)
- 4.6 [Form of 1.700% Notes due 2027 \(filed as Exhibit B in Exhibit 4.2 to LII’s Current Report on Form 8-K filed on July 30, 2020 and incorporated herein by reference\).](#)
- 4.7 [Tenth Supplemental Indenture, dated as of July 14, 2021, among LII, each existing Guarantor under the Indenture, dated as of May 3, 2010, as subsequently supplemented, and U.S. Bank National Association, as trustee \(filed as Exhibit 4.7 to LII’s Annual Report on Form 10-K filed on February 15, 2022 and incorporated herein by reference\).](#)
- 22.1 [List of Guarantor Subsidiaries \(filed as Exhibit 22.1 to LII's Annual Report on Form 10-K filed on February 15, 2022 and incorporated herein by reference\).](#)
- 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
- 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 27, 2022

CERTIFICATION

I, Alok Maskara, 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 27, 2022

/s/ Alok Maskara

Alok Maskara

Chief Executive Officer

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 27, 2022

/s/ Joseph W. Reitmeier
Joseph W. Reitmeier
Chief Financial Officer

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

In connection with the Quarterly Report of Lennox International Inc. (the "Company") on Form 10-Q for the Quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, Alok Maskara, Chief Executive Officer of the Company, and Joseph W. Reitmeier, Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to his or her knowledge:

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

/s/ Alok Maskara

Alok Maskara
Chief Executive Officer

October 27, 2022

/s/ Joseph W. Reitmeier

Joseph W. Reitmeier
Chief Financial Officer

October 27, 2022

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.