

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2000

OR

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

For the transition period from to

Commission File Number 001-15149

Lennox International Inc.  
(Exact name of Registrant as specified in its charter)

Delaware 42-0991521  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

2140 Lake Park Blvd.  
Richardson, Texas 75080  
(Address of principal executive offices, including zip code)

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

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

Title of each class	Name of each exchange on which registered
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Common Stock, \$.01 par value per share	New York Stock Exchange
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Securities Registered Pursuant to Section 12(g) of the Act: None

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 last 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 1, 2001, there were 56,050,163 shares of the registrant's Common Stock outstanding, and the aggregate market value of the Common Stock held by non-affiliates of the registrant was \$457,762,383 based on the closing price of the Common Stock on the New York Stock Exchange Composite Transactions on such date.\*

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2001 annual meeting of stockholders (the "Proxy Statement") are incorporated herein by reference into Part III of this Report. Such proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2000.

\* Excludes the Common Stock held by the registrant's executive officers, directors and stockholders whose ownership exceeds 5% of the Common Stock outstanding at March 1, 2001. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

LENNOX INTERNATIONAL INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2000

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PART I

ITEM 1. Business

The Company

Lennox International Inc. (including its subsidiaries, "Lennox" or the "Company") is a leading global provider of climate control solutions. The Company designs, manufactures and markets a broad range of products for the heating, ventilation, air conditioning and refrigeration ("HVACR") markets. The Company's products are sold under well-established brand names including "Lennox", "Armstrong Air", "Ducane", "Bohn", "Larkin", "Heatcraft", "Advanced Distributor Products" and others. The Company is also one of the largest manufacturers in North America of heat transfer products, such as evaporator coils and condenser coils. The Company has leveraged its expertise in heat transfer technology, which is critical to the efficient operation of any heating or cooling system, to become an industry leader known for its product innovation and the quality and reliability of its products. The Company is also a leader in the growing market for hearth products, which includes pre-fabricated fireplaces and related products. Historically, the Company has sold its "Lennox" brand of residential heating and air conditioning products directly to a network of installing dealers, which currently numbers approximately 6,500, making it the largest wholesale distributor of these products in North America. In September 1998, the Company initiated a program to acquire dealers or service centers in metropolitan areas in the United States and Canada so that it can provide heating and air conditioning products and services directly to consumers. The Company greatly expanded this program with the acquisition of Service Experts Inc. in January 2000.

Shown below are the Company's five business segments, the key products and brand names within each segment and 2000 net sales by segment. Segment financial data for the years 1998 through 2000, including financial information about foreign and domestic operations, is included in Note 3 of the Notes to Consolidated Financial Statements on pages 32 and 33 herein.

Segment -----	Products/Services -----	Brand Names -----	2000 Net Sales ----- (in millions)
North American Residential	Furnaces, heat pumps, air conditioners, packaged heating and cooling systems and related products; pre-fabricated fireplaces, free standing stoves, fireplace inserts and accessories	Lennox, Armstrong Air, Air-Ease, Concord, Magic-Pak, Ducane, Advanced Distributor Products, Superior, Whitfield and Security Chimneys	\$1,221.8
North American Retail	Sales, installation and service of residential and light commercial comfort equipment	Service Experts, various individual service center names	1,053.2
Commercial Air Conditioning	Unitary air conditioning and applied systems	Lennox, Alcair and Janka	469.2
Commercial Refrigeration	Chillers, condensing units, unit coolers, fluid coolers, air cooled condensers and air handlers	Bohn, Friga-Bohn, Larkin, Climate Control, Chandler Refrigeration, Kirby, Muller and Lovelock	358.3
Heat Transfer	Heat transfer coils, other heat transfer products and equipment and tooling to manufacture coils	Heatcraft, Friga-Bohn, Kirby and Muller	246.8
Eliminations			(101.9)
	Total		----- \$3,247.4 =====

The Company was founded in 1895 in Marshalltown, Iowa when Dave Lennox, who owned a machine repair business for the railroads, successfully developed and patented a riveted steel coal-fired furnace which

was substantially more durable than the cast iron furnaces used at the time. By 1904, the manufacture of these furnaces had grown into a significant business and was diverting the Lennox Machine Shop from its core business. As a result, in 1904, a group of investors headed by D.W. Norris bought the furnace business and named it the Lennox Furnace Company. Over the years, D.W. Norris ensured that ownership of the Company was distributed to all generations of his family. The Company believes that more than fifty percent of the Company's ownership currently is broadly distributed among approximately 110 descendants of or persons otherwise related to D.W. Norris. In 1991, the Company reincorporated as a Delaware corporation. On August 3, 1999, the Company completed the initial public offering of its common stock.

In 1999, the Company expanded its hearth products line through the acquisition of Security Chimneys International, Ltd. In May 1999, the Company acquired Livernois Engineering Holding Company and related patents. Livernois produces heat transfer manufacturing equipment for the HVACR and automotive industries. The Company acquired James N. Kirby Pty. Ltd., an Australian company that participates in the commercial refrigeration and heat transfer markets in Australia, in June 1999. In October 1999, the Company acquired substantially all of the assets of the air conditioning and heating division of The Ducane Company, Inc. based in South Carolina. The Ducane acquisition gives the Company additional capacity to manufacture heating and air conditioning products. In January 2000, the Company completed the acquisition of Service Experts Inc. in exchange for approximately 12.2 million shares of Lennox common stock and the assumption of \$175 million of debt, of which \$163 million was concurrently repaid. Service Experts provides residential and commercial heating, ventilation and air conditioning ("HVAC") services and replacement equipment through approximately 120 dealers in approximately 36 states.

#### Forward Looking Statements

This Annual Report on Form 10-K ("Form 10-K") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based upon management's beliefs, as well as assumptions made by and information currently available to management. All statements other than statements of historical fact included in this Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements identified by the words "may", "will", "should", "plan", "predict", "anticipate", "believe", "intend", "estimate" and "expect" and similar expressions. Such statements reflect the current views of Lennox with respect to future events, based on what it believes are reasonable assumptions; however, such statements are subject to certain risks, uncertainties and assumptions. These include, but are not limited to, warranty and product liability claims; the Company's ability to successfully complete and integrate acquisitions; the Company's ability to manage new lines of business; the consolidation trend in the HVACR industry; adverse reaction from the Company's customers from its acquisitions or other activities; the impact of the weather on the Company's business; competition in the HVACR business; increases in the prices of components and raw materials; general economic conditions in the U.S. and abroad; labor relations problems; operating risks; and environmental risks. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those in the forward-looking statements. The Company disclaims any intention or obligation to update or review any forward-looking statements or information, whether as a result of new information, future events or otherwise.

#### Growth Strategy

The Company's growth strategy is designed to capitalize on its competitive strengths in order to expand its market share and profitability in the worldwide HVACR markets. The key elements of this strategy include:

##### Expand Market in North America

The Company's acquisition of heating and air conditioning dealers or service centers in the United States and Canada represents a new direction for the heating and air conditioning industry because, to its knowledge,

no other major manufacturer has made a significant investment in retail distribution. This strategy enables the Company to extend its distribution directly to the consumer, thereby permitting it to participate in the revenues and margins available at the retail level while strengthening and protecting its brand equity. The Company believes that the retail sales and service market represents a significant growth opportunity because this market is large and highly fragmented. The retail sales and service market in the United States is estimated to be comprised of over 30,000 dealers or service centers. The Company started this program in September 1998 and as of December 31, 2000, it had acquired over 200 dealers in the United States and Canada for an aggregate purchase price of approximately \$630 million, including the acquisition of Service Experts in January 2000. The Company has assembled an experienced management team to administer the dealer operations and the Company has developed a portfolio of training programs, management procedures and goods and services that it believes will enhance the quality, effectiveness and profitability of dealer operations. No further acquisitions are planned as of the date of this report.

The Company has initiated a program to strengthen its independent dealer network by providing all dealers with a broad array of services and support. Participants in the Company's associate dealer program receive retirement and other benefits in exchange for agreeing that at least 75% of their residential heating and air conditioning purchases will be of the Company's products. As of December 31, 2000, over 1,650 dealers in the United States and Canada had joined the Company's associate dealer program. All independent dealers, including participants in the associate dealer program, are provided with access to the Company-sponsored volume purchasing programs with third parties for goods and services used in their businesses. Additionally, International Service Leadership, Inc., a wholly owned subsidiary of the Company, offers HVAC industry training, programs and support materials to dealers (including Company-owned dealers) throughout North America.

The Company also intends to increase its market share in North America by:

- . selectively expanding its "Lennox" independent dealer network;
- . promoting the cross-selling of its "Armstrong Air", "Aire-Flo" and other residential heating and air conditioning brands to its existing network of "Lennox" dealers as a second line;
- . promoting the cross-selling of its hearth products to its "Lennox" dealer base;
- . expanding the geographic market for the "Armstrong Air", "Air-Ease" and "Ducane" brands of residential heating and air conditioning products from its traditional presence in the Northeast and Central United States to the Southern and Western portions of the United States; and
- . exploiting the fragmented third-party evaporator coil market.

#### Increase Presence in Hearth Products Market

The Company manufactures and sells one of the broadest lines of hearth products in North America, offering multiple brands of hearth products at a range of price points. The Company believes that this broad product line will allow it to compete successfully in the hearth products market since many distributors prefer to concentrate their product purchases with a limited number of suppliers. The Company believes that it can increase its penetration of this market by selling in the traditional hearth products distribution channels and through its historical HVAC distribution channels. Many of Lennox' heating and air conditioning dealers have begun to expand their product offerings to include hearth products. In 2000, a new President and Chief Operating Officer was appointed and management was significantly restructured for the hearth products business. Additionally, the Company is implementing a new brand strategy emphasizing the Lennox brand, since the Company believes that the Lennox brand represents both the highest brand awareness and brand preference by consumers of any brand in the hearth products industry. The Company currently is also targeting increased sales to hearth specialty retailers and new home construction builders.

#### Exploit International Opportunities

Worldwide demand for residential and commercial heating, air conditioning, refrigeration and heat transfer products is increasing. The Company believes that the increasing international demand for these products

presents substantial opportunities, especially in emerging markets and particularly for heat transfer and refrigeration products. An example is the increasing use of refrigeration products to preserve perishables including food products in underdeveloped countries. Refrigeration products generally have the same design and applications globally. To take advantage of international opportunities, the Company has made substantial investments in manufacturing facilities in Europe, Latin America and Asia Pacific through acquisitions, including James N. Kirby Pty. Ltd., which has operations in Australia, and Ets. Brancher S.A. with operations in Europe. The Company's international sales have grown from \$112.0 million in 1996 to \$687.6 million in 2000. The Company intends to continue to focus on expanding its international operations through internal growth to take advantage of international growth opportunities.

#### Technology and Product Innovation

An important part of Lennox' growth strategy is to continue to invest in research and new product development. The Company has designated a number of its facilities as "centers for excellence" that are responsible for the research and development of core competencies vital to its success, such as combustion technology, vapor compression, heat transfer and low temperature refrigeration. Technological advances are disseminated from these "centers for excellence" to all of Lennox' operating divisions.

#### Products

##### North American Residential Products

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

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

Hearth Products. The Company believes that it is the only North American HVACR manufacturer that also designs, manufactures and markets residential hearth products. The Company's hearth products include prefabricated gas and wood burning fireplaces, free standing pellet and gas stoves, fireplace inserts, gas logs and accessories. Many of the fireplaces are built with a blower or fan option and are efficient heat sources as well as attractive amenities to the home. The Company currently markets its hearth products under the "Lennox", "Superior", "Whitfield", "Earth Stove" and "Security Chimneys" brand names. The Company believes that its strong relationship with its dealers and its brand names will assist in selling into this market.

##### North American Retail

Through Company-owned dealers in the United States and Canada, the Company provides installation, maintenance, repair and replacement services for heating and air conditioning systems directly to both residential and light commercial customers. Installation services include the installation of heating and air conditioning systems in new construction and the replacement of existing systems. Other services include preventative maintenance, emergency repairs and the replacement of parts associated with heating and air conditioning systems. The Company also sells a wide range of mechanical and electrical equipment, parts and supplies in connection with these services.

## Commercial Air Conditioning

The Company manufactures and sells commercial air conditioning equipment in North America, Europe, Asia Pacific and South America.

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

International. The Company competes in the commercial air conditioning market in Europe through its ownership of Ets. Brancher S.A. and its operating subsidiaries. LGL France S.A. manufactures and sells unitary products which range from two to 30 tons and applied systems which range up to 500 tons. Lennox' European products consist of chillers, air handlers, fan coils and large rooftop units and serve medium rise buildings, shopping malls, other retail and entertainment buildings, institutional applications and other field engineered applications. Lennox manufactures its air conditioning products in several locations throughout Europe, including sites in the United Kingdom, France, Holland and Spain and markets such products through various distribution channels in these countries and in Italy, Germany, Belgium, the Czech Republic, Eastern Europe and the Middle East.

In Australia, the Company distributes its residential and light commercial heating and air conditioning products manufactured in North America and also manufactures commercial heating and air conditioning products (packaged and split systems) ranging in size from two to 60 tons.

## Commercial Refrigeration

North America. The Company is one of the leading manufacturers of commercial refrigeration products in North America. The Company's refrigeration products include condensing units, unit coolers, fluid coolers, air-cooled condensers and air handlers. The Company's refrigeration products are sold for cold storage applications to preserve food and other perishables. These products are used by supermarkets, convenience stores, restaurants, warehouses and distribution centers. As part of its sale of commercial refrigeration products, the Company routinely provides application engineering for consulting engineers, contractors and others.

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

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

The Company owns an 84% interest in Heatcraft do Brasil S.A., a Brazilian company that manufactures condensing units and unit coolers. The Company believes this joint venture gives it the leading market share for commercial refrigeration products in its served markets in Brazil.

The Company acquired the assets of Lovelock Luke Pty. Ltd., a distributor of refrigeration and related equipment in Australia in 1998. This acquisition gives the Company an established commercial refrigeration business in Australia.

In June 1999, the Company acquired James N. Kirby Pty. Ltd. for approximately \$65 million. Kirby is an Australian company that manufactures commercial refrigeration and heat transfer products in Australia and distributes commercial refrigeration equipment through its own and Lovelock's distribution network. Kirby also designs and manufactures precision machining stations primarily for the automobile industry. The Kirby acquisition provides a technological and manufacturing base for the growth of the Company's commercial refrigeration and heat transfer business in the Asia Pacific region.

#### Heat Transfer

The Company is one of the largest manufacturers of heat transfer components, including coils, in the United States, Europe, Australia, Mexico and Brazil. These products are used primarily by original equipment manufacturers of residential and commercial air conditioning products, transportation air conditioning and refrigeration systems and commercial refrigeration products. A portion of the Company's original equipment manufacturer coils is produced for use in its residential and commercial HVACR products. The Company also produces private label replacement coils for use in other manufacturers' HVACR equipment. The Company believes that the engineering expertise of its sales force, combined with its flexible manufacturing processes and systems, provide it with an advantage in the application engineering, designing and manufacturing of these products for its customers. Advanced computer software enables the Company to predict with a high degree of accuracy the performance of complete air conditioning and refrigeration systems. The Company also supplies heat transfer manufacturing equipment to the automotive industry through Livernois.

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

The Company also produces coils in France and the Czech Republic for the European market. The Company's joint venture in Mexico produces evaporator and condenser coils for use in that country and for export to the Caribbean and the United States. The Company's Brazilian joint venture manufactures heat transfer coils that are sold to both HVACR manufacturers and automotive original equipment manufacturers in Brazil.

#### Marketing and Distribution

The Company manages numerous distribution channels for its products in order to better penetrate the HVACR market. Generally, the Company's products are sold through a combination of distributors, independent and company-owned dealers or service centers, wholesalers, manufacturers' representatives, original equipment manufacturers and national accounts. The Company has also established separate distribution networks in each country in which it conducts operations. The Company deploys dedicated sales forces across all its business segments and brands in a manner designed to maximize the ability of each sales force to service its particular distribution channel. To maximize enterprise-wide effectiveness, the Company has active cross-functional and cross-organizational teams working on issues such as pricing and coordinated approaches to product design and national account customers with interests cutting across business segments.

A principal example of the competitive strength of the Company's marketing and distribution strategy is in the North American residential heating and air conditioning market, in which it uses three distinctly different distribution approaches -- the one-step distribution system, the two-step distribution system and sales made



directly to consumers through Company-owned dealers. The Company markets and distributes its "Lennox" and "Aire-Flo" brands of heating and air conditioning products directly to approximately 6,500 independent dealers that install these products.

The Company distributes its "Armstrong Air", "Air-Ease", "Concord", "Ducane" and "Magic-Pak" brands of residential heating and air conditioning products through the traditional two-step distribution process whereby it sells its products to distributors who, in turn, sell the products to a local installing dealer. Accordingly, by using multiple brands and distribution channels, the Company is able to better penetrate the North American residential heating and air conditioning market. In addition, the Company provides heating and air conditioning products and services directly to consumers through Company-owned dealers.

Through the years, the "Lennox" brand has become synonymous with the "Dave Lennox" image, which is utilized in national television and print advertising as well as in numerous locally produced dealer ads, open houses and trade events and is easily the best recognized advertising icon in the heating and air conditioning industry.

#### Manufacturing

The Company operates 16 manufacturing facilities in the United States and Canada and 20 outside the United States and Canada. In its facilities most impacted by seasonal demand, the Company manufactures both heating and air conditioning products to smooth seasonal production demands and maintain a relatively stable labor force. The Company is generally able to hire temporary employees to meet changes in demand.

#### Purchasing

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

#### Technology and Research and Development

The Company supports an extensive research and development program focusing on the development of new products and improvements to its existing product lines. The Company spent an aggregate of \$36.5 million, \$39.1 million and \$33.3 million on research and development during 2000, 1999 and 1998, respectively. The Company has a number of research and development facilities located around the world, including a limited number of "centers for excellence" that are responsible for the research and development of particular core competencies vital to its business, such as combustion technology, vapor compression, heat transfer and low temperature refrigeration.

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

## Patents and Trademarks

The Company holds numerous patents that relate to the design and use of its products. The Company considers these patents important, but no single patent is material to the overall conduct of its business. The Company's policy is to obtain and protect patents whenever such action would be beneficial to it. No patent which the Company considers material will expire in the next five years. The Company owns several trademarks that it considers important in the marketing of its products, including Lennox(R), Heatcraft(R), CompleteHeat(R), Raised Lance(TM), Larkin(TM), Climate Control(TM), Chandler Refrigeration(R), Bohn(R), Advanced Distributor Products(R), Armstrong Air(TM), Aire-Flo(TM), Air-Ease(R), Concord(R), Magic-Pak(R), Superior(R), Whitfield(R), Security Chimneys(R), Janka(TM), Alcair(TM), Ducane(TM) and Friga-Bohn(TM). These trademarks have no fixed expiration dates and the Company believes its rights in these trademarks are adequately protected.

## Competition

Substantially all of the markets in which the Company participates are highly competitive. The most significant competitive factors facing the Company are product reliability, product performance, service and price, with the relative importance of these factors varying among its product lines. In addition, the Company faces competition from independent dealers and dealers owned by consolidators and utility companies. The Company's competitors may have greater financial and marketing resources than it has. Listed below are some of the companies that the Company views as its main manufacturing competitors in each segment the Company serves, with relevant brand names, when different than the company name, shown in parentheses.

- . North American residential -- United Technologies Corporation (Carrier); Goodman Manufacturing Company (Janitrol, Amana); American Standard Companies Inc. (Trane); York International Corporation; Hon Industries, Inc. (Heatilator); and CFM Majestic, Inc. (Majestic).
- . Commercial air conditioning -- United Technologies Corporation (Carrier); American Standard Companies Inc. (Trane); York International Corporation; Daikin Industries, Ltd.; and McQuay International.
- . Commercial refrigeration -- United Technologies Corporation (Carrier CRO); Tecumseh Products Co.; Copeland Corporation; and Ingersoll-Rand Company (Hussman).
- . Heat transfer -- Modine Manufacturing Company and Super Radiator Coils.

## Employees

As of March 1, 2001, the Company employed approximately 24,000 employees, approximately 5,700 of which were represented by unions. The number of hourly workers the Company employs may vary in order to match its labor needs during periods of fluctuating demand. The Company believes that its relationships with its employees and with the unions representing some of its employees are generally good and does not anticipate any material adverse consequences resulting from negotiations to renew any collective bargaining agreements.

## Regulation

The Company's operations are subject to evolving and often increasingly stringent federal, state, local and international laws and regulations concerning the environment. Environmental laws that affect or could affect the Company's domestic operations include, among others, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Occupational Safety and Health Act, the National Environmental Policy Act, the Toxic Substances Control Act, any regulations promulgated under these acts and various other Federal, state and local laws and regulations governing environmental matters. The Company believes it is in substantial compliance with such existing environmental laws and regulations. The Company's non-United States operations are also subject to various environmental statutes and regulations. Generally, these statutes and regulations impose

operational requirements that are similar to those imposed in the United States. The Company believes it is in substantial compliance with applicable non-United States environmental statutes and regulations.

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

In 1987 the United States became a signatory to an international agreement titled the Montreal Protocol on Substances that Deplete the Ozone Layer. The Montreal Protocol requires its signatories to phase out HCFCs on an orderly basis. All countries in the developed world have become signatories to the Montreal Protocol. The manner in which these countries implement the Montreal Protocol and regulate HCFCs differs widely. The 1990 U.S. Clean Air Act amendments implement the Montreal Protocol by establishing a program to limit the production, importation and use of specified ozone depleting substances, including HCFCs currently used as refrigerants by the Company and its competitors. Under the Clean Air Act and implementing regulations, all HCFCs must be phased out between 2010 and 2030. The Company believes that these regulations, as currently in effect, will not have a material adverse effect on its operations. Nonetheless, as the supply of virgin and recycled HCFCs falls, it will be necessary to address the need to substitute permitted substances for HCFCs. Further, the United States is under pressure from the international environmental community to accelerate the current 2030 deadline for phase out of HCFCs. An accelerated phase out schedule could adversely affect the Company's future financial results and the industry generally.

The Company, together with major chemical manufacturers, is continually in the process of reviewing and addressing the potential impact of refrigerant regulations on its products. The Company believes that the combination of products that presently utilize HCFCs, and products in the field which can be retrofitted to alternate refrigerants, provide a complete line of commercial and industrial products. Therefore, the Company does not foresee any material adverse impact on its business or competitive position as a result of the Montreal Protocol, the 1990 Clean Air Act amendments or their implementing regulations. However, the Company believes that the implementation of severe restrictions on the production, importation or use of refrigerants the Company employs in larger quantities or acceleration of the current phase out schedule could have such an impact on the Company and its competitors.

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

Remediation Activity. In addition to affecting the Company's ongoing operations, applicable environmental laws can impose obligations to remediate hazardous substances at its properties, at properties formerly owned or operated by the Company and at facilities to which it sent or sends waste for treatment or disposal. The Company's Grenada facility is subject to an administrative order issued by the Mississippi Department of

Environmental Quality under which the Company will conduct groundwater remediation. The expenditures from this groundwater remediation are not expected to materially affect the Company's financial condition or results of operations. The Company is aware of contamination at some of its other facilities; however, the Company does not presently believe that any future remediation costs at such facilities will be material.

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

Service Center Operations. The heating and air conditioning dealers acquired in the United States and Canada are subject to various federal, state and local laws and regulations, including:

- . permitting and licensing requirements applicable to service technicians in their respective trades;
- . building, heating, ventilation, air conditioning, plumbing and electrical codes and zoning ordinances;
- . laws and regulations relating to consumer protection, including laws and regulations governing service contracts for residential services; and
- . laws and regulations relating to worker safety and protection of the environment.

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

Executive Officers of the Company

The executive officers of the Company, their present positions and their ages are as follows:

Name	Age	Position
----	---	-----
John W. Norris, Jr.....	65	Chairman of the Board
Robert E. Schjerven.....	58	Chief Executive Officer
Harry J. Ashenhurst.....	52	Executive Vice President and Chief Administrative Officer
Scott J. Boxer.....	50	Executive Vice President and President, Lennox Industries Inc.
Carl E. Edwards, Jr.....	59	Executive Vice President, Chief Legal Officer and Secretary
H. E. French.....	59	Executive Vice President and Chief Technology Officer
Robert J. McDonough.....	42	Executive Vice President and President, Worldwide Refrigeration and European and Latin American Operations
James L. Mishler.....	46	Executive Vice President and President, Service Experts Inc.
W. Lane Pennington.....	45	Executive Vice President and President, Worldwide Heat Transfer and Asia Pacific Operations
Michael G. Schwartz.....	42	Executive Vice President and President, North American Distributed Products
Richard A. Smith.....	55	Executive Vice President and Chief Financial Officer
John J. Hubbuch.....	58	Vice President, Controller and Chief Accounting Officer
Scott E. Messel.....	42	Vice President and Treasurer

The following biographies describe the business experience of the Company's executive officers.

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

Robert E. Schjerven was named Chief Executive Officer of the Company in 2001. Prior to his election as Chief Executive Officer, he served as Chief Operating Officer of the Company in 2000 and as President and Chief Operating Officer of Lennox Industries Inc., a subsidiary of the Company, from 1995 to 2000. He joined the Company in 1986 as Vice President of Marketing and Engineering for Heatcraft Inc., a subsidiary of the Company. From 1988 to 1991 he held the position of Vice President and General Manager of Heatcraft. From 1991 to 1995 he served as President and Chief Operating Officer of Armstrong Air Conditioning Inc., which is also a subsidiary of the Company. Mr. Schjerven spent the first 20 years of his career with the Trane Company, an HVACR manufacturer, and McQuay-Perfex Inc.

Harry J. Ashenhurst was named Executive Vice President and Chief Administrative Officer of the Company in 2000. He joined the Company in 1989 as Vice President of Human Resources. Dr. Ashenhurst was named Executive Vice President, Human Resources, for the Company in 1990 and in 1994 was appointed Executive Vice President, Human Resources and Administration, assuming responsibility for the Public Relations and Communications and Aviation departments. Prior to joining the Company, he worked as an independent management consultant with the consulting firm of Roher, Hibler and Replogle. While at Roher, Hibler and Replogle, Dr. Ashenhurst was assigned to work as a corporate psychologist for the Company.

Scott J. Boxer was named Executive Vice President of the Company and President of Lennox Industries Inc., a subsidiary of the Company, in 2000. He joined the Company in 1998 as Executive Vice President, Lennox Global Ltd., a subsidiary of the Company, and President, European Operations. Prior to joining the Company, Mr. Boxer spent 26 years with York International Corporation, an HVACR manufacturer, in various roles, most recently as President, Unitary Products Group Worldwide, where he reported directly to the Chairman of that company and was responsible for directing that company's residential and light commercial heating and air conditioning operations worldwide.

Carl E. Edwards, Jr. was named Executive Vice President, Chief Legal Officer and Secretary of the Company in 2000. He joined the Company in February 1992 as Vice President and General Counsel, became the Secretary of the Company in April 1992, and was named Executive Vice President, General Counsel and Secretary in December 1992. Prior to joining the Company, he was Vice President, General Counsel and Secretary for Elcor Corporation. Mr. Edwards also serves as a Director of Kentucky Electric Steel Inc.

H. E. French was appointed Executive Vice President and Chief Technology Officer of the Company in 2000. Mr. French joined the Company in 1989 as Vice President and General Manager of the Refrigeration Products division for Heatcraft Inc., a subsidiary of the Company. In 1995, he was named President and Chief Operating Officer of Armstrong Air Conditioning Inc., a subsidiary of the Company. In 1997, he was named President and Chief Operating Officer of Heatcraft Inc. Prior to joining the Company, Mr. French spent 11 years in management with Wickes/Larkin, Inc.

Robert J. McDonough was named Executive Vice President of the Company and President, Worldwide Refrigeration and European and Latin American Operations in 2000. He joined the Company's Heatcraft Inc. subsidiary in 1990, where he held the positions of Director of Sales and Marketing, Vice President of Sales and

Marketing and Vice President and General Manager. Prior to his career at Heatcraft, Mr. McDonough was employed with Larkin Coils, Inc. from 1982 to 1990 where he held engineering, product management and sales management positions.

James L. Mishler was named Executive Vice President of the Company and President of Service Experts Inc., a subsidiary of the Company, in 2000. He joined the Company in 1996 as Vice President, Sales and Marketing for Lennox Industries Inc., a subsidiary of the Company. In 1999, he was appointed President of Lennox Retail Inc., a new subsidiary of the Company entering a new business segment. Prior to joining the Company, he was Vice President, Sales for Pella Corporation, a manufacturer of windows and doors. Mr. Mishler began his career at Whirlpool Corporation, an appliance manufacturer, in 1978, where he held various sales management positions. In 1992, he left Whirlpool to serve as Vice President of Sales Operations for Frigidaire Corporation, an appliance manufacturer, and later as Executive Vice President of Sales and Marketing for Frigidaire.

W. Lane Pennington was appointed to his current position of Executive Vice President of the Company and President, Worldwide Heat Transfer and Asia Pacific Operations, in 2000. He joined the Company in 1997 as Vice President, Asia Pacific Operations, and was named Executive Vice President, Lennox Global Ltd., and President, Asia Pacific Operations in 1998. From 1988 until 1997, Mr. Pennington was with Hilti International Corp., a worldwide supplier of specialized building products and engineering services for the commercial construction industry, where he most recently served as President, Hilti Asia Limited, based in Hong Kong.

Michael G. Schwartz was named Executive Vice President of the Company and President, North American Distributed Products in 2000. Mr. Schwartz previously served as President and Chief Operating Officer of Armstrong Air Conditioning Inc., a subsidiary of the Company, from 1997 to 2000. He joined Heatcraft Inc., a subsidiary of the Company, in 1990 when the Company acquired Bohn Heat Transfer Inc. and served as Director of Sales and Marketing, Original Equipment Manufacturer Products. He also served as Vice President of Commercial Products for Heatcraft from 1995 to 1997. Mr. Schwartz began his career with Bohn Heat Transfer Inc. in 1981.

Richard A. Smith was named Executive Vice President and Chief Financial Officer for the Company in 2001. Mr. Smith was most recently CFO and Chief Administrative Officer for Zonetrader, Inc., a leading provider of full-service asset management solutions. Before joining Zonetrader, Inc., Mr. Smith had served since 1990 as Vice President of Finance and Chief Financial Officer for Arvin Industries, Inc., a leading global manufacturer of automotive components. Mr. Smith began his career with Ralston Purina Company, a pet food manufacturer, and later joined May Department Stores, serving first as Vice President and Treasurer and later as Vice President and Controller of that company's Payless Shoe Source division.

John J. Hubbuch was named Vice President, Controller and Chief Accounting Officer of the Company in 1999. Mr. Hubbuch joined the Company in 1986 as the Division Controller for Heatcraft Inc., a subsidiary of the Company. In 1989 he became Heatcraft's Group Controller. In 1992 he was appointed Corporate Controller of the Company and in 1994 he was named Vice President and Corporate Controller of the Company. From 1982 to 1986, Mr. Hubbuch was the Division Controller for McQuay-Perfex Inc./SnyderGeneral.

Scott E. Messel joined the Company as Vice President and Treasurer in 1999. Prior to joining the Company, he was the Corporate Treasurer for Flowserve Corporation, a provider of industrial flow management services, from 1998 to 1999. From 1983 to 1998, Mr. Messel held various treasury and finance positions with Ralston Purina Company, a pet food manufacturer, including Vice President and Director, International Treasury, from 1991 to 1998.

ITEM 2. Properties

Real Property and Leases

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

Domestic Facilities

Location	Description and Approximate Size	Principal Products	Owned/Leased
Richardson, TX	World headquarters and offices; Lennox Industries headquarters; 311,000 square feet	Not Applicable	Owned and Leased
Bellevue, OH	Armstrong headquarters, factory and distribution center; 800,000 square feet	Residential furnaces, residential and light commercial air conditioners and heat pumps	Owned and Leased
Grenada, MS	Heatcraft Heat Transfer Division headquarters and factory, 1,000,000 square feet; Advanced Distributor Products factory, 300,000 square feet, commercial products factory; 217,000 square feet	Coils and copper tubing, evaporator coils, gas-fired unit heaters and residential air handlers and custom order replacement coils	Owned and Leased
Stone Mountain, GA	Heatcraft Refrigeration Products Division headquarters, R&D and factory; 145,000 square feet	Commercial and industrial condensing units, packaged chillers and custom refrigeration racks	Owned
Marshalltown, IA	Lennox Industries heating and air conditioning products factory, 1,000,000 square feet; distribution center, 300,000 square feet	Residential heating and cooling products, gas furnaces, split-system condensing units, split-system heat pumps and CompleteHeat	Owned and Leased
Des Moines, IA	Lennox Industries distribution center and light manufacturing; 352,000 square feet	Central supplier of Lennox repair parts	Leased
Carrollton, TX	Lennox Industries heating and air conditioning products development and research facility; 130,000 square feet	Not Applicable	Owned
Stuttgart, AR	Lennox Industries light commercial heating and air conditioning factory; 500,000 square feet	Commercial rooftop equipment and accessories	Owned and Leased
Union City, TN	Lennox Hearth Products factory; 295,000 square feet	Gas and wood burning fireplaces	Owned
Lynwood, CA	Lennox Hearth Products headquarters and factory; 200,000 square feet	Gas and wood burning fireplaces	Leased
Blackville, SC	Excel Comfort Systems Inc. headquarters and factory; 375,000 square feet	Residential heating and cooling products	Owned
Orangeburg, SC	Allied Air Enterprises headquarters and factory; 329,000 square feet	Residential heating and cooling products	Owned

## International Facilities

Location	Description and Approximate Size	Principal Products	Owned/Leased
Genas, France	Friga-Bohn factory; 16,000 square meters	Heat exchangers for refrigeration and air conditioning, refrigeration products, condensers, fluid coolers, pressure vessels, liquid receivers and refrigeration components	Owned
Mions, France	LGL France headquarters and factories; 12,000 square meters	Air cooled chillers, water cooled chillers, reversible chillers and packaged boilers	Owned
Prague, Czech Republic	Janka and Friga-Coil factories; 30,000 square meters	Air handling equipment, heat transfer coils	Owned
Milperra, Australia	James N. Kirby Pty. Ltd. headquarters and factory; 412,000 square feet	Refrigeration condensing units and condensers, heat transfer coils, machine tools	Owned
San Jose dos Campos, Brazil	Heatcraft do Brasil headquarters and factory; 160,000 square feet	Refrigeration condensing units, unit coolers and heat transfer coils	Owned
Etobicoke, Canada	Lennox Canada factory; 212,000 square feet	Multi-position gas furnaces and gas fireplaces	Owned

In addition to the properties described above and excluding dealer facilities, the Company leases over 55 facilities in the United States for use as sales offices and district warehouses and additional facilities worldwide for use as sales and service offices and regional warehouses. The vast majority of Company-owned service center facilities are leased and the remainder are owned. The Company believes that its properties are in good condition and adequate for its present requirements. The Company also believes that its principal plants are generally adequate to meet its production needs.

### ITEM 3. Legal Proceedings

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

### ITEM 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal year 2000.

## PART II

### ITEM 5. Market for Registrant's Common Stock and Related Stockholder Matters

The Company's common stock is listed for trading on the New York Stock Exchange under the symbol "LII". The high and low sales prices for the Company's common stock for each quarterly period during 2000 and 1999 are set forth in Note 14 of the Notes to Consolidated Financial Statements on page 47 herein. During 2000 and 1999, the Company declared quarterly cash dividends as set forth in Note 14 of the Notes to Consolidated Financial Statements on page 47 herein. The quarterly dividend declared in December 2000 was paid on January 5, 2001. The amount and timing of dividend payments are determined by the Company's Board of Directors and subject to certain restrictions under the Company's credit agreements. As of March 1, 2001, there were approximately 13,800 beneficial holders of the Company's common stock.



ITEM 6. Selected Financial Data

The table below shows the selected financial data of the Company for the five years ended December 31, 2000:

	For the Year Ending December 31,				
	2000	1999	1998	1997(1)	1996
	(in millions, except per share data)				
<b>Statement of Operations Data</b>					
Net Sales.....	\$3,247.4	\$2,361.7	\$1,821.8	\$1,444.4	\$1,364.5
Income (Loss) From Operations...	158.6	155.9	106.6	(35.2)	100.6
Net Income (Loss).....	59.1	73.2	52.5	(33.6)	54.7
Diluted Earnings (Loss) Per Share.....	1.05	1.81	1.47	(0.99)	1.59
Dividends Per Share.....	0.380	0.350	0.325	0.275	0.260
<b>Other Data</b>					
Capital Expenditures.....	\$ 58.3	\$ 76.7	\$ 52.4	\$ 34.6	\$ 31.9
Research & Development Expenses.....	36.5	39.1	33.3	25.4	23.2
<b>Balance Sheet Data</b>					
Working Capital.....	\$ 311.3	\$ 424.6	\$ 263.3	\$ 335.9	\$ 326.0
Total Assets.....	2,055.0	1,683.7	1,151.6	970.4	819.7
Total Debt.....	690.5	577.0	317.4	198.5	184.8
Stockholders' Equity.....	743.1	597.9	375.6	325.2	360.9

Note (1): Includes product inspection charge of \$140.0 million. Excluding this charge, Income From Operations is \$104.8 million, Net Income is \$51.7 million and Diluted Earnings Per Share is \$1.53.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

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

The principal components of cost of goods sold are labor, raw materials, component costs, factory overhead and estimated costs of warranty expense. The principal raw materials used in Lennox' manufacturing

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

In September 1997, Lennox increased its ownership in Ets. Brancher, a holding company owning its European operations, from 50% to 70%. As a result, Lennox assumed control of the venture and began including the financial position and operating results of the venture in its consolidated financial statements for the fourth quarter of 1997. Previously, Lennox used the equity method of accounting for its investment in this entity. In the fourth quarter of 1998, Lennox restructured its ownership of its various European entities to allow for more efficient transfer of funds and to provide for tax optimization. In April 2000, Lennox acquired the remaining 30% of its European holding company.

Lennox acquired Superior Fireplace Company, Marco Mfg., Inc. and Pyro Industries, Inc. in the third quarter of 1998 and Security Chimneys International, Ltd. in the first quarter of 1999 for an aggregate purchase price of approximately \$120 million. These acquisitions, which were later merged to form Lennox Hearth Products Inc., give Lennox one of the broadest lines of hearth products in the industry.

Lennox acquired James N. Kirby Pty. Ltd. ("Kirby"), an Australian company that participates in the commercial refrigeration and heat transfer markets in Australia, in June 1999 for approximately \$65 million in cash, common stock and seller financing. In addition, Lennox assumed approximately \$20.5 million of Kirby's debt.

Lennox purchased the HVAC related assets of The Ducane Company, Inc. in October 1999 for approximately \$53 million in cash. This purchase added to the brands offered in the North American residential segment.

In September 1998, Lennox initiated a program to acquire high quality heating and air conditioning dealers in metropolitan areas in the United States and Canada to market "Lennox" and other brands of heating and air conditioning products. This strategy is enabling Lennox to extend its distribution directly to the consumer and to participate in the revenues and margins available at the retail level while strengthening and protecting its brand equity. Lennox believes that the retail sales and service market represents a significant growth opportunity because this market is large and highly fragmented. The retail sales and service market in the United States is estimated to be comprised of over 30,000 dealers.

On January 21, 2000, Lennox completed the acquisition of Service Experts Inc., an HVAC company comprised of HVAC retail businesses across the United States, for approximately \$307 million, including 12.2 million shares of Lennox common stock and the assumption of \$175 million of debt. The acquisition added an additional 120 service centers to the U.S. retail network. The success of the Service Experts acquisition, along with Lennox' other acquisitions, will depend on Lennox' ability to integrate these businesses into its business without substantial costs, delays or other operational or financial difficulties. Through December 31, 2000, Lennox had acquired over 200 service centers in North America for an aggregate purchase price of approximately \$630 million. Lennox will, for the foreseeable future, concentrate on addressing these integration and operational issues rather than making additional acquisitions.

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

Results of Operations

The following table sets forth, as a percentage of net sales, Lennox' statement of income data for the years ended December 31, 2000, 1999 and 1998.

	Year Ended December 31,		
	2000	1999	1998
Net sales.....	100.0%	100.0%	100.0%
Cost of goods sold.....	68.0	68.5	68.4
Gross profit.....	32.0	31.5	31.6
Selling, general and administrative expense.....	27.1	24.9	25.7
Income from operations.....	4.9	6.6	5.9
Interest expense, net.....	1.7	1.4	0.9
Other.....	0.1	0.0	0.1
Minority interest.....	0.0	0.0	0.0
Income before income taxes.....	3.1	5.2	4.9
Provision for income taxes.....	1.3	2.1	2.0
Net income.....	1.8%	3.1%	2.9%

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

	Years Ended December 31,					
	2000		1999		1998	
	Amount	%	Amount	%	Amount	%
Business Segment:						
North American						
residential.....	\$1,221.8	37.6%	\$1,174.2	49.7%	\$1,005.5	55.2%
North American retail...	1,053.2	32.4	218.1	9.2	9.8	0.5
Commercial air conditioning.....	469.2	14.4	452.8	19.2	392.1	21.5
Commercial refrigeration.....	358.3	11.0	327.3	13.9	237.3	13.0
Heat transfer.....	246.8	7.6	220.0	9.3	178.7	9.8
Eliminations.....	(101.9)	(3.0)	(30.7)	(1.3)	(1.6)	--
Total net sales.....	\$3,247.4	100.0%	\$2,361.7	100.0%	\$1,821.8	100.0%
Geographic Market:						
U.S.....	\$2,559.8	78.8%	\$1,730.4	73.3%	\$1,472.3	80.8%
International.....	687.6	21.2	631.3	26.7	349.5	19.2
Total net sales.....	\$3,247.4	100.0%	\$2,361.7	100.0%	\$1,821.8	100.0%

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Net Sales

Net sales increased \$885.7 million, or 37.5%, to \$3,247.4 million for the year ended December 31, 2000 from \$2,361.7 million for the year ended December 31, 1999.

Net sales in the North American residential segment were \$1,221.8 million for the year ended December 31, 2000, an increase of \$47.6 million, or 4.1%, from \$1,174.2 million for the year ended December 31, 1999. Sales from acquisitions contributed \$51.5 million to the increase in sales for the year. The acquisition of Ducane's HVAC product lines was the primary reason for the acquisition sales increase.

Lennox' traditional North American residential businesses had a decrease in sales of \$3.9 million, or 0.3%, from the prior year. This decrease was a result of unfavorable weather and a decline in sales in the

Company's hearth products business. Mild weather conditions in key markets for Lennox negatively impacted sales in both the early months of 2000 and especially the third quarter of 2000. Over 50% of the Company's North American residential equipment sales are concentrated in geographic locations that had a cold summer in 2000. Cooling degree days through August of 2000 were 50% below 1999 levels in the Northeast region of the United States and 27% below 1999 levels in the Upper Midwest region of the United States. This unusually cool summer reduced the stress on existing air conditioning equipment, which depressed equipment sales and reduced demand for profitable add-on air conditioning in those markets where air conditioning is a discretionary purchase. The Company's hearth products business sales decreased 12.3% as a result of declining housing starts and a delay in realizing synergies from the individual hearth operations acquired primarily in the third quarter of 1998 and first quarter of 1999.

Net sales in the North American retail segment were \$1,053.2 million for the year ended December 31, 2000, an increase of \$835.1 million from \$218.1 million for the year ended December 31, 1999. This increase was almost entirely due to acquisitions.

Commercial air conditioning net sales increased \$16.4 million, or 3.6%, to \$469.2 million for the year ended December 31, 2000 compared to the year ended December 31, 1999. North American sales grew 8.1% over the prior year. This growth is primarily a result of two additional commercial sales districts and the introduction of the Company's cost effective Value line product. International commercial air conditioning sales also grew 8.1% over the prior year, when compared in local currencies. Converted to U.S. dollars, however, the increase was negated, primarily due to the decrease in the Euro exchange rate from the prior year.

Net sales related to the commercial refrigeration segment were \$358.3 million for the year ended December 31, 2000, an increase of \$31.0 million, or 9.5%, from \$327.3 million for the year ended December 31, 1999. Of this increase, \$27.5 million was due to the acquisition of James N. Kirby Pty. Ltd. North American commercial refrigeration sales increased 9.7% due to strong sales in the walk-in cooler segment and some large cold storage projects that were completed. Europe and Australia, two of the Company's key refrigeration markets, had significant decreases in the value of their currency compared to the U.S. dollar. Excluding the impact of currency fluctuations and acquisitions, international sales grew 4.5%.

Heat transfer segment revenues increased \$26.8 million, or 12.2%, to \$246.8 million for the year ended December 31, 2000 compared to the year ended December 31, 1999. Of this increase, \$22.0 million was due to the acquisitions of James N. Kirby Pty. Ltd. and Livernois Engineering Holding Company. The Company's traditional businesses increased sales 5.0%, after adjusting for the impact of currency exchange.

#### Gross Profit

Gross profit was \$1,040.4 million for the year ended December 31, 2000, compared to \$744.3 million for the year ended December 31, 1999, an increase of \$296.1 million. The majority of this increase is attributable to increased sales in 2000 as compared to 1999. Gross profit margin was 32.0% for the year ended December 31, 2000 and 31.5% for the year ended December 31, 1999. The gross profit margins of the Company's traditional businesses increased 0.2% for the twelve months of 2000 compared to the twelve months of 1999.

#### Selling, General and Administrative Expense

Selling, general and administrative expenses were \$881.8 million for the year ended December 31, 2000, an increase of \$293.4 million, or 49.9%, from \$588.4 million for the year ended December 31, 1999. Selling, general and administrative expenses represented 27.1% and 24.9% of total revenues for the twelve months of 2000 and 1999, respectively. Of the \$293.4 million increase, \$272.9 million, or 93%, was related to increased infrastructure associated with acquisitions. The majority of the remaining \$20.5 million increase was due to fees for an asset securitization program implemented in June of 2000, charges taken to close two operations in Latin America and increased expenses associated with North American retail.

## Interest Expense, Net

Interest expense, net, for the year ended December 31, 2000, increased to \$56.2 million from \$33.1 million for the year ended December 31, 1999. The increase in interest expense is attributable to the increased use of credit lines and short-term borrowings to fund acquisitions.

## Other

Other expense (income) was \$1.8 million for the year ended December 31, 2000 and \$(0.3) million for the year ended December 31, 1999. Other expense is primarily comprised of currency exchange gains or losses, which relate principally to the Company's operations in Canada, Australia and Europe.

## Provision for Income Taxes

The provision for income taxes was \$41.9 million for the year ended December 31, 2000 and \$50.1 million for the year ended December 31, 1999. The effective tax rate of 41.5% and 40.6% for the years ended December 31, 2000 and 1999, respectively, differs from the statutory federal rate of 35.0% principally due to state and local taxes, non-deductible goodwill expenses and foreign operating losses for which no tax benefits have been recognized.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

## Net Sales

Net sales increased \$539.9 million, or 29.6%, to \$2,361.7 million for the year ended December 31, 1999 from \$1,821.8 million for the year ended December 31, 1998.

Net sales related to the North American residential segment were \$1,174.2 million for the year ended December 31, 1999, an increase of \$168.7 million, or 16.8%, from \$1,005.5 million for the year ended December 31, 1998. Of the \$168.7 million increase, \$110.7 million was due to sales from the hearth products acquisitions, acquired heating and air conditioning distributors and the acquisition of Ducane's HVAC product lines. Excluding acquisitions, there was an increase of \$58.0 million in North American residential net sales, primarily due to a 2.9% increase in sales of Lennox' existing business, almost all of which resulted from increased sales volumes, principally caused by two factors. First, the hot summer in 1998 depleted the inventory levels at Lennox' customers causing these customers to increase their purchases in the first quarter of 1999 to refill their inventories. Second, Lennox' volume increased as a result of sales to new dealers, which were added as a result of programs to expand Lennox' dealer base.

Sales in the North American retail segment were \$218.1 million for the year ended December 31, 1999, an increase of \$208.3 million over the \$9.8 million for the year ended December 31, 1998. The increase was solely a result of acquisitions.

Commercial air conditioning net sales increased \$60.7 million, or 15.5%, to \$452.8 million for the year ended December 31, 1999 compared to the year ended December 31, 1998. Of this increase, \$29.8 million was due to increased sales volumes in North America primarily due to the effectiveness of commercial sales districts and \$30.9 million was due to increased international sales, \$6.5 million of which was due to acquisitions. Net sales related to the commercial refrigeration segment were \$327.3 million for the year ended December 31, 1999, an increase of \$90.0 million, or 37.9%, from \$237.3 million for the year ended December 31, 1998. Of this increase, \$86.8 million was due to the international acquisitions of Heatcraft do Brasil, the Lovelock Luke Pty. Ltd. business and James N. Kirby Pty. Ltd. North American commercial refrigeration sales increased \$8.0 million primarily due to strong sales to Lennox' supermarket customers and increased activity with Lennox' large distributors. Heat transfer revenues increased \$41.3 million, or 23.1%, to \$220.0 million for the year ended December 31, 1999 compared to the year ended December 31, 1998. Of this increase, \$7.3 million was due to increased sales volumes in Lennox' existing North American business and

\$37.7 million was due to the acquisitions of James N. Kirby Pty. Ltd. and Livernois Engineering Holding Company.

#### Gross Profit

Gross profit was \$744.3 million for the year ended December 31, 1999 compared to \$576.2 million for the year ended December 31, 1998, an increase of \$168.1 million, or 29.2%. Gross profit margin was 31.5% for the year ended December 31, 1999 and 31.6% for the year ended December 31, 1998. The increase of \$168.1 million in gross profit was primarily attributable to increased sales in 1999 as compared to 1998. The gross profit margins of Lennox' traditional businesses increased 0.7% for the twelve months ended December 31, 1999 compared to the twelve months ended December 31, 1998.

#### Selling, General and Administrative Expense

Selling, general and administrative expenses were \$588.4 million for the year ended December 31, 1999, an increase of \$118.8 million, or 25.3%, from \$469.6 million for the year ended December 31, 1998. Selling, general and administrative expenses represented 24.9% and 25.7% of total revenues for the twelve months ended December 31, 1999 and 1998, respectively. Of the \$118.8 million increase, \$99.5 million, or 83.8%, was related to increased infrastructure associated with acquisitions. The majority of the remaining \$19.3 million increase was due to increases in selling, general and administrative expenses for the North American residential segment which was primarily comprised of increases in costs due to additions of personnel, increased information technology costs and increased sales and marketing expenses.

#### Interest Expense, Net

Interest expense, net, for the year ended December 31, 1999 increased to \$33.1 million from \$16.2 million for the year ended December 31, 1998. The increase in interest expense is attributable to the increased use of credit lines and short-term borrowings to fund acquisitions, to make payments related to the Pulse inspection program and for increased working capital relating to increased sales.

#### Other

Other expense (income) was \$(0.3) million for the year ended December 31, 1999 and \$1.6 million for the year ended December 31, 1998. Other expense is primarily comprised of currency exchange gains or losses. The majority of the reduction in other expense was due to the strengthening of the Canadian dollar.

#### Minority Interest

Minority interest in subsidiaries' net losses of \$(0.1) million for the year ended December 31, 1999 and \$(0.9) million for the year ended December 31, 1998 represents the minority interest in Ets. Brancher, Heatcraft do Brasil and Kirby joint ventures.

#### Provision for Income Taxes

The provision for income taxes was \$50.1 million for the year ended December 31, 1999 and \$37.2 million for the year ended December 31, 1998. The effective tax rate of 40.6% and 41.4% for the years ended December 31, 1999 and 1998, respectively, differs from the statutory federal rate of 35.0% principally due to state and local taxes, non-deductible goodwill expenses and foreign operating losses for which no tax benefits have been recognized.

#### Liquidity and Capital Resources

As a result of Lennox' domestic and international growth in 2000, capital requirements have related principally to acquisitions, the expansion of its production capacity and increased working capital needs that have accompanied sales growth.

Net cash provided by operating activities totaled \$245.1 million, \$70.6 million and \$5.0 million for 2000, 1999 and 1998, respectively. The increase in cash from operating activities from 1999 to 2000 is primarily due to the sale of \$130 million of accounts receivable, increased cash income and an increase in accounts payable. The increase in cash from operating activities from 1998 to 1999 is due primarily to increased cash income, reduced inventory levels and lower tax payments. Net cash used in investing activities totaled \$302.9 million, \$407.4 million and \$212.4 million for 2000, 1999 and 1998, respectively. Spending for capital improvements decreased \$18.4 million in 2000 versus 1999 and increased \$24.3 million in 1999 over 1998. Investments in acquired businesses accounted for a decrease in investment spending of \$86.4 million in 2000 versus 1999 and an increase of \$173.7 million for 1999 over 1998. Net cash provided by financing activities was \$70.4 million, \$338.7 million and \$89.5 million for 2000, 1999 and 1998, respectively. Cash for financing activities was provided by increasing debt \$111.2 million in 2000 and \$223.5 million in 1999. A public offering of stock, along with the exercise of stock options, generated \$141.9 million of cash in 1999.

Lennox' capital expenditures were \$58.3 million, \$76.7 million and \$52.4 million for 2000, 1999 and 1998, respectively. Capital expenditures in 2000 related primarily to production equipment and retail facility expansion. These capital expenditures were financed using cash flow from operations and available borrowings under Lennox' revolving credit facility.

Acquisitions in 2000 were primarily related to the expansion of the retail initiative begun in 1998. The Company spent approximately \$242 million in cash and issued \$147 million of common stock in 2000 towards this retail expansion, bringing the total to date to approximately \$630 million. No further acquisitions are planned as of the date of this report.

In June 1999, Lennox acquired James N. Kirby Pty. Ltd., a refrigeration and heat transfer manufacturer in Australia. The purchase price included 577,500 shares of the Company's common stock with the understanding that if the stock does not trade at a price greater than \$29.09 per share for five consecutive days from the period from June 2000 to June 2001, then Lennox is obligated to pay the former owners the difference between the trading price for the last five days of this period and \$29.09 for each share.

At December 31, 2000, Lennox had long-term debt obligations outstanding totaling \$659.0 million. This long-term debt consists primarily of six issues of notes with an aggregate principal amount of \$243.9 million, interest rates ranging from 6.56% to 8.0% and maturities ranging from 2001 to 2008, and amounts aggregating \$341.7 million borrowed under two \$300.0 million revolving credit agreements. The notes and revolving credit agreements contain restrictive covenants, including financial maintenance covenants and covenants that place limitations on Lennox' ability to incur additional indebtedness, encumber its assets, sell its assets or pay dividends. Upon a change of control, Lennox must make an offer to repurchase the notes at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest. Lennox' debt service requirement (including principal and interest payments) for its currently outstanding long-term debt is approximately \$79 million for 2001. As of December 31, 2000, Lennox had approximate minimum commitments on all non-cancelable operating leases of \$61.0 million and \$35.8 million in 2001 and 2002, respectively.

Lennox' Board of Directors has authorized the purchase of up to 5,000,000 of its common shares. Through December 2000, 3,587,300 shares have been repurchased at a total cost of \$37.7 million. As of March 2001, there were no commitments outstanding to purchase the remaining 1,412,700 shares.

Lennox believes that its cash flow from operations and its credit facilities will be adequate to fund its ongoing operations.

## Market Risk

Lennox' results of operations can be affected by changes in exchange rates. Net sales and expenses in currencies other than the United States dollar are translated into United States dollars for financial reporting purposes based on the average exchange rate for the period. During 2000, 1999 and 1998, net sales from outside the United States represented 21.2%, 26.7% and 19.2%, respectively, of total net sales. Historically, foreign currency transaction gains (losses) have not had a material effect on Lennox' overall operations.

The Company from time to time enters into foreign exchange contracts to hedge receivables or payables denominated in foreign currencies. These contracts do not subject the Company to risk from exchange rate movements because the gains or losses on the contracts offset losses or gains, respectively, on the items being hedged. As of December 31, 2000, the Company had obligations to deliver \$9.0 million of various currencies over the next six months and to take possession of \$20.0 million of various currencies over the next 18 months. The fair value of the various contracts was insignificant as of December 31, 2000 and a net asset of \$1.3 million as of December 31, 1999.

The Company enters into commodity futures contracts to stabilize prices to be paid for raw materials and parts containing high copper and aluminum content. These contracts are for quantities equal to, or less than, quantities expected to be consumed in future production. As of December 31, 2000, the Company was committed for 33.5 million pounds of aluminum and 44.1 million pounds of copper under such arrangements. The fair value of these commodity contracts was an asset of \$0.3 million at December 31, 2000 and an asset of \$3.0 million at December 31, 1999.

The Company has contracts with various suppliers to purchase raw materials with high aluminum content at fixed prices over the next 12 months, thereby stabilizing costs for these products. As of December 31, 2000, 10.2 million pounds of such aluminum content was so committed. The fair value of these commitments was insignificant at December 31, 2000 and December 31, 1999.

## Inflation

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

## Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including certain derivatives embedded in other contracts (collectively referred to as derivatives) and for hedging activities. This statement, for Lennox, is effective with the first quarter of 2001. Lennox does not believe that the adoption of this pronouncement will have a significant impact on its financial statements.

The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements," in December 1999. This bulletin, for the Company, was effective with the fourth quarter of 2000. The SAB summarizes the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company's revenue recognition policies are consistent with SAB 101.

## ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is included under Item 7 above.



## ITEM 8. Financial Statements and Supplementary Data

### Report of Management

The Company's management is responsible for the preparation and accuracy of the financial statements. Management believes that the financial statements for the three years ended December 31, 2000, have been prepared in conformity with generally accepted accounting principles and set forth a fair presentation of the financial condition and results of operations.

In meeting its responsibility for the reliability of the financial statements, management relies on a system of internal accounting controls. Management believes that the accounting systems and related controls that it maintains are sufficient to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets. These systems and controls are tested and evaluated regularly by the Company's internal auditors.

The Audit Committee of the Board of Directors, which is composed solely of Directors who are independent of the Company, is responsible for monitoring the Company's accounting and reporting practices. The Audit Committee meets periodically with the Company's management, the internal auditors and the independent accountants and monitors the accounting affairs of the Company. The independent accountants have free access to the Audit Committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters.

The independent public accountants are engaged to express an opinion on the Company's consolidated financial statements. They have developed an overall understanding of our accounting and financial controls and have conducted other tests as they consider necessary to support their opinion on the financial statements. The opinion of the independent public accountants is based on procedures which they believe to be sufficient to provide reasonable assurance that the financial statements contain no material errors.

### Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Lennox International Inc. (a Delaware corporation) and Subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lennox International Inc. and Subsidiaries as of December 31, 2000 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Dallas, Texas,  
February 13, 2001

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2000 and 1999  
(In thousands, except share data)

ASSETS	As of December 31,	
	2000	1999
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 40,633	\$ 29,174
Accounts and notes receivable, net.....	399,136	443,107
Inventories.....	359,531	345,424
Deferred income taxes.....	47,063	25,367
Other assets.....	54,847	44,526
Total current assets.....	901,210	887,598
PROPERTY, PLANT AND EQUIPMENT, net.....	354,172	329,966
GOODWILL, net.....	739,468	394,252
OTHER ASSETS.....	60,181	71,857
TOTAL ASSETS.....	\$2,055,031	\$1,683,673
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term debt.....	\$ 31,467	\$ 22,219
Current maturities of long-term debt.....	31,450	34,554
Accounts payable.....	260,208	196,143
Accrued expenses.....	242,347	200,221
Income taxes payable.....	24,448	9,859
Total current liabilities.....	589,920	462,996
LONG-TERM DEBT.....	627,550	520,276
DEFERRED INCOME TAXES.....	941	928
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS.....	14,284	15,125
OTHER LIABILITIES.....	77,221	72,377
Total liabilities.....	1,309,916	1,071,702
MINORITY INTEREST.....	2,058	14,075
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value, 25,000,000 shares authorized, no shares issued or outstanding.....	--	--
Common stock, \$.01 par value, 200,000,000 shares authorized, 60,368,599 shares and 46,161,607 shares issued for 2000 and 1999, respectively.....	\$ 604	\$ 462
Additional paid-in capital.....	372,690	215,523
Retained earnings.....	447,377	409,851
Accumulated other comprehensive loss.....	(37,074)	(12,706)
Deferred compensation.....	(6,457)	(2,848)
Treasury stock, at cost, 3,332,784 shares and 1,172,200 shares for 2000 and 1999, respectively....	(34,083)	(12,386)
Total stockholders' equity.....	743,057	597,896
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$2,055,031	\$1,683,673

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2000, 1999 and 1998  
(In thousands, except per share data)

	For the Years Ended December 31,		
	2000	1999	1998
NET SALES.....	\$3,247,357	\$2,361,667	\$1,821,836
COST OF GOODS SOLD.....	2,206,968	1,617,332	1,245,623
Gross profit.....	1,040,389	744,335	576,213
SELLING, GENERAL AND ADMINISTRATIVE EXPENSE.....	881,778	588,388	469,610
Income from operations.....	158,611	155,947	106,603
INTEREST EXPENSE, net.....	56,193	33,096	16,184
OTHER.....	1,842	(287)	1,602
MINORITY INTEREST.....	(374)	(100)	(869)
Income before income taxes.....	100,950	123,238	89,686
PROVISION FOR INCOME TAXES.....	41,892	50,084	37,161
Net income.....	\$ 59,058	\$ 73,154	\$ 52,525
EARNINGS PER SHARE:			
Basic.....	\$ 1.06	\$ 1.85	\$ 1.50
Diluted.....	\$ 1.05	\$ 1.81	\$ 1.47

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



income.....	--	--	--	--	--	--	--	--	\$ 34,690
	-----	-----	-----	-----	-----	-----	-----	-----	=====
BALANCE AT DECEMBER 31, 2000.....	60,369	\$604	\$372,690	\$447,377	\$(37,074)	\$(6,457)	\$(34,083)	\$743,057	
	=====	=====	=====	=====	=====	=====	=====	=====	

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2000, 1999 and 1998  
(In thousands)

	For the Years Ended December 31,		
	2000	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income.....	\$ 59,058	\$ 73,154	\$ 52,525
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest.....	(374)	(100)	(869)
Joint venture losses.....	1,346	3,046	3,111
Depreciation and amortization.....	84,409	57,442	43,545
Loss on disposal of equipment.....	1,290	675	570
Other.....	(1,066)	283	(130)
Changes in assets and liabilities, net of effects of acquisitions and dispositions:			
Accounts and notes receivable.....	93,347	(19,579)	(20,567)
Inventories.....	(3,324)	(9,289)	(52,445)
Other current assets.....	(1,171)	(6,793)	(4,739)
Accounts payable.....	31,046	(26,499)	29,851
Accrued expenses.....	(13,465)	(17,595)	(17,040)
Deferred income taxes.....	(21,030)	4,535	26,424
Income taxes payable and receivable.....	23,284	18,263	(18,610)
Long-term warranty, deferred income and other liabilities.....	(8,257)	(6,966)	(36,662)
Net cash provided by operating activities..	245,093	70,577	4,964
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from the disposal of property, plant and equipment.....	3,828	944	538
Purchases of property, plant and equipment...	(58,306)	(76,712)	(52,435)
Investments in joint ventures.....	(1,029)	(3,412)	(458)
Acquisitions, net of cash acquired.....	(247,373)	(333,739)	(160,063)
Proceeds from the sale of businesses.....	--	5,490	--
Net cash used in investing activities.....	(302,880)	(407,429)	(212,418)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Short-term borrowings (repayments).....	10,384	(37,722)	36,724
Repayments of long-term debt.....	(42,890)	(58,346)	(12,499)
Long-term borrowings.....	143,671	319,561	75,044
Sales of common stock.....	790	141,895	9,607
Repurchases of common stock.....	(25,316)	(12,538)	(8,510)
Cash dividends paid.....	(16,263)	(14,154)	(10,820)
Net cash provided by financing activities..	70,376	338,696	89,546
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....</b>			
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS.....	12,589	1,844	(117,908)
CASH AND CASH EQUIVALENTS, beginning of year..	29,174	28,389	147,802
CASH AND CASH EQUIVALENTS, end of year.....	\$ 40,633	\$ 29,174	\$ 28,389
<b>Supplementary disclosures of cash flow information:</b>			
Cash paid during the year for:			
Interest.....	\$ 52,675	\$ 33,981	\$ 20,351
Income taxes.....	\$ 44,922	\$ 43,938	\$ 29,347

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2000, 1999 and 1998

1. Nature of Operations:

Lennox International Inc., a Delaware corporation, and subsidiaries (the "Company" or "Lennox"), is a global designer, manufacturer and marketer of a broad range of products for the heating, ventilation, air conditioning and refrigeration ("HVACR") markets. The Company participates in five reportable business segments of the HVACR industry. The first segment is the North American residential market, in which Lennox manufactures and markets a full line of heating, air conditioning and hearth products for the residential replacement and new construction markets in the United States and Canada. The second segment is the North American retail market which includes sales and installation of, and maintenance and repair services for, HVACR equipment by Lennox-owned service centers in the United States and Canada. The third segment is the global commercial air conditioning market, in which Lennox manufactures and sells rooftop products and applied systems for commercial applications. The fourth segment is the global commercial refrigeration market, which consists of unit coolers, condensing units and other commercial refrigeration products. The fifth segment is the heat transfer market, in which Lennox designs, manufactures and sells evaporator and condenser coils, copper tubing and related manufacturing equipment to original equipment manufacturers and other specialty purchasers on a global basis. See Note 3 for financial information regarding the Company's reportable segments.

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

2. Summary of Significant Accounting Policies:

Principles of Consolidation

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

Cash Equivalents

The Company considers all highly liquid temporary investments with original maturity dates of three months or less to be cash equivalents. Cash equivalents consist of investment grade securities and are stated at cost which approximates fair value. The Company earned interest income of \$2.9 million, \$2.6 million and \$4.5 million for the years ended December 31, 2000, 1999 and 1998, respectively, which is included in interest expense, net in the accompanying Consolidated Statements of Income.

Accounts and Notes Receivable

Accounts and notes receivable have been shown net of an allowance for doubtful accounts of \$23.8 million and \$21.2 million as of December 31, 2000 and 1999, respectively. The Company has no significant credit risk concentration among its diversified customer base.

Inventories

Inventory costs include applicable material, labor, depreciation and plant overhead. Inventories of \$181.2 million and \$183.7 million in 2000 and 1999, respectively, are valued at the lower of cost or market using the last-in, first-out (LIFO) cost method. The remaining portion of the inventory is valued at the lower of cost or market with cost being determined either on the first-in, first-out (FIFO) basis or average cost.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

Property, Plant and Equipment

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

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

Goodwill and Other Intangible Assets

Goodwill and other intangible assets have been recorded based on their fair value at the date of acquisition and are being amortized on a straight-line basis over periods generally ranging from thirty to forty years. As of December 31, 2000 and 1999, accumulated amortization was \$60.7 million and \$41.5 million, respectively.

The Company periodically reviews long-lived assets and identifiable intangibles for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In order to assess recoverability, the Company compares the estimated expected future cash flows (undiscounted and without interest charges) identified with each long-lived asset or related asset grouping to the carrying amount of such assets. For purposes of such comparisons, portions of goodwill are attributed to related long-lived assets and identifiable intangible assets based upon relative fair values of such assets at acquisition. If the expected future cash flows do not exceed the carrying value of the asset or assets being reviewed, an impairment loss is recognized based on the excess of the carrying amount of the impaired assets over their fair value. As a result of these periodic reviews, there have been no adjustments to the carrying value of long-lived assets, identifiable intangibles, or goodwill in 2000, 1999 and 1998.

Shipping and Handling

Shipping and handling costs are included as part of Selling, General and Administrative Expense in the accompanying Consolidated Statements of Income in the following amounts (in thousands):

For the Years Ended December 31,		
2000	1999	1998
\$130,084	\$116,169	\$89,250

Product Warranties

A liability for estimated warranty expense is established by a charge against operations at the time products are sold. The subsequent costs incurred for warranty claims serve to reduce the product warranty liability. The Company recorded warranty expense of \$24.0 million, \$21.5 million and \$15.6 million for the years ended December 31, 2000, 1999 and 1998, respectively.

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



LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

Total liabilities for estimated warranty expense are \$62.0 million and \$55.7 million as of December 31, 2000 and 1999, respectively, and are included in the following captions on the accompanying Consolidated Balance Sheets (in thousands):

	December 31,	
	-----	-----
	2000	1999
	-----	-----
Accrued expenses.....	\$23,359	\$17,272
Other liabilities.....	38,624	38,400
	-----	-----
	\$61,983	\$55,672
	=====	=====

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Revenue Recognition

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

Research and Development

Research and development costs are expensed as incurred. The Company expended approximately \$36.5 million, \$39.1 million and \$33.3 million for the years ended December 31, 2000, 1999 and 1998, respectively, for research and product development activities. Research and development costs are included in Selling, General and Administrative Expense on the accompanying Consolidated Statements of Income.

Advertising

Production costs of commercials and programming are charged to operations in the period first aired. The costs of other advertising, promotion and marketing programs are charged to operations in the period incurred. Expense relating to advertising, promotions and marketing programs was \$82.8 million, \$62.3 million and \$50.2 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Translation of Foreign Currencies

All assets and liabilities of foreign subsidiaries and joint ventures are translated into United States dollars using rates of exchange in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates during the respective years. The unrealized translation gains and losses are accumulated in a separate component of stockholders' equity. Transaction gains (losses) included in Other in the accompanying Consolidated Statements of Income were \$(1,842,000), \$287,000 and \$(1,602,000) for the years ended December 31, 2000, 1999 and 1998, respectively.

Foreign Currency Contracts

During 1997, the Company sold forward to May 2003, 165.5 million French francs as a partial hedge of its investment in its European subsidiary. The contracted future sales price of the French francs was \$31.7

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

million. On December 31, 1999, the fair value of the contracts was \$6.3 million. In March 2000, the hedge contracts were redeemed for a net cash settlement of \$4.0 million. The gain, net of tax, resulting from these contracts was recorded as a component of accumulated other comprehensive loss in the accompanying 2000, 1999 and 1998 Consolidated Statements of Stockholders' Equity.

The Company from time to time enters into foreign exchange contracts to hedge receivables or payables denominated in foreign currencies. These contracts do not subject the Company to risk from exchange rate movements because the gains or losses on the contracts offset losses or gains, respectively, on the items being hedged. As of December 31, 2000, the Company had obligations to deliver \$9.0 million of various currencies over the next six months and to take possession of \$20.0 million of various currencies over the next 18 months. The fair value of the various contracts was insignificant as of December 31, 2000 and a net asset of \$1.3 million as of December 31, 1999.

Purchase Commitments

The Company has contracts with various suppliers to purchase raw materials with high aluminum content at fixed prices over the next 12 months. As of December 31, 2000, 10.2 million pounds of such aluminum content was so committed. The fair value of these commitments was insignificant at December 31, 2000 and December 31, 1999.

Commodity Contracts

The Company enters into commodity futures contracts to stabilize prices to be paid for raw materials and parts containing high copper and aluminum content. These contracts are for quantities equal to, or less than, quantities expected to be consumed in future production. As of December 31, 2000, the Company was committed for 33.5 million pounds of aluminum and 44.1 million pounds of copper under such arrangements. The fair value of these commodity contracts was an asset of \$0.3 million at December 31, 2000 and an asset of \$3.0 million at December 31, 1999.

Use of Estimates

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

Reclassifications

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

3. Reportable Business Segments:

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

For the Years Ended December 31,  
-----  
2000                      1999                      1998  
-----

Net Sales			
North American residential.....	\$1,221,847	\$1,174,166	\$1,005,536
North American retail.....	1,053,235	218,093	9,785
Commercial air conditioning.....	469,155	452,803	392,053
Commercial refrigeration.....	358,257	327,266	237,264
Heat transfer(1).....	246,750	219,995	178,772
Eliminations.....	(101,887)	(30,656)	(1,574)
	-----	-----	-----
	\$3,247,357	\$2,361,667	\$1,821,836
	=====	=====	=====
Income (Loss) from Operations			
North American residential.....	\$ 109,053	\$ 128,842	\$ 123,116
North American retail.....	34,011	10,456	590
Commercial air conditioning.....	12,421	10,435	(6,579)
Commercial refrigeration.....	31,102	25,915	20,383
Heat transfer.....	14,971	12,592	12,700
Corporate and other(2).....	(39,673)	(30,241)	(43,327)
Eliminations.....	(3,274)	(2,052)	(280)
	-----	-----	-----
	\$ 158,611	\$ 155,947	\$ 106,603
	=====	=====	=====

As of December 31,  
-----  
2000                      1999  
-----

Total Assets			
North American residential.....	\$ 529,492	\$ 583,269	
North American retail.....	800,719	304,604	
Commercial air conditioning.....	215,656	251,226	
Commercial refrigeration.....	239,783	252,176	
Heat transfer.....	149,813	179,615	
Corporate and other.....	144,547	127,320	
Eliminations.....	(24,979)	(14,537)	
	-----	-----	
	\$2,055,031	\$1,683,673	
	=====	=====	

(1) The heat transfer segment had intersegment sales of \$20,987, \$22,493 and \$32,307 in 2000, 1999 and 1998, respectively.

(2) Includes a \$5,100 charge in 2000 for closing certain Latin American operations.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

	For the Years Ended December 31,		
	2000	1999	1998
Capital Expenditures			
North American residential.....	\$20,467	\$16,313	\$16,033
North American retail.....	9,365	1,507	166
Commercial air conditioning.....	10,984	8,666	7,129
Commercial refrigeration.....	7,299	9,402	7,367
Heat transfer.....	5,224	16,388	12,136
Corporate and other(1).....	4,967	24,436	9,604
	\$58,306	\$76,712	\$52,435
	=====	=====	=====

(1) The increase in corporate and other for 1999 is primarily due to an increase in expenditures related to the implementation of SAP and the construction of headquarters offices.

	For the Years Ended December 31,		
	2000	1999	1998
Depreciation and Amortization			
North American residential.....	\$22,206	\$18,852	\$16,513
North American retail.....	24,017	5,108	306
Commercial air conditioning.....	7,927	7,556	6,364
Commercial refrigeration.....	11,990	11,437	9,382
Heat transfer.....	11,265	9,855	5,914
Corporate and other.....	7,004	4,634	5,066
	\$84,409	\$57,442	\$43,545
	=====	=====	=====

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

	For the Years Ended December 31,		
	2000	1999	1998
Net Sales to External Customers			
United States.....	\$2,559,835	\$1,730,362	\$1,472,342
Canada.....	285,834	250,184	104,954
International.....	401,688	381,121	244,540
Total net sales to external customers.....	\$3,247,357	\$2,361,667	\$1,821,836
	=====	=====	=====

	As of December 31,	
	2000	1999
Long-Lived Assets		
United States.....	\$ 910,630	\$548,963
Canada.....	98,712	98,258
International.....	144,479	148,854
Total long-lived assets.....	\$1,153,821	\$796,075
	=====	=====

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

4. Inventories:

Components of inventories are as follows (in thousands):

	As of December 31,	
	2000	1999
Finished goods.....	\$216,547	\$219,303
Repair parts.....	35,024	36,153
Work in process.....	23,606	20,957
Raw materials.....	132,298	117,209
	407,475	393,622
Reduction for last-in, first-out.....	47,944	48,198
	<u>\$359,531</u>	<u>\$345,424</u>
	=====	=====

5. Property, Plant and Equipment:

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

	As of December 31,	
	2000	1999
Land.....	\$ 26,660	\$ 24,899
Buildings and improvements.....	179,646	171,322
Machinery and equipment.....	586,019	499,018
Total.....	792,325	695,239
Less--accumulated depreciation.....	(438,153)	(365,273)
Property, plant and equipment, net.....	<u>\$ 354,172</u>	<u>\$ 329,966</u>
	=====	=====

6. Acquisitions:

Hearth Companies

During June and July 1998, the Company purchased substantially all of the assets and certain liabilities of Superior Fireplace Co. and all of the outstanding stock of Marco Mfg. Inc. and Pyro Industries Inc. The aggregate purchase price for these acquisitions was \$102.9 million, of which \$99.1 million was in cash and \$3.8 million was in the form of a note payable in 1999. These acquisitions were accounted for in accordance with the purchase method of accounting. Accordingly, the aggregate purchase price was allocated to assets totaling \$131.5 million and to liabilities totaling \$28.6 million of the acquired companies based upon the fair value of those assets and liabilities. As a result, the Company recorded goodwill of approximately \$73.8 million which is being amortized on a straight-line basis over 40 years. The results of operations of the acquired Hearth companies have been fully consolidated with those of the Company since the dates of acquisition and are included in the North American residential segment.

Heatcraft do Brasil

During August 1998, the Company purchased 84% of the outstanding stock of Heatcraft do Brasil, a Brazilian company engaged in the manufacture and sale of refrigeration, automotive air conditioning equipment and heat transfer products. The purchase price of \$20.5 million in cash was allocated to the acquired assets and

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

liabilities based upon the fair value of those assets and liabilities and the excess of \$11.3 million was allocated to goodwill, which is being amortized on a straight-line basis over 40 years. The results of operations of Heatcraft do Brasil have been consolidated with those of the Company since the date of acquisition and are included in the commercial refrigeration segment.

1998 Service Centers

In September 1998, the Company's Lennox Industries Inc. subsidiary undertook a program of acquiring businesses ("the Service Centers") that had been retail outlets for the Company's and other manufacturers' products. In 1998, fourteen of these businesses (the "1998 Service Centers") in Canada were purchased for \$22.9 million in cash. These acquisitions were accounted for in accordance with the purchase method of accounting and accordingly the purchase price was allocated to the fair values of the assets acquired and liabilities assumed, with the excess of \$19.0 million being allocated to goodwill, which is being amortized on a straight-line basis over 40 years. The results of the operations of the 1998 Service Centers have been fully consolidated with those of the Company since the dates of acquisition and are included in the North American retail segment.

The following table presents the unaudited pro forma results as if the Hearth Companies, Heatcraft do Brasil and the 1998 Service Centers had been acquired on January 1, 1998 (in thousands except per share data).

	Year Ended December 31, ----- 1998 -----
Net sales.....	\$1,944,036
Net income.....	47,325
Basic earnings per share.....	1.36
Diluted earnings per share.....	1.32

1999 Service Centers

In 1999, the Company acquired forty-six additional Service Centers in Canada and thirty-three in the United States (the "1999 Service Centers"), bringing the total number acquired to ninety-three. The cost to acquire the 1999 Service Centers was \$218.0 million, \$209.1 million of which was paid in cash and \$8.9 million of which was paid in shares of the Company's stock (802,723 shares).

Under the purchase method of accounting, \$58.1 million was allocated to the fair values of the assets and liabilities acquired and the excess of \$159.9 million was allocated to goodwill, which is being amortized on a straight-line basis over 40 years. The results of operations of the 1999 Service Centers acquired have been fully consolidated with the results of the Company since the various dates of acquisition and are included in the North American retail segment.

Livernois

In May 1999, the Company acquired Livernois Engineering Holding Company, its operating subsidiary and its licensed patents for \$20.5 million. Livernois produces heat transfer manufacturing equipment for the HVACR and automotive industries. The purchase price, consisting of cash of \$13.1 million and \$7.4 million in shares of the Company's common stock (304,953 shares), was allocated, based on fair value, to identifiable assets totaling \$16.0 million and to liabilities totaling \$3.0 million, with \$7.5 million being allocated to goodwill. The goodwill is being amortized on a straight-line basis over 40 years. The acquisition was accounted

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

for in accordance with the purchase method of accounting. The results of the operations of Livernois have been fully consolidated with those of the Company since the date of acquisition and are included in the heat transfer segment.

Kirby

In June 1999, the Company acquired the outstanding stock of James N. Kirby Pty. Ltd. ("Kirby"), an Australian manufacturer and distributor of refrigeration and heat transfer products. The purchase price of \$65.5 million was paid in cash and in shares of the Company's common stock (650,430 shares) in the amounts of \$49.4 million and \$16.1 million, respectively. If Lennox common stock does not trade at a price greater than \$29.09 per share for five consecutive days from the period from June 2000 to June 2001, then Lennox is obligated to pay the former owners of Kirby the difference between the trading price for the last five days of this period and \$29.09 for 577,500 of the shares of Lennox common stock (approximately \$12.2 million as of December 31, 2000). The acquisition was accounted for in accordance with the purchase method of accounting, and accordingly, the purchase price was allocated, based on fair value, to identifiable assets totaling \$83.2 million and to liabilities totaling \$56.7 million, with \$39.0 million being allocated to goodwill, which is being amortized on a straight-line basis over 40 years. In order to finance the cash portion of the purchase price, the Company borrowed approximately \$48.3 million in the form of three promissory notes. The first promissory note of \$16.1 million bore interest at 5.68% and was paid in December 1999 as part of a permanent financing arrangement. The second promissory note of \$11.4 million which bore no interest was paid in December 1999. The third promissory note of \$20.8 million is payable \$11.0 million in 2001 and \$9.8 million in 2002. The stated interest rate on the third promissory note increases from no interest in year one to 4% in year three. Accordingly, the Company recorded a discount on the third promissory note of \$2.3 million, which is being amortized over three years, to record the promissory note at fair value. The goodwill is being amortized on a straight-line basis over 40 years. In conjunction with the acquisition, the Company assumed a \$20.5 million promissory note bearing interest at 5.5% which was paid upon the arranging of permanent financing. The results of the operations of James N. Kirby Pty. Ltd. have been fully consolidated with those of the Company since the date of acquisition and are included in the commercial refrigeration and heat transfer segments.

Excel Comfort Systems Inc.

In October 1999, the Company purchased certain heating and air conditioning manufacturing related assets from The Ducane Company, Inc. and a related company. Certain related liabilities were also assumed. The cash purchase price of \$52.8 million was allocated, in accordance with the purchase method of accounting, to the fair values of the assets (\$40.9 million) and the liabilities (\$8.2 million) with \$20.1 million being allocated to goodwill. This goodwill is being amortized on a straight-line basis over 40 years. The results of operations of the Company include, on a fully consolidated basis, the results of this acquisition, and are included in the North American residential segment.

The following table presents the unaudited pro forma results as if the 1999 Service Centers, Livernois, Kirby and Excel had been acquired on January 1, 1998 (in thousands, except per share data):

	Year Ended December 31,	
	1999	1998
Net sales.....	\$2,718,293	\$2,357,995
Net income.....	83,693	63,606
Basic earnings per share.....	2.06	1.73
Diluted earnings per share.....	2.02	1.70

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

Service Experts Inc.

On January 21, 2000, the Company acquired Service Experts Inc., a holding company owning retail outlets for heating and air conditioning products and services. The acquisition took place in the form of a merger wherein 0.67 of a share of the Company's common stock was exchanged for each share of Service Experts Inc. common stock. The 12.2 million shares so exchanged were valued at approximately \$140.5 million. In addition, transaction costs of approximately \$4.1 million were paid and \$162.7 million of Service Experts Inc. debt was assumed and concurrently repaid, resulting in a total purchase price of \$307.3 million. The acquisition was accounted for under the purchase method of accounting, under which, approximately \$154.6 million was allocated to the fair value of the assets acquired, approximately \$118.8 million was allocated to the fair value of liabilities assumed and \$271.5 million was allocated to goodwill, which is being amortized on a straight-line basis over 40 years. The results of Service Experts Inc. have been fully consolidated with those of the Company since the date of acquisition.

2000 Service Centers

In 2000, the Company acquired ten Service Centers in the United States and three Service Centers in Canada (the "2000 Service Centers") for a total price of approximately \$60.0 million in cash. In addition, approximately \$21.7 million in contingent considerations was paid in 2000 related to Service Centers acquired in 1999. Of this \$21.7 million, \$6.2 million was in the form of 558,835 shares of the Company's common stock. The purchase of the Service Centers in 2000 and the additional payments on the 1999 Service Centers were accounted for under the purchase method of accounting. Based on current estimates, which are subject to revision at later dates, \$85.4 million was allocated to goodwill, which is being amortized on a straight-line basis over 40 years. The results of operations of the 2000 Service Centers have been fully consolidated with those of the Company since the respective dates of acquisition.

Europe

On April 5, 2000, the Company purchased the remaining 30% ownership in Ets. Brancher S.A., the holding company owning the Company's interest in companies in France. The Company paid \$16.4 million for the interest and under the purchase method of accounting recorded an elimination of minority interest of approximately \$12.0 million and additional goodwill of approximately \$4.4 million.

The following table presents the unaudited pro forma results as if Service Experts Inc., the 2000 Service Centers and the remaining ownership of Europe had been acquired January 1, 1999 (in thousands, except per share data):

	Year Ended December 31,	
	2000	1999
Net Sales.....	\$3,296,231	\$2,983,517
Net Income.....	59,975	68,193
Basic earnings per share.....	1.07	1.30
Diluted earnings per share.....	1.07	1.28



LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

7. Long-Term Debt and Lines of Credit:

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

	2000	1999
	-----	-----
Floating rate revolving loans payable in 2004, currently at 7.9%.....	\$341,670	\$258,000
6.73% promissory notes, payable \$11,111 annually, 2001 through 2008.....	88,889	100,000
9.53% promissory notes, retired in 2000.....	--	11,000
7.06% promissory note, payable \$10,000 annually in 2004 and 2005.....	20,000	20,000
6.56% promissory notes, payable in 2005.....	25,000	25,000
6.75% promissory notes, payable in 2008.....	50,000	50,000
11.10% mortgage note, retired in 2000.....	--	6,702
8% promissory note, payable in 2010.....	35,000	--
7.75% promissory note, payable in 2005.....	25,000	--
Promissory notes with options to convert to common stock, payable \$3,451 in 2001 and 2002, \$1,546 in 2003 with interest rates ranging from 5.22% to 5.96%.....	8,448	--
Promissory note, payable \$9,844 in 2001 and \$9,024 in 2002...	18,868	22,000
Long-term debt of European subsidiary with interest rates ranging from 3.6% to 6.5%.....	7,665	11,745
Floating rate term loan, currently at 7.98%, payable \$2,794 in 2001 and 2002.....	5,588	9,840
Floating rate term loan, currently 8.24%, payable \$3,912 in 2003 and \$4,470 in 2004.....	8,382	9,840
Floating rate term loan, currently at 7.98%, payable in 2004.....	10,058	8,738
Floating rate term loan, currently at 8.24% payable in 2004..	11,400	9,903
Floating rate term loan, converted to revolving facility in 2000.....	--	6,560
Capitalized lease obligations and other.....	3,032	5,502
	-----	-----
	659,000	554,830
Less current maturities.....	31,450	34,554
	-----	-----
	\$627,550	\$520,276
	=====	=====

At December 31, 2000 the aggregate amounts of required payments on long-term debt are as follows (in thousands):

2001.....	\$ 31,450
2002.....	29,045
2003.....	17,698
2004.....	389,491
2005.....	72,154
Thereafter.....	119,162
	-----
	\$659,000
	=====

The Company has bank lines of credit aggregating \$678 million, of which \$395 million was outstanding at December 31, 2000 with the remaining \$283 million available for future borrowings, subject to covenant limitations. Included in the lines of credit are two \$300 million domestic facilities governed by revolving credit facility agreements between the Company and syndicates of banks. The facilities contain certain financial covenants and bear interest, at the Company's option, at a rate equal to either (a) the greater of the bank's prime rate or the federal fund's rate plus 0.5% or (b) the London Interbank Offered Rate plus a margin equal to 0.5% to 1.25%, depending upon the ratio of total funded debt to EBITDA. The Company pays a commitment fee equal to 0.10% to 0.30% of the unused commitment, depending upon the ratio of total funded debt to

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

EBITDA. The agreements provide restrictions on the Company's ability to incur additional indebtedness, encumber its assets, sell its assets, or pay dividends.

During the second quarter of 2000, the Company entered into an asset securitization arrangement. Pursuant to the arrangement, \$130.0 million of domestic trade receivables were sold on a non-recourse basis each succeeding month. The accounts receivable that were sold are shown as a reduction of accounts and notes receivable, in the accompanying Consolidated Balance Sheets. The loss on the sale of such receivables of \$5.3 million is included as part of Selling, General and Administrative Expense in the accompanying Consolidated Statements of Income.

8. Income Taxes:

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

	For the Years Ended December 31,		
	2000	1999	1998
Current:			
Federal.....	\$34,044	\$36,089	\$15,820
State.....	2,493	1,561	944
Foreign.....	6,660	6,918	(6,027)
Total current.....	43,197	44,568	10,737
Deferred:			
Federal.....	(3,566)	3,914	30,946
State.....	(201)	330	2,237
Foreign.....	2,462	1,272	(6,759)
Total deferred.....	(1,305)	5,516	26,424
Total income tax provision.....	\$41,892	\$50,084	\$37,161

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

	2000	1999	1998
Provision at the U.S. statutory rate of 35%.....	\$35,332	\$43,133	\$31,390
Increase (reduction) in tax expense resulting from:			
State income tax, net of federal income tax benefit.....	1,485	1,232	705
Foreign losses not providing a current benefit..	4,954	2,282	3,572
Goodwill and other permanent items.....	3,243	2,292	1,261
Foreign taxes at rates other than 35% and miscellaneous other.....	(3,122)	1,145	233
Total income tax provision.....	\$41,892	\$50,084	\$37,161

Deferred income taxes reflect the tax consequences on future years of temporary differences between the tax basis of assets and liabilities and their financial reporting basis and are reflected as current or noncurrent depending on the timing of the expected realization. The deferred tax provision (benefit) for the periods shown represents the effect of changes in the amounts of temporary differences during those periods.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

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

	2000	1999
	-----	-----
Gross deferred tax assets:		
Warranties.....	\$ 23,288	\$ 18,997
Foreign NOLs.....	22,328	17,767
Postretirement and pension benefits.....	3,736	6,478
Inventory reserves.....	9,905	10,549
Receivable allowance.....	6,812	6,122
Compensation reserves.....	16,809	5,601
Deferred income.....	7,547	1,505
Other.....	10,980	4,890
	-----	-----
Total deferred tax assets.....	101,405	71,909
Valuation allowance.....	(18,490)	(17,767)
	-----	-----
Net deferred tax assets.....	82,915	54,142
	-----	-----
Gross deferred tax liabilities:		
Depreciation.....	(21,425)	(14,440)
Intangibles.....	(5,143)	(2,327)
Other.....	(6,924)	( 8,398)
	-----	-----
Total deferred tax liabilities.....	(33,492)	(25,165)
	-----	-----
Net deferred tax asset.....	\$ 49,423	\$ 28,977
	=====	=====

The Company has net operating loss carryforwards, mainly in Europe, which expire at various dates in the future. The deferred tax asset valuation allowance relates primarily to the operating loss carryforwards in Europe. The net change in the deferred tax asset valuation reserve for the year ended December 31, 2000 was an increase of \$723. The increase is primarily the result of increased foreign losses.

No provision has been made for income taxes which may become payable upon distribution of the foreign subsidiaries' earnings since management considers substantially all of these earnings permanently invested. As of December 31, 2000, the unrecorded deferred tax liability related to the undistributed earnings of the Company's foreign subsidiaries was insignificant.

9. Current Accrued Expenses:

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

	December 31,	
	2000	1999
	-----	-----
Accrued wages.....	\$ 65,209	\$ 63,034
Accrued warranties.....	23,359	17,272
Other.....	153,779	119,915
	-----	-----
Total current accrued expenses.....	\$242,347	\$200,221
	=====	=====

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

10. Employee Benefit Plans:

Profit Sharing Plans

The Company maintains noncontributory profit sharing plans for its eligible domestic salaried employees. These plans are discretionary as the Company's contributions are determined annually by the Board of Directors. Provisions for contributions to the plans amounted to \$7.2 million, \$15.0 million and \$13.6 million in 2000, 1999 and 1998, respectively.

Employee Benefits Trust

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

Employee Stock Purchase Plan

The Company has an employee stock purchase plan for which 825,000 shares of common stock have been reserved. The shares are offered for sale to employees only, through payroll deductions, at prices equal to 85% of the lesser of the fair market value of the Company's common stock on the first day of the offering period or the last day of the offering period. Under the plan, participating employees purchased 653,619 and 155,667 shares in 2000 and 1999, respectively.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

Pension and Postretirement Benefit Plans

The Company has domestic and foreign pension plans covering substantially all employees. The Company makes annual contributions to the plans equal to or greater than the statutory required minimum. The Company also maintains an unfunded postretirement benefit plan which provides certain medical and life insurance benefits to eligible employees. The pension plans are accounted for under provisions of SFAS No. 87, "Employers' Accounting for Pensions." The postretirement benefit plan is accounted for under the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." The following table sets forth amounts recognized in the Company's financial statements and the plans' funded status (in thousands):

	Pension Benefits		Other Benefits	
	2000	1999	2000	1999
Changes in benefit obligation:				
Benefit obligation at beginning of year.....	\$140,520	\$134,821	\$ 17,377	\$ 16,298
Service cost.....	4,339	4,446	593	556
Interest cost.....	10,238	9,596	1,125	1,125
Plan participants' contributions....	128	133	1,579	1,469
Amendments.....	1,025	2,279	--	1,412
Actuarial (gain)/loss.....	3,497	(1,849)	642	(424)
Exchange rate changes.....	--	--	--	--
Benefits paid.....	(9,095)	(8,906)	(3,810)	(3,059)
Benefit obligation at end of year...	150,652	140,520	17,506	17,377
Changes in plan assets:				
Fair value of plan assets at beginning of year.....	163,987	144,869	--	--
Actual return on plan assets.....	(4,073)	22,561	--	--
Employer contribution.....	4,488	3,285	2,231	1,590
Plan participants' contributions....	128	133	1,579	1,469
Actuarial (loss)/gain.....	(690)	1,359	--	--
Benefits paid.....	(8,354)	(8,220)	(3,810)	(3,059)
Fair value of plan assets at end of year.....	155,486	163,987	--	--
Funded status.....	4,834	23,467	(17,506)	(17,377)
Unrecognized actuarial (gain)/loss..	(6,216)	(28,362)	454	(431)
Unrecognized prior service cost....	9,268	8,897	1,323	1,238
Unrecognized net obligation.....	500	556	--	--
Net amount recognized.....	\$ 8,386	\$ 4,558	\$(15,729)	\$(16,570)
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid benefit cost.....	\$ 20,783	\$ 16,442	\$ --	\$ --
Accrued benefit liability.....	(18,056)	(13,813)	(15,729)	(16,570)
Intangible assets.....	2,501	281	--	--
Accumulated other comprehensive loss.....	3,158	1,648	--	--
Net amount recognized.....	\$ 8,386	\$ 4,558	\$(15,729)	\$(16,570)
Weighted average assumptions as of December 31:				
Discount rate.....	7.75%	7.75%	7.75%	7.75%
Expected return on plan assets.....	9.50	9.50	--	--
Rate of compensation increase.....	4.00	4.00	--	--

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

For measurement purposes, a 7.1% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 5.0% by 2003 and remain at that level thereafter.

	Pension Benefits			Other Benefits		
	2000	1999	1998	2000	1999	1998
(in thousands)						
Components of net periodic benefit cost:						
Service cost.....	\$ 4,339	\$ 4,446	\$ 3,875	\$ 593	\$ 556	\$ 494
Interest cost.....	10,238	9,596	9,128	1,125	1,125	1,128
Expected return on plan assets.....	(13,819)	(12,344)	(10,931)	--	--	--
Amortization of prior service cost.....	649	730	880	(173)	(173)	(173)
Recognized actuarial (gain)/loss.....	(199)	100	--	(155)	(1,304)	(1,297)
Recognized transition obligation.....	129	106	--	--	--	--
Net periodic benefit cost.....	\$ 1,337	\$ 2,634	\$ 2,952	\$1,390	\$ 204	\$ 152

The benefit obligation and fair value of plan assets for the pension plans with benefit obligations in excess of plan assets were approximately \$33,777,000 and \$12,863,000, respectively, as of December 31, 2000, and \$22,835,000 and \$8,332,000, respectively, as of December 31, 1999.

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

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components.....	\$ 247	\$ (214)
Effect on the post-retirement benefit obligation.....	2,011	(1,811)

11. Stock-Based Compensation Plans:

Stock Option and Restricted Stock Plan

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

	Years Ended December 31,			
	2000	1999	1998	
Net income:	As reported	\$59,058	\$73,154	\$52,525
	Pro forma	56,252	71,864	52,525
Basic earnings per share:	As reported	\$ 1.06	\$ 1.85	\$ 1.50
	Pro forma	1.01	1.81	1.50
Diluted earnings per share:	As reported	\$ 1.05	\$ 1.81	\$ 1.47
	Pro forma	1.00	1.77	1.47

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

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

Under the 1998 Incentive Plan, the Company is authorized to issue options for 11,154,706 shares of common stock. As of December 31, 2000, options for 11,370,094 shares of common stock have been granted and options for 982,977 shares have been cancelled or repurchased. Consequently, as of December 31, 2000, there are options for 767,589 shares available for grant. Under the 1998 Incentive Plan, the option exercise price equals the stock's fair value on the date of grant. The 1998 Incentive Plan options granted prior to 1998 vest on the date of grant. The 1998 Incentive Plan options granted in 2000, 1999 and 1998 vest over three years. The 1998 Incentive Plan options issued prior to December 2000 expire after ten years, with options issued in December 2000 expiring after seven years.

The Company has, in connection with the acquisition of Service Experts Inc., assumed 416,059 outstanding stock options which are outstanding and fully vested.

A summary of option activity follows (in thousands, except per share data):

	Years Ended December 31,					
	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year.....	5,553	\$12.47	3,798	\$12.92	3,822	\$10.13
Granted.....	2,356	8.22	1,915	11.27	1,071	18.87
Exercised.....	(101)	7.84	(157)	8.40	(1,048)	9.04
Forfeited.....	(156)	14.42	(3)	19.03	(47)	8.64
Additional shares reserved.....	416	26.35	--	--	--	--
Outstanding at end of year.....	8,068	\$11.97	5,553	\$12.47	3,798	\$12.92
Exercisable at end of year.....	4,216	\$13.78	2,952	\$11.77	2,737	\$12.92
Fair value of options granted.....		\$ 1.21		\$ 3.83		\$ 5.83

The following table summarizes information about stock options outstanding at December 31, 2000 (in thousands, except per share data):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price per Share	Number Exercisable	Weighted Average Exercise Price per Share
\$7.28-\$7.88.....	1,306	5	\$ 7.51	1,111	\$ 7.45
\$8.19.....	2,133	7	8.19	--	--
\$9.50-\$11.56.....	1,802	9	11.15	612	11.15
\$13.21-\$19.77.....	2,632	7	16.02	2,298	15.65
\$24.91-\$49.63.....	195	7	36.08	195	36.08
Total.....	8,068	7	\$11.97	4,216	\$13.78

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31,		
	2000	1999	1998
Expected dividend yield.....	4.0%	4.0%	2.0%
Risk-free interest rate.....	5.35%	6.5%	6.0%
Expected volatility.....	46.6%	19.0%	--
Expected life (in years).....	7	10	10

Long-Term Incentive Plan

Prior to 1999, the Company provided a long-term incentive plan, the Lennox International Inc. Performance Share Plan (the "Performance Plan") to certain employees. During 1998, the Company terminated the Performance Plan. Under the Performance Plan, participants earned shares of the Company's common stock in accordance with a discretionary formula established by the Board of Directors based on the Company's performance over a three-year period. The value of the shares earned was determined using an independent appraisal. During 1998, 358,974 shares were earned and issued in the same year. Compensation expense recognized under the Performance Plan was \$6,876,335 for the year ended December 31, 1998, based on the fair value of the shares earned.

During 1999, the Company established a new performance share plan (the "New Performance Share Plan"). Under the New Performance Share Plan, performance shares are awarded (the "Fixed Performance Awards") to certain employees at the discretion of the Board of Directors as of the beginning of each fiscal year. After ten years of employment (the "Vesting Period"), the Fixed Performance Awards are converted to an equal number of shares of the Company's common stock. If certain pre-defined performance measures are met by the Company over a three-year period, the Vesting Period is accelerated from ten years to three years for 25% to 100% of the Fixed Performance Awards granted, depending on the Company's performance. Compensation expense is measured based on the market price of the stock at date of grant and is recognized on a straight-line basis over the performance period. The weighted average grant-date fair values for Fixed Performance Awards granted in 2000 were \$8.52, and in 1999 were \$18.75 per share. The 60,368,599 shares of common stock issued as of December 31, 2000, include 1,367,245 shares which represent Fixed Performance Awards that have not yet vested and 159,115 shares which represent Fixed Performance Awards which have vested but have not been converted to shares of the Company's common stock.

Under the New Performance Share Plan, plan participants may also earn additional shares of the Company's common stock (the "Variable Performance Awards"). The number of additional shares can range from 0% to 100% of the Fixed Performance Awards granted, depending on the Company's performance over a three-year period. There are no additional vesting requirements once the Variable Performance Awards have been earned. Compensation expense is measured by applying the market price of the Company's stock at the end of the period to the number of Variable Performance Awards that are expected to be earned. Such expense is recognized over the performance period. As of December 31, 2000, no Variable Performance Awards were expected to be earned in future periods.



LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

12. Commitments and Contingencies:

Operating Leases

The Company has various leases relating principally to the use of operating facilities. Rent expense for 2000, 1999 and 1998 was approximately \$67.3 million, \$38.4 million and \$28.2 million, respectively.

The approximate minimum commitments under all noncancelable leases at December 31, 2000, are as follows (in thousands):

2001.....	\$ 60,989
2002.....	35,779
2003.....	30,159
2004.....	24,145
2005.....	15,422
Thereafter.....	81,108
	-----
	\$247,602
	=====

Litigation

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

13. Earnings Per Share:

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

	Years Ended December 31,		
	2000	1999	1998
	-----	-----	-----
Net income.....	\$59,058	\$73,154	\$52,525
	=====	=====	=====
Weighted average shares outstanding.....	55,941	39,615	34,914
Effect of diluted securities attributable to stock options and performance share awards.....	336	904	825
	-----	-----	-----
Weighted average shares outstanding, as adjusted...	56,277	40,519	35,739
	-----	-----	-----
Diluted earnings per share.....	\$ 1.05	\$ 1.81	\$ 1.47
	=====	=====	=====

Options to purchase 5,061,136 shares of common stock at prices ranging from \$7.88 to \$49.63 per share, 1,039,251 shares of common stock at \$19.03 per share and 1,037,850 shares of common stock at \$19.03 per share were outstanding for the years ended December 31, 2000, 1999 and 1998, respectively, but were not included in the diluted earnings per share calculation because the assumed exercise of such options would have been anti-dilutive.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

14. Quarterly Financial Information (unaudited):

Financial Results (in thousands)

	Net Sales		Gross Profit		Net Income	
	2000	1999	2000	1999	2000	1999
First Quarter.....	\$ 716,324	\$ 489,059	\$ 228,763	\$151,578	\$ 5,740	\$ 6,630
Second Quarter....	894,200	591,841	298,332	186,322	32,277	23,571
Third Quarter.....	857,618	669,053	274,005	212,442	12,386	27,284
Fourth Quarter....	779,215	611,714	239,289	193,993	8,655	15,669
Fiscal Year.....	\$3,247,357	\$2,361,667	\$1,040,389	\$744,335	\$59,058	\$73,154

	Basic Earnings per Common Share		Diluted Earnings per Common Share		Dividends per Common Share	
	2000	1999	2000	1999	2000	1999
First Quarter.....	\$ .10	\$ .19	\$ .10	\$ .18	\$ .095	\$ .085
Second Quarter.....	.56	.65	.56	.64	.095	.085
Third Quarter.....	.22	.65	.22	.64	.095	.085
Fourth Quarter.....	.16	.36	.16	.35	.095	.095
Fiscal Year.....	\$ 1.06	\$ 1.85	\$ 1.05	\$ 1.81	\$ 0.38	\$ 0.35

Stock Prices

	Price Range per Common Share			
	2000		1999	
	High	Low	High	Low
First Quarter.....	\$10.63	\$8.69	NA	NA
Second Quarter.....	\$15.13	\$7.88	NA	NA
Third Quarter.....	\$15.00	\$9.00	\$19.88	\$14.50
Fourth Quarter.....	\$ 9.50	\$6.81	\$15.88	\$ 8.88
Fiscal Year.....	\$15.13	\$6.81	\$19.88	\$ 8.88

15. Treasury Stock:

On November 1, 1999, the Company's Board of Directors authorized the purchase of up to 5,000,000 shares of the issued and outstanding common stock. As of December 31, 2000 the Company had purchased 3,587,300 of such shares at a total cost of \$37.7 million. There were no outstanding commitments as of December 31, 2000 to repurchase the remaining 1,412,700 shares. When treasury shares are reissued, any difference between the average acquisition cost of the shares and the proceeds from reissuance is charged or credited to additional paid-in capital.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For the Years Ended December 31, 2000, 1999 and 1998

16. Recent Accounting Pronouncements:

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including certain derivatives embedded in other contracts (collectively referred to as derivatives) and for hedging activities. This statement, for the Company, is effective with the first quarter of 2001. The Company does not believe that the adoption of this pronouncement will have a significant impact on the Company's financial statements.

The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements," in December 1999. This bulletin, for the Company, was effective with the fourth quarter of 2000. The SAB summarizes the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company's revenue recognition policies are consistent with SAB 101.

17. Related Party Transactions:

John W. Norris, Jr., Lennox' Chairman of the Board, David H. Anderson, Richard W. Booth and David V. Brown, each a director of Lennox, as well as other Lennox stockholders, who may be immediate family members of the foregoing persons, are, individually or through trust arrangements, members of AOC Land Investment, L.L.C. AOC Land Investment L.L.C. owns 70% of AOC Development II, L.L.C., which owns substantially all of One Lake Park, L.L.C. Lennox is leasing part of an office building owned by One Lake Park, L.L.C. for use as the Lennox corporate headquarters. The lease has a term of 25 years and the lease payments for 2000 totaled approximately \$2.7 million. Lennox also leases a portion of Lennox Center, a retail complex owned by AOC Development, L.L.C., for use as offices. The Lennox Center lease has a term of three (3) years and the lease payments for 2000 totaled approximately \$119,200. AOC Land Investment, L.L.C. also owns 70% of AOC Development, L.L.C. Lennox believes that the terms of its leases with One Lake Park L.L.C. and AOC Development, L.L.C. are at least as favorable as could be obtained from unaffiliated third parties.

18. Stock Rights:

On July 27, 2000, the Board of Directors of the Company declared a dividend of one right ("Right") for each outstanding share of its common stock to stockholders of record at the close of business on August 7, 2000. Each Right entitles the registered holder to purchase from the Company a unit consisting of one one-hundredth of a share (a "Fractional Share") of Series A Junior Participating Preferred Stock, par value \$.01 per share, at a purchase price of \$75.00 per Fractional Share, subject to adjustment.

19. Fair Value of Financial Instruments:

The carrying amounts of cash and cash equivalents, accounts and notes receivable, net, accounts payable and other current liabilities approximate fair value due to the short maturities of these instruments. The carrying amount of long-term debt approximates fair value due to interest rates that approximate current market rates for instruments of similar size and duration.

ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

Information contained under the captions "Proposal 1: Election of Directors" and "Ownership of Lennox Common Stock" in the Company's definitive Proxy Statement for the Company's Annual Meeting of Stockholders to be held April 27, 2001 (the "Proxy Statement") is incorporated herein by reference in response to this item. See Item 1 above for information concerning executive officers.

ITEM 11. Executive Compensation

Information required by Item 11 is specifically incorporated herein by reference to page 10, pages 12 through 22 and page 25 of the Proxy Statement. Such incorporation by reference shall not be deemed to specifically incorporate by reference the information referenced in Item 402(a)(8) of Regulation S-K and specifically incorporated by reference into any other filings of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

Information contained under the captions "Proposal 1: Election of Directors" and "Ownership of Lennox Common Stock" in the Proxy Statement is incorporated herein by reference in response to this item.

ITEM 13. Certain Relationships and Related Transactions

Information contained under the caption "Certain Relationships and Related Party Transactions" in the Proxy Statement is incorporated herein by reference in response to this item.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Financial Statements, Financial Statement Schedules and Exhibits

(1) The following financial statements of Lennox International Inc. and subsidiaries are included in Part II, Item 8 of this Form 10-K:

Report of Independent Public Accountants  
Consolidated Balance Sheets as of December 31, 2000 and 1999  
Consolidated Statements of Income for the Years ended December 31, 2000, 1999 and 1998  
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2000, 1999 and 1998  
Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998  
Notes to Consolidated Financial Statements for the Years Ended December 31, 2000, 1999 and 1998

(2) The following financial statement schedule for Lennox International Inc. and subsidiaries is included herein:

Report of Independent Public Accountants on Financial Statement Schedule (page 53 of Form 10-K)  
Schedule II -- Valuation and Qualifying Accounts and Reserves (page 54 of Form 10-K)

(3) Exhibits:

The exhibits listed in the accompanying Index to Exhibits on pages 55 through 57 of this Form 10-K are filed or incorporated by reference as part of this Form 10-K.

(b) Reports on Form 8-K:

During the last quarter covered by this report, the Company did not file any reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

/s/ Robert E. Schjerven  
 By: \_\_\_\_\_  
 Robert E. Schjerven  
 Chief Executive Officer

March 27, 2001

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

Signature -----	Title -----	Date -----
/s/ Robert E. Schjerven ----- Robert E. Schjerven	Chief Executive Officer and Director (Principal Executive Officer)	March 27, 2001
/s/ Richard A. Smith ----- Richard A. Smith	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 27, 2001
/s/ John J. Hubbuch ----- John J. Hubbuch	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	March 27, 2001
/s/ John W. Norris, Jr. ----- John W. Norris, Jr.	Chairman of the Board of Directors	March 27, 2001
/s/ Linda G. Alvarado ----- Linda G. Alvarado	Director	March 27, 2001
/s/ David H. Anderson ----- David H. Anderson	Director	March 27, 2001
/s/ Richard W. Booth ----- Richard W. Booth	Director	March 27, 2001
/s/ Thomas W. Booth ----- Thomas W. Booth	Director	March 27, 2001
/s/ David V. Brown ----- David V. Brown	Director	March 27, 2001
/s/ James J. Byrne ----- James J. Byrne	Director	March 27, 2001

Signature

-----

Title

-----

Date

-----

/s/ Janet K. Cooper

Director

March 27, 2001

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Janet K. Cooper

/s/ C.L. (Jerry) Henry

Director

March 27, 2001

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C.L. (Jerry) Henry

/s/ John E. Major

Director

March 27, 2001

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John E. Major

/s/ Donald E. Miller

Director

March 27, 2001

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Donald E. Miller

/s/ Terry D. Stinson

Director

March 27, 2001

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Terry D. Stinson

/s/ William G. Roth

Director

March 27, 2001

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William G. Roth

/s/ Richard L. Thompson

Director

March 27, 2001

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Richard L. Thompson

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS  
ON FINANCIAL STATEMENT SCHEDULE

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

We have audited in accordance with auditing standards generally accepted in the United States the consolidated financial statements of Lennox International Inc. and subsidiaries included in this Annual Report on Form 10-K and have issued our report thereon dated February 13, 2001. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Schedule II, Valuation and Qualifying Accounts and Reserves, is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated statements taken as a whole.

ARTHUR ANDERSEN LLP

Dallas, Texas  
February 13, 2001



LENNOX INTERNATIONAL INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS AND RESERVES  
For the Years Ended December 31, 1998, 1999 and 2000

	Balance at beginning of year	Additions Charged to Cost and expenses	Deductions(1)	Balance at end of year
	-----	-----	-----	-----
1998:				
Allowance for doubtful accounts....	\$16,948	\$6,224	\$(4,647)	\$18,525
1999:				
Allowance for doubtful accounts....	\$18,525	\$6,979	\$(4,329)	\$21,175
2000:				
Allowance for doubtful accounts....	\$21,175	\$5,057	\$(2,422)	\$23,810

- - - - -  
(1) Uncollectible accounts charged off, net of recoveries.

INDEX TO EXHIBITS

Exhibit Number -----	Description -----
3.1	--Restated Certificate of Incorporation of Lennox International Inc. ("Lennox") (incorporated by reference to Exhibit 3.1 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).
3.2	--Amended and Restated Bylaws of Lennox (incorporated by reference to Exhibit 3.2 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).
4.1	--Specimen Stock Certificate for the Common Stock, par value \$.01 per share, of Lennox (incorporated by reference to Exhibit 4.1 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).
4.2	--Rights Agreement dated as of July 27, 2000 between Lennox and ChaseMellon Shareholder Services, L.L.C., as Rights Agent, which includes as Exhibit A the form of Certificate of Designations of Series A Junior Participating Preferred Stock setting forth the terms of the Preferred Stock, as Exhibit B the form of Rights Certificate and as Exhibit C the Summary of Rights to Purchase Preferred Stock (incorporated by reference to Exhibit 4.1 to Lennox' Current Report on Form 8-K dated July 27, 2000).
10.1	--Note Purchase Agreement, dated as of December 1, 1993, between Lennox and identified Noteholders relating to Lennox' 6.73% Senior Promissory Notes due 2008 (incorporated by reference to Exhibit 10.2 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).
10.2	--Note Purchase Agreement, dated as of July 6, 1995, between Lennox and Teachers Insurance and Annuity Association of America relating to Lennox' 7.06% Senior Promissory Note due 2005 (incorporated by reference to Exhibit 10.3 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).
10.3	--Note Purchase Agreement, dated as of April 3, 1998, between Lennox and identified Noteholders relating to Lennox' 6.56% Senior Notes due 2005 and 6.75% Senior Notes due 2008 (incorporated by reference to Exhibit 10.4 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).
10.4	--Note Amendment Agreement, dated as of April 3, 1998, between Lennox and identified Noteholders relating to Lennox' 7.06% Senior Promissory Note due 2005 and 6.73% Senior Promissory Notes due 2008 (incorporated by reference to Exhibit 10.5 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).
10.5	--Note Amendment Agreement, dated as of February 28, 2000, between Lennox and identified Noteholders relating to Lennox' 7.06% Senior Promissory Notes due 2005; 6.73% Senior Promissory Notes due 2008; 6.56% Senior Notes due 2005; and 6.75% Senior Notes due 2008 (incorporated by reference to Exhibit 10.6 to Lennox' Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
10.6	--Note Amendment Agreement, dated as of January 23, 2001, between Lennox and identified Noteholders relating to Lennox' 7.06% Senior Promissory Notes due 2005; 6.73% Senior Promissory Notes due 2008; 6.56% Senior Notes due 2005; and 6.75% Senior Notes due 2008 (filed herewith).
10.7	--Revolving Credit Facility Agreement, dated as of July 29, 1999, among Lennox, The Chase Manhattan Bank, as successor to Chase Bank of Texas, National Association ("Chase"), as administrative agent, Wachovia Bank, N.A., as syndication agent, The Bank of Nova Scotia, as documentation agent, and the other lenders named therein (incorporated by reference to Exhibit 10.25 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).

Exhibit Number -----	Description -----
10.8	--Second Amendment, dated as of January 25, 2000, to the Revolving Credit Facility Agreement dated as of July 29, 1999, among Lennox, Chase, as administrative agent, Wachovia Bank, N.A., as syndication agent, The Bank of Nova Scotia, as documentation agent, and the other lenders named therein (incorporated by reference to Exhibit 10.8 to Lennox' Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
10.9	--Third Amendment, dated as of January 22, 2001, to the Revolving Credit Facility Agreement dated as of July 29, 1999, among Lennox, Chase, as administrative agent, Wachovia Bank, N.A., as syndication agent, The Bank of Nova Scotia, as documentation agent, and the other lenders named therein (filed herewith).
10.10	--364 Day Revolving Credit Facility Agreement, dated as of January 25, 2000, among Lennox, Chase, as administrative agent, Wachovia Bank, N.A., as syndication agent, The Bank of Nova Scotia, as documentation agent, and the other lenders named therein (incorporated by reference to Exhibit 10.9 to Lennox' Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
10.11	--First Amendment, dated as of January 22, 2001, to the 364 Day Revolving Credit Facility Agreement, dated as of January 25, 2000, among Lennox, Chase, as administrative agent, Wachovia Bank, N.A., as syndication agent, The Bank of Nova Scotia, as documentation agent, and the other lenders named therein (filed herewith).
10.12	--Master Shelf Agreement, dated as of October 15, 1999, between Lennox and The Prudential Insurance Company of America relating to Senior Notes to be issued in a maximum principal amount of \$100,000,000 (incorporated by reference to Exhibit 10.1 to Lennox' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999).
10.13	--Letter Amendment No. 1, dated as of February 28, 2000, to Master Shelf Agreement, dated as of October 15, 1999, between Lennox and The Prudential Insurance Company of America (incorporated by reference to Exhibit 10.11 to Lennox' Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
10.14	--Letter Amendment No. 2, dated as of January 23, 2001, to Master Shelf Agreement, dated as of October 15, 1999, between Lennox and The Prudential Insurance Company of America (filed herewith).
10.15	--Receivables Purchase Agreement, dated as of June 19, 2000, among LPAC Corp., Blue Ridge Asset Funding Corporation, Wachovia Bank, N.A., and Lennox Industries Inc. (incorporated by reference to Exhibit 10.1 to Lennox' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000).
10.16	--Purchase and Sale Agreement, dated as of June 19, 2000, among Lennox Industries Inc., Heatcraft Inc. and LPAC Corp. (incorporated by reference to Exhibit 10.2 to Lennox' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000).
10.17*	--1998 Incentive Plan of Lennox International Inc. (incorporated by reference to Exhibit 10.8 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).
10.18*	--Amendment, dated as of December 15, 2000 to 1998 Incentive Plan of Lennox International Inc. (filed herewith).
10.19*	--Lennox International Inc. Profit Sharing Restoration Plan (incorporated by reference to Exhibit 10.9 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).
10.20*	--Lennox International Inc. Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.10 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).

Exhibit Number -----	Description -----
10.21*	--Form of Indemnification Agreement entered into between Lennox and certain executive officers and directors (includes a schedule identifying the various parties to such agreement and the applicable dates of execution) (incorporated by reference to Exhibit 10.15 to Lennox' Registration Statement on Form S-1 (Registration No. 333-75725)).
10.22*	--Form of revised Employment Agreement entered into between Lennox and certain executive officers (incorporated by reference to Exhibit 10.1 to Lennox' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000).
10.23*	--Form of revised Change of Control Employment Agreement entered into between Lennox and certain executive officers (incorporated by reference to Exhibit 10.2 to Lennox' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000).
21.1	--Subsidiaries of Lennox (filed herewith).
23.1	--Consent of Arthur Andersen LLP (filed herewith).

- -----  
\* Management compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 601(b)(10)(iii)(a) of Regulation S-K.

[Execution Copy]

January 23, 2001

The Prudential Insurance Company of North America  
c/o Prudential Capital Group  
2200 Ross Avenue, Suite 4200E  
Dallas, TX 75201  
Attention: Managing Director

U.S. Private Placement Fund  
Prudential Private Placement Investors, Inc.  
Four Gateway Center  
100 Mulberry Street  
Newark, NJ 07102-4069

Teachers Insurance and Annuity  
Association of America  
730 Third Avenue  
New York, New York 10017  
Attention: Securities Division, Private Placements

CIG & Co.  
c/o CIGNA Investments, Inc.  
900 Cottage Grove Road  
Hartford, Connecticut 06152-2307  
Attention: Private Securities Division - S-307

United of Omaha Life Insurance Company  
Mutual of Omaha Insurance Company  
Companion Life Insurance Company  
United World Life Insurance Company  
Mutual of Omaha Plaza  
Omaha, NE 68175  
Attention: Investment Division

First Colony Life Insurance Company  
General Electric Capital Assurance Company  
GE Life and Annuity Assurance Company  
c/o GE Financial Assurance  
Two Union Square  
601 Union Street  
Seattle, WA 98101-2336

RE: LENNOX INTERNATIONAL INC.  
7.06% SENIOR PROMISSORY NOTES DUE 2005; 6.73% SENIOR PROMISSORY NOTES  
DUE 2008; 6.56% SENIOR NOTES DUE 2005; AND 6.75% SENIOR NOTES DUE 2008

Ladies and Gentlemen:

Reference is made to:

(i) nine separate Note Purchase Agreements, dated as of December 1, 1993 (as amended, the "1993 NOTE AGREEMENTS"), between the Company and each of The Prudential Insurance Company of America, Connecticut General Life Insurance Company, Connecticut General Life Insurance Company, on behalf of One or More Separate Accounts, Life Insurance Company of North America, United of Omaha Life Insurance Company, Mutual of Omaha Insurance Company, Companion Life Insurance Company, United World Life Insurance Company, First Colony Life Insurance Company, General Electric Capital Assurance Company (as a successor), and GE Life and Annuity Assurance Company (as a successor) (collectively, and together with their respective successors and assigns, the "1993 HOLDERS");

(ii) the Note Purchase Agreement, dated as of July 6, 1995 (as amended, the "1995 NOTE AGREEMENT"), between the Company and Teachers Insurance and Annuity Association of America (together with its successors and assigns, the "1995 HOLDER");

(iii) eight separate Note Purchase Agreements, dated as of April 3, 1998 (as amended, the "1998 NOTE AGREEMENTS"), between the Company and each of The Prudential Insurance Company of America, U.S. Private Placement Fund, Teachers Insurance and Annuity Association of America, Connecticut General Life Insurance Company, Connecticut General Life Insurance Company, on behalf of One or More Separate Accounts, CIGNA Property and Casualty Insurance Company, United of Omaha Life Insurance Company and Companion Life Insurance Company (collectively, and together with their respective successors and assigns, the "1998 HOLDERS");

(iv) the letter agreement dated July 29, 1999 (the "1999 AMENDMENT AGREEMENT") among the Company and the Holders (as defined below) amending the Note Agreements (as defined below) to add the "Additional Covenants" set forth in Schedule A to the 1999 Amendment;

(v) the Revolving Credit Facility Agreement dated as of July 29, 1999, as amended (the "1999 CREDIT AGREEMENT") entered into among the Company, the lenders listed in Schedule 2.01 thereto (the "1999 LENDERS"), The Chase Manhattan Bank, as administrative agent, Wachovia Bank, N.A., as syndication agent, and The Bank of Nova Scotia, as documentation agent; and

(vi) the 364 Day Revolving Credit Facility Agreement dated as of January 25, 2000, as amended (the "2000 CREDIT AGREEMENT") entered into among the Company, the lenders listed in Schedule 2.01 thereto (the "2000 LENDERS"), The Chase Manhattan Bank, as administrative agent, Wachovia Bank, N.A., as syndication agent, and The Bank of Nova Scotia, as documentation agent.

The 1993 Note Agreements, 1995 Note Agreement and 1998 Note Agreements, as amended, are collectively referred to herein as the "NOTE AGREEMENTS". The 1993 Holders, 1995 Holder and 1998 Holders are collectively referred to herein as the "HOLDERS". The senior notes issued and outstanding under each of the Note Agreements are collectively referred to herein as the "NOTES". Capitalized terms used herein and not otherwise defined herein shall have the respective meanings set forth in the Note Agreements (including Schedule A to the 1999 Amendment Agreement).

The Company has requested the Holders to enter into this letter agreement (this "2001 AMENDMENT AGREEMENT") to evidence amendment of the Note Agreements as set forth herein. Such amendment shall become effective as set forth in Section 3. The Company has furnished to the Holders evidence that the 1999 Lenders and the 2000 Lenders have agreed to the same covenants as stated in Sections 1 and 2 below in amendments to the 1999 Credit Agreement and 2000 Credit Agreement, respectively; provided this 2001 Amendment Agreement becomes effective as provided herein. Therefore, the Holders and the Company hereby agree as follows:

1. AMENDMENT TO ADDITIONAL COVENANTS. Subject to Section 3 hereof, Section 3(b) of Schedule A to the 1999 Amendment Agreement is hereby amended to read in its entirety as follows:

(b) CONSOLIDATED INDEBTEDNESS TO ADJUSTED EBITDA. As of the last day of each fiscal quarter during the periods described below, the Company shall not permit the ratio of Consolidated Indebtedness outstanding as of such day to the Adjusted EBITDA for the four (4) fiscal quarters then ended to exceed: (i) 3.00 to 1.00 at all times other than as described in the following clause (ii); or (ii) 3.25 to 1.00 for all fiscal quarters ending prior to September 30, 2001.

2. AMENDMENT TO DEFINITIONS. Subject to Section 3 hereof, the definition of "Consolidated Net Income" in each of the Note Agreements is hereby amended to read in its entirety as follows:

"CONSOLIDATED NET INCOME" shall mean, for any period, the net income (or net loss) of the Company and its Restricted Subsidiaries for such period, determined in accordance with GAAP, excluding:

(a) the proceeds of any life insurance policy;

(b) any gain arising from (1) the sale or other disposition of any assets (other than current assets) to the extent that the aggregate amount of gains exceeds the aggregate amount of losses from the sale, abandonment or other disposition of assets (other than current assets and other than the losses excluded from Consolidated Net Income under clause (f) below), (2) any write-up of assets, or (3) the acquisition by the Company or any Restricted Subsidiary of its outstanding securities constituting Indebtedness;

(c) any amount representing the interest of the Company or any Restricted Subsidiary in the undistributed earnings of any other Person;

(d) any earnings of any other Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or a Restricted Subsidiary and any earnings, prior to the date of acquisition, of any other Person acquired in any other manner;

(e) any deferred credit (or amortization of a deferred credit) arising from the acquisition of any Person;

(f) any non-recurring loss arising from the sale or other disposition of any asset in 2001 but only to the extent that the aggregate amount of such losses is less than \$25,000,000; and

(g) any non-recurring restructuring charges recorded in 2001 but only to the extent that the aggregate amount of such restructuring charges is less than \$25,000,000.

3. EFFECTIVENESS OF AMENDMENT AGREEMENT. This 2001 Amendment Agreement shall be effective when (i) holders of at least 66-2/3% in aggregate unpaid principal amount of all Notes under each of the 1993 Note Agreements, 1995 Note Agreement and 1998 Note Agreements at the time outstanding shall have executed a counterpart of this 2001 Amendment Agreement, and (ii) the Company shall have furnished to each of the Holders evidence of the satisfaction of clause (i).

4. NO DEFAULT. The Company hereby represents and warrants that upon the effectiveness of this 2001 Amendment Agreement, no Default or Event of Default shall have occurred and be continuing.



5. MISCELLANEOUS. Except as expressly amended by this 2001 Amendment Agreement, the Note Agreements shall remain in full force and effect. This 2001 Amendment Agreement shall be binding upon and inure to the benefit of the Holders and their respective successors and permitted assigns. This 2001 Amendment Agreement may be signed in any number of counterparts, each of which shall constitute an original.

[signature pages follow]

If the foregoing correctly describes our understanding with respect to the subject matter of this Amendment Agreement, please execute this letter in the place indicated below.

Very truly yours,

LENNOX INTERNATIONAL INC.

By: /s/ CARL E. EDWARDS, JR.  
-----

Name: Carl E. Edwards, Jr.  
Title: Executive Vice President

ACCEPTED AND AGREED:

THE PRUDENTIAL INSURANCE COMPANY  
OF NORTH AMERICA

By: /s/ RIC E. ABEL  
-----

Name: Ric E. Abel  
Title: Vice President

U.S. PRIVATE PLACEMENT FUND

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

By: Prudential Private Placement Investors, Inc.,  
its General Partner

By: /s/ RIC E. ABEL  
-----

Name: Ric E. Abel  
Title: Vice President

TEACHERS INSURANCE AND ANNUITY  
ASSOCIATION OF AMERICA

By: /s/ RICHARD J. TANNER  
-----

Name: Richard J. Tanner  
Title: Associate Director

CIG & CO.

By: /s/ STEVEN A. OSBORN  
-----

Name: Steven A. Osborn  
Title: Partner

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UNITED OF OMAHA LIFE INSURANCE COMPANY

By: /s/ CURTIS R. CALDWELL  
-----  
Name: Curtis R. Caldwell  
Title: First Vice President

MUTUAL OF OMAHA INSURANCE COMPANY

By: /s/ CURTIS R. CALDWELL  
-----  
Name: Curtis R. Caldwell  
Title: First Vice President

COMPANION LIFE INSURANCE COMPANY

By: /s/ CURTIS R. CALDWELL  
-----  
Name: Curtis R. Caldwell  
Title: Authorized Signer

UNITED WORLD LIFE INSURANCE COMPANY

By: /s/ CURTIS R. CALDWELL  
-----  
Name: Curtis R. Caldwell  
Title: Authorized Signer

FIRST COLONY LIFE INSURANCE COMPANY

By: /s/ MORIAN C. MOOERS  
-----  
Name: Morian C. Mooers  
Title: Assistant Vice President and Investment Officer

GENERAL ELECTRIC CAPITAL ASSURANCE COMPANY

By: /s/ MORIAN C. MOOERS  
-----  
Name: Morian C. Mooers  
Title: Investment Officer

GE LIFE AND ANNUITY ASSURANCE COMPANY

By: /s/ MORIAN C. MOOERS  
-----  
Name: Morian C. Mooers  
Title: Investment Officer

cc: Companion Life Insurance Company  
Attention: Financial Division  
401 Theodore Fremd Avenue  
Rye, NY 10580-1493

## THIRD AMENDMENT TO REVOLVING CREDIT FACILITY AGREEMENT

THIS THIRD AMENDMENT TO REVOLVING CREDIT FACILITY AGREEMENT (the "Amendment"), dated as of January 22, 2001, is among LENNOX INTERNATIONAL INC., a Delaware corporation (the "Borrower"), each of the lenders listed as a lender on the signatures pages hereto (individually, a "Lender" and, collectively, the "Lenders"), THE CHASE MANHATTAN BANK, as successor in interest by merger to Chase Bank of Texas, National Association, as administrative agent for the Lenders (in such capacity, the "Administrative Agent"), WACHOVIA BANK, N.A., a national banking association, as syndication agent (in such capacity, the "Syndication Agent" and together with the Administrative Agent, herein the "Agents") and THE BANK OF NOVA SCOTIA, as documentation agent.

The Borrower, the Agents and the Lenders have entered into that certain Revolving Credit Facility Agreement dated as of July 29, 1999 (as amended by the First Amendment to Revolving Credit Facility Agreement dated as of August 6, 1999 and the Second Amendment to Revolving Credit Facility Agreement dated as of January 25, 2000, the "CREDIT AGREEMENT"). The Borrower, the Lenders and the Agents desire to add a letter of credit facility to the Credit Agreement and otherwise amend the Credit Agreement as herein set forth.

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

## ARTICLE 1

## DEFINITIONS

Section 1.1 DEFINITIONS. Capitalized terms used in this Amendment and defined in the Credit Agreement, to the extent not otherwise defined herein, shall have the same meaning as in the Credit Agreement, as amended hereby.

## ARTICLE 2

## AMENDMENTS

Section 2.1 AMENDMENT TO REFERENCES TO "CHASE BANK OF TEXAS, NATIONAL ASSOCIATION". All references to Chase Bank of Texas, National Association in the Credit Agreement are amended to read "The Chase Manhattan Bank, successor in interest by merger to Chase Bank of Texas, National Association".

Section 2.2 AMENDMENT TO INTRODUCTION OF CREDIT AGREEMENT. The second paragraph of the introduction of the Credit Agreement is amended in its entirety to read as follows:

The Lenders have been requested to extend credit to the Borrower to enable it, upon the terms and subject to the conditions set forth herein, to borrow on a revolving credit basis and request the issuance of letters of credit, in each case on and after the Effective Date and at any time prior to the Maturity Date (as hereinafter defined). The proceeds of any such borrowings are to be used to refinance existing indebtedness, to make acquisitions, for capital expenditures and working capital and for other general corporate purposes. Letters of Credit issued hereunder shall be issued to support transactions of the Borrower and its Subsidiaries. The Lenders are willing to extend such credit on the terms and subject to the conditions herein set forth.

Section 2.3 ADDITION TO SECTION 1.01. The following definitions are added to Section 1.01 of the Credit Agreement in proper alphabetical order:

"APPLICABLE PERCENTAGE" means, with respect to any Lender, the percentage of the total Commitments represented by such Lender's Commitment. If the Commitments have terminated or expired, the Applicable Percentage shall be determined based upon the Commitments in effect immediately prior to such expiration or termination.

"ISSUING BANK" shall mean The Chase Manhattan Bank, in its capacity as issuer of Letters of Credit or any successor thereto permitted hereunder. The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

"LC DISBURSEMENT" shall mean a payment made by the Issuing Bank pursuant to a Letter of Credit.

"LETTER OF CREDIT" shall have the meaning assigned it in Section 2.19.

"LETTER OF CREDIT LIABILITIES" means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The Letter of Credit Liabilities of any Lender at any time shall be its Applicable Percentage of the total Letter of Credit Liabilities at such time.

"REVOLVING EXPOSURE" shall mean, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender's Loans and its participating interest in the outstanding Letters of Credit (or, if determined with respect to a Lender who is the Issuing Bank, its direct interests in outstanding Letters of Credit minus all other Lenders' participation interests therein whether or not notice of any such participation shall have been given).

Section 2.4 AMENDMENT TO SECTION 1.01. The following definitions in SECTION 1.01 of the Credit Agreement are amended in their entirety to read as follows:

"CONSOLIDATED NET INCOME" shall mean, for any period, the net income (or net loss) of the Borrower and its Restricted Subsidiaries for such period, determined in accordance with GAAP, excluding:

(a) the proceeds of any life insurance policy;

(b) any gain arising from (1) the sale or other disposition of any assets (other than current assets) to the extent that the aggregate amount of gains exceeds the aggregate amount of losses from the sale, abandonment or other disposition of assets (other than current assets and other than the losses excluded from Consolidated Net Income under clause (f) below), (2) any write-up of assets, or (3) the acquisition by the Borrower or any Restricted Subsidiary of its outstanding securities constituting Indebtedness;

(c) any amount representing the interest of the Borrower or any Restricted Subsidiary in the undistributed earnings of any other Person;

(d) any earnings of any other Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Borrower or a Restricted Subsidiary and any earnings, prior to the date of acquisition, of any other Person acquired in any other manner;

(e) any deferred credit (or amortization of a deferred credit) arising from the acquisition of any Person;

(f) any non-recurring loss arising from the sale or other disposition of any asset in 2001 but only to the extent that the aggregate amount of such losses is less than \$25,000,000; and

(g) any non-recurring restructuring charges recorded in 2001 but only to the extent that the aggregate amount of such restructuring charges is less than \$25,000,000.

"FEES" shall mean the fees identified in Section 2.04.

"INTEREST PAYMENT DATE" shall mean (a) with respect to any ABR Borrowing or the payment of the Letter of Credit fee under Section 2.04(c), each March 31, June 30, September 30 and December 31, beginning on the first such date after the date hereof; (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable thereto and, in the case of such a Eurodollar Loan with an Interest Period of more than three months, each day that would have been an Interest Payment Date for such Eurodollar Loan had successive Interest Periods of three months duration, as the case may be, been applicable to such Eurodollar Loan; (c) in addition, with respect to all Loans, the date of any prepayment thereof and the Maturity Date; and (d) with respect to the payment of the Letter of Credit fee under Section 2.04(c), the Maturity Date.

Section 2.5 AMENDMENT TO SECTION 2.01. Section 2.01 of the Credit Agreement is amended in its entirety to read as follows:

#### SECTION 2.01. COMMITMENTS.

Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Lender agrees, severally and not jointly, to make advances (each such advance a "Loan") to the Borrower, at any time and from time to time on and after the date hereof and until the earlier of the Maturity Date or the termination of the Commitment of such Lender, in an aggregate principal amount at any time outstanding not to exceed such Lender's Commitment, subject, however, to the condition that the Revolving Exposure of a Lender shall not exceed such Lender's Commitment and the total Revolving Exposures of all Lenders shall not exceed the Total Commitment. Within the foregoing limits, the Borrower may borrow, pay or prepay and reborrow Loans hereunder, on and after the Effective Date and prior to the Maturity Date, subject to the terms, conditions and limitations set forth herein.

Section 2.6 AMENDMENT TO SECTION 2.02. Clause (a) of Section 2.02 of the Credit Agreement is amended in its entirety to read as follows:

(a) Each Loan shall be made as part of a Borrowing consisting of Loans made by the Lenders ratably in accordance with their Applicable Percentage; provided, however, that the failure of any Lender to make any Loan shall not in itself relieve any other Lender of its obligation to lend hereunder (it being understood, however, that no



Lender shall be responsible for the failure of any other Lender to make any Loan required to be made by such other Lender). The Loans comprising any Borrowing shall be in an aggregate principal amount which is an integral multiple of \$1,000,000 and not less than \$5,000,000 (or an aggregate principal amount equal to the remaining balance of the Total Commitment less the total Revolving Exposure of all Lenders).

Section 2.7 AMENDMENT TO SECTION 2.02. The first sentence of clause (c) of Section 2.02 of the Credit Agreement is amended in its entirety to read as follows:

(c) Subject to paragraph (d) below, each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds to the Administrative Agent in New York, New York, not later than 11:00 a.m., New York, New York time, and the Administrative Agent shall by 2:00 p.m., New York, New York time, credit the amounts so received to the account or accounts specified from time to time in one or more notices delivered by the Borrower to the Administrative Agent or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Lenders or, if such Borrowing is to finance the reimbursement of an LC Disbursement, such amounts shall be distributed to the Issuing Bank.

Section 2.8 AMENDMENT TO SECTION 2.04.

(a) Clause (a) of Section 2.04 of the Credit Agreement is amended to add the following sentence to the end of the paragraph:

A Lender's Commitment shall be deemed used by the aggregate amount of all Loans made by the Lender and such Lender's Applicable Percentage of the Letter of Credit Liabilities.

(b) Clause (c) of Section 2.04 of the Credit Agreement is amended in its entirety to read as follows:

(c) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at the rate equal to the Applicable Margin (as defined and determined in accordance with Section 2.06 (d)) on the average daily amount of such Lender's Applicable Percentage of the Letter of Credit Liabilities (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Lender's Commitment terminates and the date on which such Lender ceases to have any Letter of Credit Liabilities, and (ii) to the Issuing Bank a fronting fee, which shall accrue at the rate of 0.125% per annum on the average daily amount of the Letter of Credit Liabilities (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Commitments and the date on which there ceases to be any Letter of Credit Liabilities, as well as the Issuing Bank's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including each Interest Payment Date shall be payable on the third Business Day following such Interest Payment Date, commencing on the first such date to occur after the Effective Date; provided that all such fees shall be payable on the date on which the Commitments terminate and any such fees accruing after the date on which the Commitments terminate

shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fee shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) Clause (d) is added to Section 2.04 of the Credit Agreement to read in its entirety as follows:

(d) The Fees shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, if and as appropriate, among the Lenders or Agents. Once paid, none of such Fees shall be refundable under any circumstances.

Section 2.9 AMENDMENT TO SECTION 2.06. The last sentence of clause (d) of Section 2.06 of the Credit Agreement is amended to in its entirety to read as follows:

If the Borrower fails to deliver such Compliance Certificate which so sets forth the Debt to Adjusted EBITDA Ratio within the period of time required by Section 5.20(g): (i) the Applicable Margin (for Interest Periods commencing after the applicable Adjustment Date) shall automatically be adjusted to 1.250% per annum; and (ii) the Commitment Fee Percentage shall automatically be adjusted to 0.300% per annum, such automatic adjustments to take effect as of the first Business Day after the last day on which the Borrower was required to deliver the applicable Compliance Certificate in accordance with Section 5.20(g) and to remain in effect until subsequently adjusted in accordance herewith upon the delivery of a Compliance Certificate

Section 2.10 AMENDMENT TO SECTION 2.09.

(a) Clause (a) of Section 2.09 of the Credit Agreement is amended in its entirety to read as follows:

(a) The commitment of the Issuing Bank to issue Letters of Credit under Section 2.19 and the Commitments of the Lenders shall automatically be terminated on the Maturity Date. Such commitments may also terminate as provided in Section 2.10(c) and Article 6.

(b) Clause (b) of Section 2.09 of the Credit Agreement is amended to add the following sentence to the end of the paragraph:

Upon the termination of the Total Commitment, the commitment of the Issuing Bank to issue Letters of Credit under 2.19 shall also terminate.

Section 2.11 AMENDMENT TO SECTION 2.10.

(a) Clause (b) of Section 2.10 of the Credit Agreement is amended in its entirety to read as follows:

(b) On the date of any termination or reduction of the Total Commitment pursuant to Section 2.09, the Borrower shall pay or prepay so much of the Borrowings as shall be necessary in order that the aggregate outstanding principal amount of the Loans will not exceed the sum of the Total Commitment minus all Letter of Credit Liabilities, after giving effect to such termination or reduction.

(b) The first paragraph of clause (c) of Section 2.10 of the Credit Agreement is amended in its entirety to read as follows:

(c) At least 15 Business Days (or, in the case of any transaction permitted by Section 5.10 resulting in a Change of Control, at least 45 days) and not more than 90 days prior to the occurrence of any Change of Control, the Borrower will give written notice thereof to each Lender. Such notice shall contain (i) an offer by the Borrower to prepay, on the date of such Change of Control or, if such notice shall be delivered less than 35 days prior to the date of such Change of Control, on the date 35 days after the date of such notice (the "Prepayment Date"), all Loans made by each Lender, together with interest accrued thereon to the Prepayment Date and all other liquidated obligations owed to such Lender under the terms hereof, (ii) the estimated amount of accrued interest, showing in reasonable detail the calculation thereof and (iii) the Borrower's estimate of the date on which such Change of Control shall occur. Said offer shall be deemed to lapse as to any such Lender which has not replied affirmatively thereto in writing within 35 days of the giving of such notice. As soon as practicable (and in any event at least 24 hours) prior to such Change of Control, the Borrower shall give written confirmation of the date thereof to each such Lender that has affirmatively replied to the notice given pursuant to the first sentence of this Section 2.10(c). Borrower shall, on the Prepayment Date, prepay to each Lender that has affirmatively replied to the notice given pursuant to the first sentence of this Section 2.10(c) all Loans and all other liquidated obligations owed to such Lender under the terms hereof. Thereupon, each Lender that shall have received such prepayment shall have no further obligation to make Loans or participate in Letters of Credit made or issued after the Prepayment Date and the Total Commitment shall be reduced by the amount of each such Lender's Commitment; provided that each Lender that shall have received such prepayment shall continue to have a participation interest in any Letter of Credit issued prior to the Prepayment Date and shall be entitled to the continued payment of the Fees paid in respect thereof. The participation interests described in the foregoing sentence shall be calculated based on the Applicable Percentages determined immediately prior to the Prepayment Date and each such Lender shall continue to be obligated to fund its participation interest therein as herein specified as if no prepayment had occurred. Any Loan made after the Prepayment Date shall be made by the remaining Lenders and such Lenders shall have participation interests in any Letter of Credit issued after the Prepayment Date based on their Applicable Percentages (calculated without including the Commitments of the Lenders that shall have received the prepayment under this Section 2.10 (c)). If requested by the Agent or the Lenders who are to receive prepayment under this Section 2.10 (c), the Borrower shall use its commercially reasonable efforts to cause all Letters of Credit that are to be outstanding as of the Prepayment Date to be terminated as of the Prepayment Date or as soon thereafter as is possible.

Section 2.12 AMENDMENT TO SECTION 2.11. Section 2.11 of the Credit Agreement is amended in its entirety to read as follows:

SECTION 2.11 RESERVE REQUIREMENTS; CHANGE IN CIRCUMSTANCES.

(a) Notwithstanding any other provision herein, if after the date of this Agreement any change in applicable law or regulation or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof (whether or not having the force of law) shall change the basis of taxation of payments to the Issuing Bank or any Lender hereunder (except for changes in

respect of taxes on the overall net income of the Issuing Bank or such Lender or its lending office imposed by the jurisdiction in which its principal executive office or lending office is located), or shall result in the imposition, modification or applicability of any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by any Lender or the Issuing Bank, or shall result in the imposition on any Lender, the Issuing Bank or the London interbank market of any other condition affecting this Agreement, such Lender's Commitment, any Eurodollar Loan made by such Lender or any Letter of Credit or participation interest therein, and the result of any of the foregoing shall be to increase the cost to such Lender or the Issuing Bank of making or maintaining any Eurodollar Loan or issuing, maintaining or participating in any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or Issuing Bank hereunder (whether of principal, interest or otherwise) by an amount deemed by such Lender or the Issuing Bank to be material, then the Borrower shall, upon receipt of the notice and certificate provided for in Section 2.11(c), promptly pay to such Lender or the Issuing Bank, as applicable, such additional amount or amounts as will compensate such Lender or the Issuing Bank for such additional costs incurred or reduction suffered.

(b) If any Lender or the Issuing Bank shall have determined that the adoption of any law, rule, regulation or guideline arising out of the July 1988 report of the Basle Committee on Banking Regulations and Supervisory Practices entitled "International Convergence of Capital Measurement and Capital Standards," or the adoption after the date hereof of any other law, rule, regulation or guideline regarding capital adequacy, or any change in any of the foregoing or in the interpretation or administration of any of the foregoing by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or any lending office of such Lender) or the Issuing Bank or any Lender's or the Issuing Bank's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement, such Lender's Commitment, the Loans made by such Lender pursuant hereto, or any Letter of Credit or participation interest therein to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy) by an amount deemed by such Lender or the Issuing Bank to be material, then from time to time such additional amount or amounts as will compensate such Lender or the Issuing Bank for any such reduction suffered will be paid by the Borrower to such Lender or the Issuing Bank, as applicable.

(c) A certificate of each affected party setting forth such amount or amounts as shall be necessary to compensate such party or its holding company as specified in paragraph (a) or (b) above, as the case may be, and containing an explanation in reasonable detail of the manner in which such amount or amounts shall have been determined, shall be delivered to the Borrower, and shall be conclusive absent manifest error. The Borrower shall pay each Lender or the Issuing Bank, as applicable, the amount shown as due on any such certificate delivered by it within 10 days after its receipt of the same. Each Lender or the Issuing Bank shall give prompt notice to the Borrower of any event of which it has knowledge, occurring after the date hereof, that it

has determined will require compensation by the Borrower pursuant to this Section; provided, however, that failure by such Lender or the Issuing Bank to give such notice shall not constitute a waiver of such party's right to demand compensation hereunder.

(d) Failure on the part of any party to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital of the type described in paragraph (a) or (b) of this Section 2.11 with respect to any period shall not constitute a waiver of such party's right to demand compensation with respect to such period or any other period; provided, however, that neither any Lender nor the Issuing Bank shall be entitled to compensation under this Section 2.11 for any costs incurred or reductions suffered with respect to any date unless it shall have notified the Borrower that it will demand compensation for such costs or reductions under paragraph (c) above not more than 90 days after the later of (i) such date and (ii) the date on which it shall have become aware of such costs or reductions. The protection of this Section shall be available to each Lender and the Issuing Bank regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, guideline or other change or condition which shall have occurred or been imposed.

(e) Each Lender and the Issuing Bank agrees that it will designate a different lending or issuing office, as applicable, if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in its reasonable judgment, be disadvantageous to its interests.

Section 2.13. AMENDMENT TO SECTION 2.15. Clause (a) of Section 2.15 of the Credit Agreement is amended in its entirety to read as follows:

(a) The Borrower shall make each payment (including principal of or interest on any Borrowing or any Fees or other amounts hereunder) from an account in the United States not later than 12:00 noon, New York, New York time, on the date when due in dollars to the Administrative Agent at its offices at 1 Chase Manhattan Plaza, 8th Floor, New York, New York 10081 or, in the case of payments to be made directly to another party hereto in accordance with the terms hereof, to such party as such party shall direct, in each case, in immediately available funds. All payments made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff.

Section 2.14 AMENDMENT TO SECTION 2.16.

(a) Clause (a) of Section 2.16 of the Credit Agreement is amended in its entirety to read as follows:

(a) Any and all payments of principal and interest on any Borrowings, or of any Fees or indemnity or expense reimbursements by the Borrower hereunder ("Borrower Payments") shall be made, in accordance with Section 2.15, free and clear of and without deduction for any and all current or future federal, state, local and other governmental taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect to the Borrower Payments, but only to the extent reasonably attributable to the Borrower Payments, excluding (i) income taxes imposed on the net income of either Agent, the Issuing Bank or any Lender (or any transferee or assignee thereof, including a participation holder (any such entity a "Transferee")) and (ii) franchise taxes imposed on the net income of either Agent, the Issuing Bank or any Lender (or Transferee), in each

case by the jurisdiction under the laws of which such party (or Transferee) is organized or doing business through offices or branches located therein, or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities, collectively or individually, "Taxes"). If the Borrower shall be required to deduct any Taxes from or in respect of any sum payable hereunder to the respective Agent, the Issuing Bank or any Lender (or any Transferee), (i) the sum payable shall be increased by the amount (an "additional amount") necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.16) such party (or Transferee) (as the case may be) shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Clauses (c) and (d) of Section 2.16 of the Credit Agreement are amended in their entirety to read as follows:

(c) The Borrower shall indemnify the Administrative Agent, the Issuing Bank and each Lender (or Transferee thereof) for the full amount of Taxes and Other Taxes with respect to Borrower Payments paid by such party (or Transferee), as the case may be, and any liability (including penalties, interest and expenses (including reasonable attorney's fees and expenses)) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant Governmental Authority. A certificate setting forth and containing an explanation in reasonable detail of the manner in which such amount shall have been determined and the amount of such payment or liability prepared by the Administrative Agent, the Issuing Bank or a Lender, absent manifest error, shall be final, conclusive and binding for all purposes. Such indemnification shall be made within 30 days after the date the applicable party makes written demand therefor.

(d) If either Agent, the Issuing Bank or a Lender (or Transferee) shall become aware that it is entitled to claim a refund from a Governmental Authority in respect of Taxes or Other Taxes as to which it has been indemnified by the Borrower, or with respect to which the Borrower has paid additional amounts, pursuant to this Section 2.16, it shall promptly notify the Borrower of the availability of such refund claim and shall, within 30 days after receipt of a request by the Borrower, make a claim to such Governmental Authority for such refund at the Borrower's expense. If such party receives a refund (including pursuant to a claim for refund made pursuant to the preceding sentence) in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower had paid additional amounts pursuant to this Section 2.16, it shall within 30 days from the date of such receipt pay over such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 2.16 with respect to the Taxes or Other Taxes giving rise to such refund), net of all of its out-of-pocket expenses and without interest (other than interest paid by the relevant Governmental Authority with respect to such refund); provided, however, that the Borrower, upon the request of such party, agrees to repay the amount paid over to the Borrower (plus penalties, interest or other charges) under this Section 2.16(d) in the event the party is required to repay such refund to such Governmental Authority.

(c) Clauses (i) and (j) of Section 2.16 of the Credit Agreement are amended in their entirety to read as follows:

(i) Any Agent, the Issuing Bank or any Lender (or Transferee) claiming any indemnity payment or additional amounts payable pursuant to this Section 2.16 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document reasonably requested in writing by the Borrower or to change the jurisdiction of its applicable lending office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the good faith determination of the Administrative Agent, the Issuing Bank or such Lender (or Transferee), be otherwise disadvantageous to its interests.

(j) Nothing contained in this Section 2.16 shall require any Agent, the Issuing Bank or any Lender (or Transferee) to make available to the Borrower any of its tax returns (or any other information) that it deems to be confidential or proprietary.

Section 2.15 ADDITION OF SECTION 2.19. Section 2.19 of the Credit Agreement is added to the Credit Agreement following Section 2.18 of the Credit Agreement to read in its entirety as follows:

SECTION 2.19. LETTERS OF CREDIT. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of letters of credit (each a "Letter of Credit") for its own account or for its or a Subsidiary's benefit, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, at any time and from time to time on and after the date hereof until the earlier of five Business Days prior to the Maturity Date or the termination of the Commitments hereunder. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(a) NOTICE OF ISSUANCE, AMENDMENT, RENEWAL, EXTENSION; CERTAIN CONDITIONS. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (b) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form (or in such other form as may be mutually agreed between the Borrower and the Issuing Bank) in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the Letter of Credit Liabilities shall not exceed \$25,000,000 and (ii) the total Revolving Exposures of all Lenders shall not exceed the Total Commitment.

(b) EXPIRATION DATE. Each Letter of Credit shall expire at or prior to the close of business on the date that is five Business Days prior to the Maturity Date.

(c) PARTICIPATIONS. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Lender, and each Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Applicable Percentage of each LC Disbursement made by the Issuing Bank and not reimbursed by the Borrower on the date due as provided in paragraph (d) of this Section, or of any reimbursement payment required to be refunded to the Borrower for any reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or Event of Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever; provided that (i) the obligations of a Lender to fund its participation in a Letter of Credit may be subject to avoidance by that Lender if (A) the Issuing Bank knew (or with the exercise of care should have known) that the conditions to the issuance of the Letter of Credit were not satisfied or (B) the Issuing Bank failed to exercise care when determining whether drafts and other documents presented under the Letter of Credit complied with the terms thereof and (ii) a Lender shall not have an obligation to acquire or fund a participation in a Letter of Credit if that obligation of the Lender has been terminated or assigned to another Person in accordance with Section 2.10(c) or Section 8.04. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care.

(d) REIMBURSEMENT. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York, New York time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York, New York time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 12:00 noon, New York, New York time, on (i) the Business Day that the Borrower receives such notice, if such notice is received prior to 10:00 a.m., New York, New York time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that the Borrower may, subject to the conditions to borrowing set forth herein, request that such payment be financed with a Loan, and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting Loan. If the Borrower fails to make such reimbursement payment when due, the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Lender shall pay to the Administrative Agent its Applicable Percentage of the reimbursement payment then due from the Borrower, and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the



Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of a Loan as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(e) OBLIGATIONS ABSOLUTE. The Borrower's obligations to reimburse LC Disbursements as provided in paragraph (d) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. Neither the Administrative Agent, the Lenders nor the Issuing Bank, nor any of their agents, officers or employees, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(f) DISBURSEMENT PROCEDURES. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by teletype) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not

relieve the Borrower of its obligation to reimburse the Issuing Bank and the Lenders with respect to any such LC Disbursement.

(g) INTERIM INTEREST. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made in accordance with paragraph (d) of this Section, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (d) of this Section, then Section 2.07 shall apply. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (c) of this Section to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(h) REPLACEMENT OF THE ISSUING BANK. The Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to this Agreement. From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

Section 2.16 AMENDMENT TO ARTICLE 3. The introductory sentence of Article 3 of the Credit Agreement is amended in its entirety to read as follows:

Borrower represents and warrants to each of the Lenders and the Issuing Bank as follows:

Section 2.17 AMENDMENT TO ARTICLE 3.02. Section 3.02 of the Credit Agreement is amended in its entirety to read as follows:

SECTION 3.02 AUTHORIZATION. The execution, delivery and performance by the Borrower of this Agreement, the Borrowings hereunder and the issuance of Letters of Credit hereunder (collectively, the "Transactions") (a) have been duly authorized by all requisite corporate action and (b) will not (i) violate (A) any provision of any law, statute, rule or regulation to which the Borrower is subject or of the certificate of incorporation or other constituent documents or by-laws of the Borrower or any of its Subsidiaries, (B) any order of any Applicable Governmental Authority or (C) any provision of any Material indenture, agreement or other instrument to which the Borrower or any of its Subsidiaries is a party or by which it or any of its property is or may be bound (including the 364 Day Revolving Credit Facility Agreement dated as of January 25, 2000, as amended, among Borrower, The Chase Manhattan Bank, as administrative agent and the other parties named therein and the Senior Note Purchase Agreements and the Indebtedness limitations set forth in Sections 10.4 and 10.9 of the Senior Note Purchase

Agreements), (ii) be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under any such indenture, agreement or other instrument or (iii) result in the creation or imposition of any Lien upon any property or assets of the Borrower.

Section 2.18 AMENDMENT TO SECTION 3.12. Section 3.12 of the Credit Agreement is amended in its entirety to read as follows:

SECTION 3.12 USE OF PROCEEDS; MARGIN REGULATION. The Borrower will apply the proceeds of the Loans to refinance existing indebtedness, to make acquisitions, for capital expenditures, for working capital and for other general corporate purposes. The Letters of Credit shall be issued to support transactions of the Borrower and the Subsidiaries entered into in the ordinary course of business. Without limiting the generality of the foregoing, the Borrower agrees to use the proceeds of the first Loans made hereunder and the net proceeds of its initial public offering consummated in 1999 to repay in full all obligations outstanding in connection with the following agreements (the "Existing Credit Agreements"):

(i) The Advance Term Credit Agreement dated March 16, 1999 among Borrower, Chase Bank of Texas, National Association, as administrative agent, and Wachovia Bank, N. A., as documentation agent; and

(ii) Revolving Credit Facility Agreement dated July 13, 1998 among Borrower, Chase Bank of Texas, National Association, as administrative agent, Wachovia Bank, N. A., as documentation agent and the lenders named therein.

The Borrower agrees that on the date that the first Loans are made hereunder all the commitments of the lenders under the Existing Credit Agreements are terminated and of no further force or effect. No part of the proceeds from the Loans will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Borrower in a violation of Regulation X of the Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of the Board (12 CFR 220). Margin stock does not constitute more than 5% of the value of the consolidated assets of the Borrower and its Restricted Subsidiaries and the Borrower does not have any present intention that margin stock will constitute more than 5% of the value of such assets. As used in this Section, the terms "MARGIN STOCK" and "PURPOSE OF BUYING OR CARRYING" shall have the meanings assigned to them in said Regulation U.

Section 2.19 AMENDMENT TO SECTION 4.01. Section 4.01 of the Credit Agreement is amended in its entirety to read as follows:

SECTION 4.01 ALL BORROWINGS. The obligations of the Lenders to make Loans and the obligation of the Issuing Bank to issue, amend, renew or extend Letters of Credit are subject to the satisfaction of the following conditions on the date of each Borrowing or issuance:

(a) The Administrative Agent shall have received a notice of such Borrowing, issuance, amendment or other modification as required by Section 2.03 or 2.19(a), as applicable.

(b) The representations and warranties set forth in Article 3 hereof shall be true and correct in all material respects on and as of the date of such Borrowing, issuance, amendment or other modification with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.

(c) At the time of and immediately after such Borrowing, issuance, amendment or other modification no Event of Default or Default shall have occurred and be continuing.

Each Borrowing and each issuance, amendment or other modification of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date of such Borrowing, issuance, amendment or other modification as to the matters specified in paragraphs (b) and (c) of this Section 4.01.

Section 2.20 AMENDMENT TO ARTICLE 5. The first sentence of Article 5 of the Credit Agreement is amended in its entirety to read as follows:

The Borrower agrees that, so long as any Lender has any Commitment hereunder or any obligation to acquire or fund any participation in any Letter of Credit or the Issuing Bank is obligated to issue any Letter of Credit, or any amount payable hereunder remains unpaid:

Section 2.21 AMENDMENT TO SECTION 5.15. Clause (b) in Section 5.15 of the Credit Agreement is amended in its entirety to read as follows:

(b) CONSOLIDATED INDEBTEDNESS TO ADJUSTED EBITDA. As of the last day of each fiscal quarter during the periods described below, the Borrower shall not permit the ratio of Consolidated Indebtedness outstanding as of such day to the Adjusted EBITDA for the four (4) fiscal quarters then ended to exceed: (i) 3.00 to 1.00 at all times other than as described in the following clause (ii); or (ii) 3.25 to 1.00 for all fiscal quarters ending prior to September 30, 2001 if, and only if prior to any such fiscal quarter end Borrower shall have delivered to the Administrative Agent evidence satisfactory to it that the holders of the Indebtedness outstanding under the Senior Note Purchase Agreements and the holders of any other Indebtedness that have the benefit of a Consolidated Indebtedness to Adjusted EBITDA ratio the same or similar to this Section 5.15(b), shall have agreed to a maximum ratio not to exceed 3.25 to 1.00 for all fiscal quarters ending prior to September 30, 2001.

Section 2.22 AMENDMENT TO ARTICLE 6.

(a) Clause (a) in the first sentence of Article 6 of the Credit Agreement is amended in its entirety to read as follows:

(a) the Borrower defaults in the payment of any principal on any Loan or the reimbursement of any LC Disbursement, in each case when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) The final paragraph of Article 6 of the Credit Agreement is amended in its entirety to read as follows:

then, and in every such event, and at any time thereafter during the continuance of such event, the Administrative Agent, at the request of the Required Lenders, shall, by notice to the Borrower, take any or all of the following actions, at the same or different times: (i) terminate forthwith the right of the Borrower to borrow hereunder or to request the issuance, amendment, extension or renewal or other modification of any Letter of Credit, (ii) exercise any rights that may be available upon an Event of Default to terminate or cancel any outstanding Letters of Credit, and (iii) declare the Loans and all reimbursement obligations for LC Disbursements, then outstanding to be forthwith due and payable in whole or in part, whereupon the principal of the Loans and the reimbursement obligations for LC Disbursements, so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder, shall become forthwith due and payable, without presentment, demand, protest, notice of intent to accelerate, notice of acceleration or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding; provided that in the case of any event described in paragraph (g) or (h) above with respect to the Borrower, all the Commitments of the Lenders and the obligation of the Issuing Bank hereunder to issue Letters of Credit shall automatically terminate and the principal amount of all Loans and all reimbursement obligations for LC Disbursements, then outstanding, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder shall automatically become due and payable, without presentment, demand, protest, notice of intent to accelerate, notice of acceleration or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein to the contrary notwithstanding.

Section 2.23 AMENDMENT TO ARTICLE 7. Article 7 of the Credit Agreement is amended in its entirety to read as follows:

#### ARTICLE 7. THE ADMINISTRATIVE AGENT

In order to expedite the transactions contemplated by this Agreement, The Chase Manhattan Bank is hereby appointed to act as Administrative Agent, on behalf of the Lenders and the Issuing Bank. Each of the Lenders and the Issuing Bank hereby irrevocably authorizes the Administrative Agent to take such actions on behalf of such Lender or the Issuing Bank and to exercise such powers as are specifically delegated to the Administrative Agent by the terms and provisions hereof, together with such actions and powers as are reasonably incidental thereto. The Administrative Agent is hereby expressly authorized by the Lenders and the Issuing Bank, without hereby limiting any implied authority, (a) to receive on behalf of the Lenders and the Issuing Bank, as applicable, all payments of principal of and interest on the Loans and all other amounts due to the Lenders and the Issuing Bank hereunder, and promptly to distribute to each Lender and the Issuing Bank its share of each payment so received; (b) to give notice on behalf of each of the Lenders and the Issuing Bank to the Borrower of any Event of Default of which the Administrative Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute to each Lender and the Issuing Bank copies of all notices, financial statements and other materials delivered by the Borrower pursuant to this Agreement as received by the Administrative Agent.

Neither Administrative Agent nor any of its directors, officers, employees or agents shall be liable as such for any action taken or omitted by any of them except for its or his or her own gross negligence or willful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in

connection herewith, or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower of any of the terms, conditions, covenants or agreements contained in this Agreement. The Administrative Agent shall not be responsible to the Lenders or the Issuing Bank for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement or other instruments or agreements; provided that the foregoing exclusion shall not have the effect of releasing the Administrative Agent from its stated responsibilities herein to receive executed agreements, documents and instruments on behalf of the Lenders and the Issuing Bank. The Administrative Agent may deem and treat the Lender which makes any Loan or participates in the obligation to reimburse the Issuing Bank for any LC Disbursement as the holder of the indebtedness resulting therefrom for all purposes hereof until it shall have received notice from such Lender, given as provided herein, of the transfer thereof. The Administrative Agent shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Lenders and, except as otherwise specifically provided herein, such instructions and any action or inaction pursuant thereto shall be binding on all the Lenders and the Issuing Bank. The Administrative Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any instrument or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper Person or Persons. Neither the Administrative Agent nor any of its directors, officers, employees or agents shall have any responsibility to the Borrower on account of the failure of or delay in performance or breach by any Lender or the Issuing Bank of any of its obligations hereunder or any Lender on account of the failure of or delay in performance or breach by any Lender or the Issuing Bank or the Borrower of any of their respective obligations hereunder or in connection herewith. The Administrative Agent may execute any and all duties hereunder by or through agents or employees and shall be entitled to rely upon the advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

The Lenders and the Issuing Bank hereby acknowledge that the Administrative Agent shall be under no duty to take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement unless it shall be requested in writing to do so by the Required Lenders.

Subject to the appointment and acceptance of a successor Administrative Agent as provided below, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Administrative Agent who must be acceptable to the Borrower and shall be selected from the Lenders unless no Lender agrees to accept such appointment. If no successor shall have been so appointed by the Required Lenders, no approval of the Borrower obtained and such successor shall not have accepted such appointment, all within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a bank having a combined capital and surplus of at least \$500,000,000 or an Affiliate of any such bank. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor bank, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After the Administrative Agent's resignation hereunder, the provisions of this Article and

Section 8.05 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

With respect to the Loans, the Administrative Agent, in its individual capacity as a Lender and not as Administrative Agent shall have the same rights and powers as any other Lender and may exercise the same as though it were not the Administrative Agent, and the Administrative Agent and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent.

Each Lender agrees (i) to reimburse the Administrative Agent, on demand, in the amount of its Applicable Percentage of any expenses incurred for the benefit of the Lenders or the Issuing Bank in its role as Administrative Agent, including reasonable counsel fees and compensation of agents and employees paid for services rendered on behalf of the Lenders or the Issuing Bank, which shall not have been reimbursed by the Borrower AND (II) TO INDEMNIFY AND HOLD HARMLESS THE ADMINISTRATIVE AGENT AND ANY OF ITS DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS, ON DEMAND, IN THE AMOUNT OF SUCH APPLICABLE PERCENTAGE, FROM AND AGAINST ANY AND ALL LIABILITIES, TAXES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES OR DISBURSEMENTS OF ANY KIND OR NATURE WHATSOEVER WHICH MAY BE IMPOSED ON, INCURRED BY OR ASSERTED AGAINST IT IN ANY WAY RELATING TO OR ARISING OUT OF THIS AGREEMENT OR ANY ACTION TAKEN OR OMITTED BY IT UNDER THIS AGREEMENT TO THE EXTENT THE SAME SHALL NOT HAVE BEEN REIMBURSED BY THE BORROWER (INCLUDING WITHOUT LIMITATION, ALL LIABILITIES, TAXES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES, OR DISBURSEMENTS ARISING FROM THE SOLE OR CONTRIBUTORY NEGLIGENCE OF THE ADMINISTRATIVE AGENT); PROVIDED THAT NO LENDER SHALL BE LIABLE TO THE ADMINISTRATIVE AGENT FOR ANY PORTION OF SUCH LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES OR DISBURSEMENTS RESULTING FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE ADMINISTRATIVE AGENT OR ANY OF ITS DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS.

Each Lender and the Issuing Bank acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender and the Issuing Bank also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement or any related agreement or any document furnished hereunder or thereunder.

Wachovia Bank, N.A. has been designated as the Syndication Agent hereunder and The Bank of Nova Scotia has been designated as the documentation agent in recognition of the level of their respective Commitments. Neither Wachovia Bank, N.A. nor The Bank of Nova Scotia is an agent for the Lenders and shall not have any obligation hereunder other than those existing in its capacity as Lender.

Section 2.24 AMENDMENT TO SECTION 8.01. Clauses (a) and (b) of Section 8.01 of the Credit Agreement are amended in their entirety to read as follows:

(a) if to Borrower, at its principal executive offices at 2140 Lake Park Blvd., Richardson, Texas 75080, to the attention of Chief Financial Officer, Telecopy No. 972/497-6042 with a copy to the Vice President and Corporate Treasurer, Telecopy No. 972/497-6940;

(b) if to the Administrative Agent or the Issuing Bank, to The Chase Manhattan Bank, 2200 Ross Avenue, 3rd Floor, Dallas, TX 75201, Attention of Allen King, (Telecopy No. 214/965-2044), with a copy to The Chase Manhattan Bank, 1 Chase Manhattan Plaza, 8th Floor, New York, New York 10081; Attention: Muniram Appanna, Telephone 212/552-7943; Telecopy No. 212/552-7490; and

Section 2.25 AMENDMENT TO SECTION 8.02. Section 8.02 of the Credit Agreement is amended in its entirety to read as follows:

SECTION 8.02 SURVIVAL OF AGREEMENT. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the Lenders and shall survive the making by the Lenders of the Loans or the acquisition and funding of participations in Letters of Credit or the issuance by Issuing Bank of the Letters of Credit regardless of any investigation made by the Lenders or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan, any Letter of Credit Liability or any Fee or any other amount payable under this Agreement is outstanding and unpaid or the commitments and obligations of the Lenders and the Issuing Bank hereunder have not been terminated.

Section 2.26 AMENDMENT TO SECTION 8.04. Clause (d) of Section 8.04 of the Credit Agreement is amended in its entirety to read as follows:

(d) The Administrative Agent shall maintain at one of its offices in New York, New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, the principal amount of the Loans owing to and the participations interest in Letters of Credit held by, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive in the absence of manifest error and the Borrower, the Agents and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by each party hereto, at any reasonable time and from time to time upon reasonable prior notice.

Section 2.27 AMENDMENT TO SECTION 8.05. Section 8.05 of the Credit Agreement is amended in its entirety to read as follows:

(a) The Borrower agrees to pay all reasonable out-of-pocket expenses incurred by either Agent, Chase Securities Inc., Wachovia Securities, Inc. or the Issuing Bank in connection with entering into this Agreement or in connection with any amendments, modifications or waivers of the provisions hereof (but only if such amendments, modifications or waivers are requested by the Borrower) (whether or not



the transactions hereby contemplated are consummated) or in connection with the issuance, modification, extension or renewal of any Letter of Credit, or incurred by either Agent, the Issuing Bank, or any Lender in connection with the enforcement of their rights in connection with this Agreement or in connection with the Loans made and Letters of Credit issued hereunder, including the reasonable fees and disbursements of counsel for either Agent and the Issuing Bank or, in the case of enforcement following an Event of Default, the Lenders.

(b) THE BORROWER AGREES TO INDEMNIFY EACH LENDER AND ISSUING BANK AGAINST ANY LOSS, CALCULATED IN ACCORDANCE WITH THE NEXT SENTENCE, OR REASONABLE EXPENSE WHICH SUCH LENDER OR ISSUING BANK MAY SUSTAIN OR INCUR AS A CONSEQUENCE OF (A) ANY FAILURE BY THE BORROWER TO BORROW OR TO CONVERT OR CONTINUE ANY LOAN HEREUNDER (INCLUDING AS A RESULT OF THE BORROWER'S FAILURE TO FULFILL ANY OF THE APPLICABLE CONDITIONS SET FORTH IN ARTICLE 4) AFTER IRREVOCABLE NOTICE OF SUCH BORROWING, CONVERSION OR CONTINUATION HAS BEEN GIVEN PURSUANT HERETO, (B) ANY PAYMENT, PREPAYMENT OR CONVERSION, ASSIGNMENT OR FUNDING OF A EURODOLLAR LOAN REQUIRED BY ANY PROVISION OF THIS AGREEMENT OR OTHERWISE MADE OR DEEMED MADE ON A DATE OTHER THAN THE LAST DAY OF THE INTEREST PERIOD, IF ANY, APPLICABLE THERETO), (C) ANY DEFAULT IN PAYMENT OR PREPAYMENT OF THE PRINCIPAL AMOUNT OF ANY LOAN OR ANY REIMBURSEMENT OBLIGATION IN RESPECT OF ANY LC DISBURSEMENT OR ANY PART THEREOF OR INTEREST ACCRUED THEREON, AS AND WHEN DUE AND PAYABLE (AT THE DUE DATE THEREOF, WHETHER BY SCHEDULED MATURITY, ACCELERATION, IRREVOCABLE NOTICE OF PREPAYMENT OR OTHERWISE) OR (D) THE OCCURRENCE OF ANY EVENT OF DEFAULT, INCLUDING, IN EACH SUCH CASE, ANY LOSS OR REASONABLE EXPENSE SUSTAINED OR INCURRED OR TO BE SUSTAINED OR INCURRED BY SUCH LENDER IN LIQUIDATING OR EMPLOYING DEPOSITS FROM THIRD PARTIES, OR WITH RESPECT TO COMMITMENTS MADE OR OBLIGATIONS UNDERTAKEN WITH THIRD PARTIES, TO EFFECT OR MAINTAIN ANY LOAN HEREUNDER OR ANY PART THEREOF AS A EURODOLLAR LOAN. SUCH LOSS SHALL INCLUDE AN AMOUNT EQUAL TO THE EXCESS, IF ANY, AS REASONABLY DETERMINED BY SUCH LENDER, OF (I) ITS COST OF OBTAINING THE FUNDS FOR THE LOAN BEING PAID, PREPAID, CONVERTED OR NOT BORROWED (ASSUMED TO BE THE LIBO RATE) FOR THE PERIOD FROM THE DATE OF SUCH PAYMENT, PREPAYMENT OR FAILURE TO BORROW TO THE LAST DAY OF THE INTEREST PERIOD FOR SUCH LOAN (OR, IN THE CASE OF A FAILURE TO BORROW THE INTEREST PERIOD FOR SUCH LOAN WHICH WOULD HAVE COMMENCED ON THE DATE OF SUCH FAILURE) OVER (II) THE AMOUNT OF INTEREST (AS REASONABLY DETERMINED BY SUCH LENDER) THAT WOULD BE REALIZED BY SUCH LENDER IN REEMPLOYING THE FUNDS SO PAID, PREPAID OR NOT BORROWED FOR SUCH PERIOD OR INTEREST PERIOD, AS THE CASE MAY BE.

(c) THE BORROWER AGREES TO INDEMNIFY EACH AGENT, THE ISSUING BANK, EACH LENDER, EACH OF THEIR AFFILIATES AND THE DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS OF THE FOREGOING (EACH SUCH PERSON BEING CALLED AN "INDEMNITEE") AGAINST, AND TO

HOLD EACH INDEMNITEE HARMLESS FROM, ANY AND ALL LOSSES, CLAIMS, DAMAGES, LIABILITIES AND RELATED EXPENSES, INCLUDING REASONABLE COUNSEL FEES AND EXPENSES, INCURRED BY OR ASSERTED AGAINST ANY INDEMNITEE ARISING OUT OF (I) THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, (II) THE USE OF THE PROCEEDS OF THE LOANS OR THE USE OF ANY LETTER OF CREDIT OR (III) ANY CLAIM, LITIGATION, INVESTIGATION OR PROCEEDING RELATING TO ANY OF THE FOREGOING, WHETHER OR NOT ANY INDEMNITEE IS A PARTY THERETO (INCLUDING, WITHOUT LIMITATION, ANY LOSSES, CLAIMS, DAMAGES, LIABILITIES AND RELATED EXPENSES ARISING FROM THE SOLE OR CONTRIBUTORY NEGLIGENCE OF THE INDEMNITEE); PROVIDED THAT SUCH INDEMNITY SHALL NOT, AS TO ANY INDEMNITEE, BE AVAILABLE TO THE EXTENT THAT SUCH LOSSES, CLAIMS, DAMAGES, LIABILITIES OR RELATED EXPENSES (I) ARE DETERMINED TO HAVE RESULTED FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH INDEMNITEE OR (II) RESULT FROM ANY LITIGATION BROUGHT BY SUCH INDEMNITEE AGAINST THE BORROWER OR BY THE BORROWER AGAINST SUCH INDEMNITEE, IN WHICH THE BORROWER IS THE PREVAILING PARTY.

(d) The provisions of this Section shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the termination or satisfaction of all Letter of Credit Liabilities, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the invalidity or unenforceability of any term or provision of this Agreement or any investigation made by or on behalf of any Agent or any Lender. All amounts due under this Section shall be payable on written demand therefor.

Section 2.28 AMENDMENT TO SECTION 8.09. Section 8.09 of the Credit Agreement is amended in its entirety to read as follows:

SECTION 8.09 ENTIRE AGREEMENT. THIS AGREEMENT (INCLUDING THE SCHEDULES AND EXHIBITS HERETO), THE FEE LETTER AND THE OTHER DOCUMENTATION EXECUTED PURSUANT HERETO (INCLUDING, BUT NOT LIMITED TO ANY LETTER OF CREDIT ISSUED HEREUNDER) CONSTITUTE A "LOAN AGREEMENT" AS DEFINED IN SECTION 26.03(A) OF THE TEXAS BUSINESS AND COMMERCE CODE, AND REPRESENT THE ENTIRE CONTRACT AMONG THE PARTIES RELATIVE TO THE SUBJECT MATTER HEREOF AND THEREOF. ANY PREVIOUS AGREEMENT AMONG THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF IS SUPERSEDED BY THIS AGREEMENT, THE FEE LETTER AND THE OTHER DOCUMENTATION EXECUTED PURSUANT HERETO (INCLUDING, BUT NOT LIMITED TO ANY LETTER OF CREDIT ISSUED HEREUNDER). THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. NOTHING IN THIS AGREEMENT, EXPRESSED OR IMPLIED, IS INTENDED TO CONFER UPON ANY PARTY OTHER THAN THE PARTIES HERETO ANY RIGHTS, REMEDIES, OBLIGATIONS OR LIABILITIES UNDER OR BY REASON OF THIS AGREEMENT.

Section 2.29 AMENDMENT TO SECTION 8.14. Section 8.14 of the Credit Agreement is amended in its entirety to read as follows:

SECTION 8.14 CONFIDENTIALITY. For the purposes of this Section 8.14, "Confidential Information" means information delivered to an Agent, the Issuing Bank or a Lender by or on behalf of the Borrower or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by an Agent, the Issuing Bank or a Lender as being confidential information of the Borrower or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to an Agent, the Issuing Bank or a Lender prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by an Agent, the Issuing Bank or a Lender or any Person acting on their behalf, (c) otherwise becomes known to an Agent, the Issuing Bank or a Lender other than through disclosure by the Borrower or any Subsidiary or (d) constitutes financial statements delivered to you under Section 5.20 that are otherwise publicly available. Each Agent, the Issuing Bank and each Lender agree that they will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by them in good faith to protect confidential information of third parties delivered to them, provided that an Agent, the Issuing Bank or a Lender may deliver or disclose Confidential Information to (i) its directors, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of this Agreement), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 8.14, (iii) any Agent or other Lender, (iv) any Transferee (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 8.14), (v) any Person from which it offers to purchase any Security of the Borrower or a Subsidiary (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 8.14), (vi) any federal or state regulatory authority having jurisdiction over it, (vii) any nationally recognized rating agency that requires access to information about its investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to it, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which it is a party or (z) if an Event of Default has occurred and is continuing, to the extent an Agent, the Issuing Bank or a Lender may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under this Agreement.

Section 2.30 AMENDMENT TO EXHIBIT A. Exhibit A to the Credit Agreement is amended in its entirety to read as Exhibit A attached hereto.

Section 2.31 AMENDMENT TO EXHIBIT B. Exhibit B to the Credit Agreement is amended in its entirety to read as Exhibit B attached hereto.

### ARTICLE 3

#### CONDITIONS

Section 3.1 CONDITIONS. The effectiveness of Article 2 of this Amendment is subject to the satisfaction of the following conditions precedent on or before January 23, 2001 (the "Closing Date"):

(a) CONTINUED EFFECT OF REPRESENTATIONS AND WARRANTIES. As of the Closing Date, all representations and warranties contained in the Credit Agreement (as amended hereby) shall be true, correct, and complete in all material respects except for representations specifically relating to a prior date;

(b) ABSENCE OF DEFAULT. No Default shall have occurred and be continuing;

(c) CORPORATE PROCEEDINGS. All corporate proceedings taken in connection with the transactions contemplated by this Amendment and all other agreements, documents, and instruments executed and/or delivered pursuant hereto, and all legal matters incident thereto, shall be satisfactory to the Administrative Agent and its legal counsel;

(d) FEES AND EXPENSES. Payment or reimbursement to the Lenders, the Agents and the Arranger of all outstanding expenses, fees and other costs incurred by, or due to, the Lenders, the Agents and the Arranger for which such entity has presented an invoice to the Borrower prior to the Closing Date; and

(e) ADDITIONAL INFORMATION. The Administrative Agent shall have received such additional agreements, certificates, documents, instruments and information as the Administrative Agent or its legal counsel may request to effect the transactions contemplated hereby.

#### ARTICLE 4

##### MISCELLANEOUS

Section 4.1 RATIFICATIONS. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Credit Agreement and except as expressly modified and superseded by this Amendment, the terms and provisions of the Credit Agreement are ratified and confirmed and shall continue in full force and effect. The Borrower, the Agents and the Lenders agree that the Credit Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms.

Section 4.2 FEES AND EXPENSES. In accordance with the terms of Section 8.05 of the Credit Agreement, the Borrower agrees to pay all costs and expenses incurred by either Agent in connection with the preparation, negotiation and execution of this Amendment, including, without limitation, the costs and fees of legal counsel.

Section 4.3 APPLICABLE LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

Section 4.4 SUCCESSORS AND ASSIGNS. This Amendment is binding upon and shall inure to the benefit of the Agents, the Lenders and Borrower and their respective successors and assigns.

Section 4.5 COUNTERPARTS. This Amendment may be executed in one or more counterparts and on telecopy counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same agreement.

Section 4.6 HEADINGS. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 4.7 ENTIRE AGREEMENT. THIS AMENDMENT EMBODIES THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO AND SUPERSEDES ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THIS AMENDMENT, AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSION OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO.

Section 4.8 REQUIRED LENDERS. Pursuant to Section 8.08(b) of the Credit Agreement, the Credit Agreement may be modified as provided in this Amendment with the agreement of the Required Lenders which means Lenders having sixty-six and two-thirds percent (66 2/3%) or more of the Total Commitments (such percentage applicable to a Lender, herein such Lender's "REQUIRED LENDER PERCENTAGE"). For purposes of determining the effectiveness of this Amendment, each Lender's Required Lender Percentage is set forth on SCHEDULE 4.8 hereto.

Executed as of the date first written above.

LENNOX INTERNATIONAL INC.

By: /s/ SCOTT E. MESSEL

-----

Scott E. Messel, Vice President and Treasurer

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

By: /s/ ALLEN KING

-----

Allen King  
Vice President



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

By: -----  
Name: -----  
Title: -----

ROYAL BANK OF CANADA,  
as a Lender

By: /s/ N.G. MILLAR  
-----  
Name: N.G. Millar  
Title: Senior Manager

ABN AMRO BANK N.A., as a Lender

By: /s/ ELIZABETH H. HURST  
-----  
Name: Elizabeth H. Hurst  
Title: Group Vice President

By: /s/ C. DAVID ALLMAN  
-----  
Name: C. David Allman  
Title: Assistant Vice President

THE BANK OF NEW YORK, as a Lender

By: /s/ DAVID SUNDERWIRTH  
-----  
Name: David Sunderwirth  
Title: Vice President

COMPASS BANK, as a Lender

By: -----  
Name: -----  
Title: -----

FORM OF BORROWING REQUEST

The Chase Manhattan Bank, as Administrative Agent for the Lenders referred to below  
2200 Ross Avenue, 3rd floor  
Dallas, TX 77002

[Date]

Attention: Brenda Harris  
Telecopy: 214-965-2044

and

The Chase Manhattan Bank  
Loan Syndications Services  
1 Chase Manhattan Plaza, 8th Floor  
New York, New York 10081

Telecopy: 212-552-5777

Ladies and Gentlemen:

The undersigned, Lennox International Inc. (the "Borrower"), refers to the Revolving Credit Facility Agreement dated as of July 29, 1999 (as it may hereafter be amended, modified, extended or restated from time to time, the "Agreement"), among the Borrower, the Lenders named therein, The Chase Manhattan Bank, as Administrative Agent, and Wachovia Bank, N.A., as Syndication Agent and The Bank of Nova Scotia, as documentation agent. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Agreement. The Borrower hereby gives you notice pursuant to Section 2.03 of the Agreement that it requests a Borrowing under the Agreement, and sets forth below the terms on which such Borrowing is requested to be made:

- (A) Date of Borrowing (which is a Business Day) \_\_\_\_\_
- (B) Principal amount of Borrowing(1) \_\_\_\_\_
- (C) Interest rate basis(2) \_\_\_\_\_
- (D) Interest Period and the last day thereof(3) \_\_\_\_\_

-----  
(1) Not less than \$5,000,000 (and in integral multiples of \$1,000,000) or greater than the Total Commitment then available.

(2) Eurodollar Loan or ABR Loan.

(3) Which shall be subject to the definition of "Interest Period" and end not later than the Maturity Date.



The Borrower represents and warrants that the conditions to lending specified in Section 4.01(b) and (c) of the Agreement have been satisfied and that after giving effect to the Borrowing requested hereby, the total Revolving Exposures of all Lenders shall not exceed the Total Commitment.

Very truly yours,

LENNOX INTERNATIONAL INC.

By:

-----  
Scott E. Messel, Vice President and Treasurer

ASSIGNMENT AND ACCEPTANCE

Dated: \_\_\_\_\_, \_\_\_\_

Reference is made to the Revolving Credit Facility Agreement dated as of July 29, 1999 (as amended, modified, extended or restated from time to time, the "Agreement"), among Lennox International Inc. (the "Borrower"), the lenders that are a party thereto (the "Lenders"), Wachovia Bank, N.A., as Syndication Agent, The Bank of Nova Scotia, as documentation agent and The Chase Manhattan Bank, as Administrative Agent for the Lenders. Terms defined in the Agreement are used herein with the same meanings.

1. The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the [Effective Date of Assignment set forth below], the interests set forth below (the "Assigned Interest") in the Assignor's rights and obligations under the Agreement, including, without limitation, the interests set forth below in the Commitment of the Assignor on the [Effective Date of Assignment] and the Loans owing to the Assignor which are outstanding on the [Effective Date of Assignment], and the participation interest of the Assignor in outstanding Letters of Credit on the Effective Date of Assignment together with unpaid interest accrued on the assigned Loans to the [Effective Date of Assignment] and the amount, if any, set forth below of the Fees accrued to the [Effective Date of Assignment] for the account of the Assignor. Each of the Assignor and the Assignee hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in Section 8.04 of the Agreement, a copy of which has been received by each such party. From and after the [Effective Date of Assignment], (i) the Assignee shall be a party to and be bound by the provisions of the Agreement and, to the extent of the interests assigned by this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent of the interests assigned by this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Agreement. After giving effect to this Assignment and Acceptance, Assignor's Commitment shall be \$\_\_\_\_\_ and Assignee's Commitment shall be \$\_\_\_\_\_.

2. This Assignment and Acceptance is being delivered to the Administrative Agent together with (i) if the Assignee is organized under the laws of a jurisdiction outside the United States, the forms specified in Section 2.16(g) of the Agreement, duly completed and executed by such Assignee, (ii) if the Assignee is not already a Lender under the Agreement, an Administrative Questionnaire and (iii) a processing and recordation fee of \$3,000.

3. This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the State of Texas.

Date of Assignment: \_\_\_\_\_

Legal Name of Assignor: \_\_\_\_\_

Legal Name of Assignee: \_\_\_\_\_

Assignee's Address for Notices: \_\_\_\_\_

Effective Date of Assignment  
(may not be fewer than 5 Business

Days after the Date of Assignment  
 unless otherwise agreed by the Administrative Agent,  
 whose execution hereof shall be deemed to be such  
 consent, if necessary):

Facility	Principal Amount Assigned	Percentage Assigned of Commitment (set forth, to at least 8 decimals, as a percentage of the Total Commitment)
Commitment Assigned:	\$ _____	_____ %
Loans:	\$ _____	_____ %
Participation Interest in Letters of Credit	\$ _____	_____ %
Fees Assigned (if any):	\$ _____	_____ %

The terms set forth herein are hereby agreed to: Accepted:

\_\_\_\_\_, as  
 Assignor, LENNOX INTERNATIONAL INC.

By: \_\_\_\_\_ By: \_\_\_\_\_  
 Name: \_\_\_\_\_ Name: \_\_\_\_\_  
 Title: \_\_\_\_\_ Title: \_\_\_\_\_

\_\_\_\_\_, as  
 Assignee THE CHASE MANHATTAN BANK  
as Administrative Agent

By: \_\_\_\_\_ By: \_\_\_\_\_  
 Name: \_\_\_\_\_ Name: \_\_\_\_\_  
 Title: \_\_\_\_\_ Title: \_\_\_\_\_

Schedule 4.8  
Third Amendment to Credit Agreement

REQUIRED LENDER PERCENTAGE

Lender	Required Lender Percentage Held	Lenders Agreeing to Amendment (insert % from prior column if Lender signs this Amendment then total percentages in this column)
The Chase Manhattan Bank	11.333%	11.333%
Wachovia Bank, N.A	11.333%	11.333%
The Bank of Nova Scotia	11.333%	11.333%
The Northern Trust Company	11.333%	11.333%
Bank One, Texas N.A	8.333%	.0%
Bank of Texas, N.A	8.333%	8.333%
The Bank of Tokyo - Mitsubishi, Ltd.	8.333%	8.333%
Wells Fargo Bank (Texas), N.A	8.333%	.0%
Royal Bank of Canada	6.333%	6.333%
ABN Amro Bank N.V	5.000%	5.000%
The Bank of New York	5.000%	5.000%
Compass Bank	5.000%	.0%
<b>TOTAL</b>	<b>100%</b>	<b>78.33%</b>

FIRST AMENDMENT TO 364 DAY REVOLVING CREDIT FACILITY AGREEMENT

THIS FIRST AMENDMENT TO 364 DAY REVOLVING CREDIT FACILITY AGREEMENT (the "AMENDMENT"), dated as of January 22, 2001, is among LENNOX INTERNATIONAL INC., a Delaware corporation (the "BORROWER"), each of the lenders listed as a lender or a terminating lender on the signatures pages hereto (individually, an "EXISTING LENDER" and, collectively, the "EXISTING LENDERS"), THE CHASE MANHATTAN BANK, as successor in interest by merger to Chase Bank of Texas, National Association, as administrative agent for the Existing Lenders (in such capacity, the "ADMINISTRATIVE AGENT"), WACHOVIA BANK, N.A., a national banking association, as syndication agent (in such capacity, the "SYNDICATION AGENT" and together with the Administrative Agent, herein the "AGENTS") and THE BANK OF NOVA SCOTIA, as documentation agent.

RECITALS:

A. The Borrower, the Agents and the Existing Lenders have entered into that certain 364 Day Revolving Credit Facility Agreement dated as of January 25, 2000 (the "CREDIT AGREEMENT").

B. The Borrower has requested that the Credit Agreement be amended to extend the Maturity Date and modify the Consolidated Net Income definition and the Consolidated Indebtedness to Adjusted EBITDA covenant. In connection with such request, Bank of America, N.A., Bank of Texas, N.A., Bank One, Texas, N.A. and SunTrust Bank (individually a "TERMINATING LENDER" and collectively the "TERMINATING LENDERS") desire to terminate their respective Commitments and the other Existing Lenders (such other Existing Lenders herein collectively the "LENDERS" and individually a "LENDER") have requested that the aggregate amount of the remaining Commitments be reduced and reallocated.

C. In connection with the forgoing, the Borrower, the Existing Lenders and the Agents desire to enter into this Amendment and amend the Credit Agreement as herein set forth.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows effective as of January 23, 2001:

ARTICLE 1

DEFINITIONS

Section 1.1 DEFINITIONS. Capitalized terms used in this Amendment and defined in the Credit Agreement, to the extent not otherwise defined herein, shall have the same meaning as in the Credit Agreement, as amended hereby.

ARTICLE 2

AMENDMENTS

Section 2.1 AMENDMENT TO REFERENCES TO "CHASE BANK OF TEXAS, NATIONAL ASSOCIATION" AND TO THE "LENDERS". All references to Chase Bank of Texas, National Association in the Credit Agreement are amended to read "The Chase Manhattan Bank, successor in interest by merger to Chase Bank of Texas, National Association". All references to the "Lenders" or any "Lender" in the Credit Agreement are amended to exclude the Terminating Lenders and each of the Terminating Lenders agree that after the effectiveness of this Amendment, no Terminating Lender shall be a party to the Credit Agreement and, as

a result, the Credit Agreement may be amended without the consent or agreement of any Terminating Lender.

Section 2.2 AMENDMENT TO SECTION 1.01. Each of the following definitions in SECTION 1.01 of the Credit Agreement are amended in their respective entirety as follows:

"CONSOLIDATED NET INCOME" shall mean, for any period, the net income (or net loss) of the Borrower and its Restricted Subsidiaries for such period, determined in accordance with GAAP, excluding:

(a) the proceeds of any life insurance policy;

(b) any gain arising from (1) the sale or other disposition of any assets (other than current assets) to the extent that the aggregate amount of gains exceeds the aggregate amount of losses from the sale, abandonment or other disposition of assets (other than current assets and other than the losses excluded from Consolidated Net Income under clause (f) below), (2) any write-up of assets, or (3) the acquisition by the Borrower or any Restricted Subsidiary of its outstanding securities constituting Indebtedness;

(c) any amount representing the interest of the Borrower or any Restricted Subsidiary in the undistributed earnings of any other Person;

(d) any earnings of any other Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Borrower or a Restricted Subsidiary and any earnings, prior to the date of acquisition, of any other Person acquired in any other manner;

(e) any deferred credit (or amortization of a deferred credit) arising from the acquisition of any Person;

(f) any non-recurring loss arising from the sale or other disposition of any asset in 2001 but only to the extent that the aggregate amount of such losses is less than \$25,000,000; and

(g) any non-recurring restructuring charges recorded in 2001 but only to the extent that the aggregate amount of such restructuring charges is less than \$25,000,000.

"MATURITY DATE" shall mean January 21, 2002 or any later date then most recently established in accordance with Section 2.21 hereof.

Section 2.3 AMENDMENT TO SECTION 5.15. Clause (b) in SECTION 5.15 of the Credit Agreement is amended in its entirety to read as follows:

(b) CONSOLIDATED INDEBTEDNESS TO ADJUSTED EBITDA. As of the last day of each fiscal quarter during the periods described below, the Borrower shall not permit the ratio of Consolidated Indebtedness outstanding as of such day to the Adjusted EBITDA for the four (4) fiscal quarters then ended to exceed: (i) 3.00 to 1.00 at all times other than as described in the following clause (ii); or (ii) 3.25 to 1.00 for all fiscal quarters ending prior to September 30, 2001 if, and only if prior to any such fiscal quarter end Borrower shall have delivered to the Administrative Agent evidence satisfactory to it that the holders of the Indebtedness outstanding under the Senior Note Purchase Agreements

and the holders of any other Indebtedness that have the benefit of a Consolidated Indebtedness to Adjusted EBITDA ratio the same or similar to this Section 5.15(b), shall have agreed to a maximum ratio not to exceed 3.25 to 1.00 for all fiscal quarters ending prior to September 30, 2001.

Section 2.4 AMENDMENT TO SECTION 8.04(B). Clause (ii) of clause (b) in SECTION 8.04 of the Credit Agreement is amended in its entirety to read as follows:

(ii) the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment and the amount of the Commitment retained by the assigning Lender (each determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 unless the assigning Lender is assigning its entire Commitment or unless the assignment is to another Lender or to an Affiliate of a Lender,

Section 2.5 AMENDMENT TO SCHEDULE 2.01; TERMINATION OF THE COMMITMENTS OF THE TERMINATING LENDERS. SCHEDULE 2.01 to the Credit Amendment, which specifies the Commitment of each Lender, is amended in its entirety to read as set forth on SCHEDULE 2.01 hereto. In accordance with the forgoing amendment to SCHEDULE 2.01, the Borrower, the Agent and the Existing Lenders agree that the Commitment of each Terminating Lender is hereby terminated and of no further force or effect.

### ARTICLE 3

#### ADVANCES AND ADJUSTMENTS

Section 3.1 ADVANCES AND ADJUSTMENTS. As a result of the overall decrease in the aggregate amount of the Commitments, the reallocation of the Commitments and the termination of the Commitments of the Terminating Lenders, the Loans and the participations in Letters of Credit and Swingline Loans will not be held in proportion to the Commitments after giving effect to the terms of Article 2 of this Amendment. To remedy the foregoing, on January 23, 2001 but subject to the satisfaction of the conditions set forth in clauses (a) and (c) through (g) of Section 4.1 of this Amendment: (A) the Lenders who have increased their Commitments or whose pro rata portion of the Loans have increased (as listed on SCHEDULE 3.1A attached hereto, the "ADVANCING LENDERS") will make advances, the proceeds of which shall be utilized to repay the Terminated Lenders and the Lenders who did not increase their Commitments or whose pro rata portion of the Loans decreased (as listed on SCHEDULE 3.1B attached hereto the "RECEIVING LENDERS"), with such borrowing and repayments to be in amounts sufficient so that after giving effect thereto, the Loans shall be held by the Lenders pro rata based on each Lender's Commitment as stated on SCHEDULE 2.01 attached hereto and the principal amount of the Loans owed to the Terminating Lenders shall be repaid in full on January 23, 2001 and (B) the participation interest in the outstanding Letters of Credit and Swingline Loans are hereby reallocated so that each Lender holds an undivided interest and participation in and to each Swingline Loan and in and to each outstanding Letter of Credit, the obligations of the Borrower in respect thereof, and the liability of the Issuing Bank therein in the proportion that such Lender's Commitment bears to the aggregate amount of all of the Commitments as stated on SCHEDULE 2.01 attached hereto. Each such advance made by an Advancing Lender shall be deemed a Eurodollar Advance and shall be deemed made under the Commitments and be deemed a Loan.

ARTICLE 4

CONDITIONS

Section 4.1 CONDITIONS. The effectiveness of Article 2 of this Amendment is subject to the satisfaction of the following conditions precedent on or before the January 23, 2001 (the "CLOSING DATE"):

(a) BORROWER REPAYMENT. The Borrower shall have paid to the Administrative Agent all unpaid interest and fees owed to the Terminating Lenders as of the Closing Date;

(b) REPAYMENT OF TERMINATING LENDERS. Each of the Terminating Lenders shall have received the repayment in full of all outstanding principal, all accrued and unpaid interest and fees and all other outstanding amount then due, in each case which are owed to it as of the Closing Date;

(c) CONTINUED EFFECT OF REPRESENTATIONS AND WARRANTIES. As of the Closing Date, all representations and warranties contained in the Loan Documents (as amended hereby) shall be true, correct, and complete in all material respects except for representations specifically relating to a prior date;

(d) ABSENCE OF DEFAULT. No Default shall have occurred and be continuing;

(e) CORPORATE PROCEEDINGS. All corporate proceedings taken in connection with the transactions contemplated by this Amendment and all other agreements, documents, and instruments executed and/or delivered pursuant hereto, and all legal matters incident thereto, shall be satisfactory to the Administrative Agent and its legal counsel;

(f) FEES AND EXPENSES. Payment or reimbursement to the Existing Lenders, the Agents and the Arranger of all outstanding expenses, fees and other costs incurred by, or due to, the Existing Lenders, the Agents and the Arranger for which such entity has presented an invoice to the Borrower prior to the Closing Date; and

(g) ADDITIONAL INFORMATION. The Administrative Agent shall have received such additional agreements, certificates, documents, instruments and information as the Administrative Agent or its legal counsel may request to effect the transactions contemplated hereby.

ARTICLE 5

MISCELLANEOUS

Section 5.1 RATIFICATIONS. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Credit Agreement and except as expressly modified and superseded by this Amendment, the terms and provisions of the Credit Agreement are ratified and confirmed and shall continue in full force and effect. The Borrower, the Agents and the Lenders agree that the Credit Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms.

Section 5.2 FEES AND EXPENSES. In accordance with the terms of Section 8.05 of the Credit Agreement, Borrower agrees to pay all costs and expenses incurred by either Agent in connection with the preparation, negotiation and execution of this Amendment, including, without limitation, the costs and fees of legal counsel.



Section 5.3 APPLICABLE LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

Section 5.4 SUCCESSORS AND ASSIGNS. This Amendment is binding upon and shall inure to the benefit of the Agents, the Existing Lenders and the Borrower and their respective successors and assigns.

Section 5.5 COUNTERPARTS. This Amendment may be executed in one or more counterparts and on telecopy counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same agreement.

Section 5.6 HEADINGS. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 5.7 ENTIRE AGREEMENT. THIS AMENDMENT EMBODIES THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO AND SUPERSEDES ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THIS AMENDMENT, AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSION OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO.

Executed as of the date first written above.

BORROWER:

LENNOX INTERNATIONAL INC.

By: /s/SCOTT E. MESSEL

-----  
Scott E. Messel, Vice President and Treasurer

AGENTS:

THE CHASE MANHATTAN BANK, as successor in interest by merger to Chase Bank of Texas, National Association, individually as a Lender, the Issuing Bank and the Swingline Lender and as Administrative Agent

By: /s/ ALLEN KING

-----  
Allen King  
Vice President

WACHOVIA BANK, N.A.,  
individually as a Lender and as syndication agent

By: /s/ BRAD WATKINS  
-----  
Name: Brad Watkins  
Title: Vice President

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

By: /s/ F.C.H. ASHBY  
-----  
Name: F.C.H. Ashby  
Title: Senior Manager, Loan Operations

OTHER LENDERS:

ABN AMRO BANK, N.V.

By: /s/ ELIZABETH H. HURST  
-----  
Name: Elizabeth H. Hurst  
Title: Group Vice President

By: /s/ C. DAVID ALLMAN  
-----  
Name: C. David Allman  
Title: Assistant Vice President

FIRST UNION NATIONAL BANK

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Firststar Bank N.A. (formerly Mercantile Bank  
National Association)

By: /s/ GREGORY L. DRYDEN  
-----  
Gregory L. Dryden, Vice President

ROYAL BANK OF CANADA

By: /s/ N.G. MILLAR  
-----  
Name: N.G. Millar  
Title: Senior Manager

THE BANK OF NEW YORK

By: /s/ DAVID SUNDERWIRTH  
-----  
Name: David Sunderwirth  
Title: Vice President

THE BANK OF TOKYO-MITSUBISHI, LTD.

By: /s/ IVY BELL  
-----  
Name: D. Barnell  
Title: Vice President

By: /s/ JOHN M. MEARNS  
-----  
Name: John M. Mearns  
Title: VP and Manager

THE NORTHERN TRUST COMPANY

By: /s/ JARON GRIMM  
-----  
Name: Jaron Grimm  
Title: Vice President

UBS AG, Stamford Branch

By: /s/ WILFRED V. SAINT  
-----  
Name: Wilfred V. Saint  
Title: Associate Director  
Banking Products Services, US

By: /s/ THOMAS R. SALZANE  
-----  
Name: Thomas R. Salzane  
Title: Director  
Banking Products Services, US

TERMINATING LENDERS:

BANK OF AMERICA, N.A.

By: /s/ BIANCA HEMMEN  
-----  
Name: Bianca Hemmen  
Title: Managing Director

BANK OF TEXAS, N.A.

By: /s/ DAVID BROUSSARD, JR.  
-----  
Name: David Broussard, Jr.  
Title: Sr. Vice President

BANK ONE, TEXAS, N.A.

By: /s/ KEVEN D. SMITH  
-----  
Name: Keven D. Smith  
Title: Vice President

SUNTRUST BANK

By: /s/ FRANK A. COE  
-----  
Name: Frank A. Coe  
Title: Vice President

SCHEDULE 2.01

LENDER NAME	COMMITMENT	TITLE
The Chase Manhattan Bank	\$ 22,000,000	Administrative Agent
Wachovia Bank, N.A	\$ 21,000,000	Syndication Agent
The Bank of Nova Scotia	\$ 15,000,000	Documentation Agent
The Northern Trust Company	\$ 6,000,000	Managing Agent
Royal Bank of Canada	\$ 16,000,000	Managing Agent
Bank of Tokoyo - Mitsubishi, Ltd.	\$ 5,000,000	Co-Agent
ABN AMRO Bank, N.V	\$ 12,500,000	Co-Agent
UBS AG, Stamford Branch	\$ 25,000,000	Co-Agent
First Union National Bank	\$ 20,000,000	Participant
The Bank of New York	\$ 5,000,000	Participant
Firststar Bank N.A	\$ 15,000,000	Participant
	-----	
TOTAL	\$162,500,000	

SCHEDULE 2.01 TO FIRST AMENDMENT TO 364 DAY REVOLVING CREDIT FACILITY AGREEMENT,  
Solo Page

SCHEDULE 3.1A  
ADVANCING LENDERS

The Chase Manhattan Bank

Wachovia Bank, N.A.

The Bank of Nova Scotia

The Northern Trust Company

Royal Bank of Canada

Bank of Tokoyo - Mitsubishi, Ltd.

UBS AG, Stamford Branch

Firststar Bank N.A.

SCHEDULE 3.1B  
RECEIVING LENDERS

ABN AMRO Bank, N.V.  
The Bank of New York  
First Union National Bank  
SunTrust Bank  
Bank One, Texas, N.A.  
Bank of America, N.A.  
Bank of Texas, N.A.

SCHEDULE 2.1B TO FIRST AMENDMENT TO 364 DAY REVOLVING CREDIT FACILITY AGREEMENT,  
Solo Page

LETTER AMENDMENT NO. 2  
TO  
MASTER SHELF AGREEMENT DATED AS OF OCTOBER 15, 1999

January 23, 2001

The Prudential Insurance Company  
of America  
c/o Prudential Capital Group  
2200 Ross Avenue, Suite 4200E  
Dallas, Texas 75201

Ladies and Gentlemen:

We refer to the Master Shelf Agreement dated as of October 15, 1999, as amended by Letter Amendment No. 1 dated February 28, 2000 (as so amended, the "AGREEMENT") among the undersigned, Lennox International Inc. (the "COMPANY"), and The Prudential Insurance Company of America ("PRUDENTIAL"). Unless otherwise defined herein, the terms defined in the Agreement shall be used herein as therein defined.

The Company has requested that Prudential enter into this Letter Amendment No. 2 to evidence amendment of the Agreement as set forth herein. You have indicated your willingness to so agree. Accordingly, it is hereby agreed by you and us as follows:

The Agreement is, effective the date first above written, hereby amended as follows:

PARAGRAPH 10.12.3. FINANCIAL COVENANTS. The first sentence of clause (b) of paragraph 10.12.3 is amended in full to read as follows:

"(b) CONSOLIDATED INDEBTEDNESS TO ADJUSTED EBITDA. As of the last day of each fiscal quarter during the periods described below, the Company shall not permit the ratio of Consolidated Indebtedness outstanding as of such day to the Adjusted EBITDA for the four (4) fiscal quarters then ended to exceed: (i) 3.00 to 1.00 at all times other than as described in the following clause (ii); or (ii) 3.25 to 1.00 for all fiscal quarters ending prior to September 30, 2001."

SCHEDULE B. DEFINED TERMS. The definition of "Consolidated Net Income" in Schedule B is amended in full to read as follows:



"CONSOLIDATED NET INCOME" for any period means the net income (or net loss) of the Company and its Restricted Subsidiaries for such period, determined in accordance with GAAP, EXCLUDING:

(a) the proceeds of any life insurance policy;

(b) any gain arising from (1) the sale or other disposition of any assets (other than current assets) to the extent that the aggregate amount of gains exceeds the aggregate amount of losses from the sale, abandonment or other disposition of assets (other than current assets and other than the losses excluded from Consolidated Net Income under clause (f) below), (2) any write-up of assets, or (3) the acquisition by the Company or any Restricted Subsidiary of its outstanding securities constituting Indebtedness;

(c) any amount representing the interest of the Company or any Restricted Subsidiary in the undistributed earnings of any other Person;

(d) any earnings of any other Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or a Restricted Subsidiary and any earnings, prior to the date of acquisition, of any other Person acquired in any other manner;

(e) any deferred credit (or amortization of a deferred credit) arising from the acquisition of any Person;

(f) any non-recurring loss arising from the sale or other disposition of any asset in 2001 but only to the extent that the aggregate amount of such losses is less than \$25,000,000; and

(g) any non-recurring restructuring charges recorded in 2001 but only to the extent that the aggregate amount of such restructuring charges is less than \$25,000,000."

On and after the effective date of this Letter Amendment No. 2, each reference in the Agreement to "this Agreement", "hereunder", "hereof", or words of like import referring to the Agreement, and each reference in the Notes to "the Agreement", "thereunder", "thereof", or words of like import referring to the Agreement, shall mean the Agreement as amended by this Letter Amendment No. 2. The Agreement, as amended by this Letter Amendment No. 2, is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed. The execution, delivery and effectiveness of this Letter Amendment No. 2 shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy under the Agreement nor constitute a waiver of any provision of the Agreement.

This Letter Amendment No. 2 may be executed in any number of counterparts and by any combination of the parties hereto in separate counterparts, each of which counterparts shall be an original and all of which taken together shall constitute one and the same letter amendment.

If you agree to the terms and provisions hereof, please evidence your agreement by executing and returning at least a counterpart of this Letter Amendment No. 2 to Lennox International Inc., 2140 Lake Park Blvd., Richardson, TX 75080, Attention of Chief Financial Officer. This Letter Amendment No. 2 shall become effective as of the date first above written when and if (i) counterparts of this Letter Amendment No. 2 shall have been executed by us and you; (ii) holders of at least 66-2/3% in aggregate unpaid principal amount of all notes under each of the 1993 Note Agreements, the 1995 Note Agreement and the 1998 Note Agreement (as each such term is defined in Exhibit A attached hereto) at the time outstanding shall have executed an amendment similar to this Letter Amendment No. 2; and (iii) the Company shall have furnished to Prudential evidence of the satisfaction of clause (ii).

Very truly yours,

LENNOX INTERNATIONAL INC.

By: /s/ CARL E. EDWARDS, JR.

-----  
Carl E. Edwards, Jr.  
Executive Vice President

Agreed as of the date first above written:

THE PRUDENTIAL INSURANCE COMPANY  
OF AMERICA

By: /s/ RIC E. ABEL

-----  
Ric E. Abel  
Vice President

AMENDMENT DATED DECEMBER 15, 2000  
TO  
1998 INCENTIVE PLAN OF LENNOX INTERNATIONAL INC.

The Plan is hereby amended to delete Paragraph 5 of the Plan, in its entirety, and replace it with the following:

"5. Common Stock Available for Awards. Subject to the provisions of paragraph 15 hereof, there shall be available for Awards under this Plan granted wholly or partly in Common Stock (including rights or options that may be exercised for or settled in Common Stock) an aggregate of 7,541,635 shares of Common Stock, of which an aggregate of not more than 660,000 shares shall be available for Director Awards and the remainder shall be available for Employee Awards and Independent Contractor Awards. The number of shares of Common Stock that are the subject of Awards under this Plan, that are forfeited or terminated, expire unexercised, are settled in cash in lieu of Common Stock or in a manner such that all or some of the shares covered by an Award are not issued to a Participant or are exchanged for Awards that do not involve Common Stock, shall again immediately become available for Awards hereunder. The Committee may from time to time adopt and observe such procedures concerning the counting of shares against the Plan maximum, as it may deem appropriate. The Board and the appropriate officers of the Company shall from time to time take whatever actions are necessary to file any required documents with governmental authorities, stock exchanges and transaction reporting systems to ensure that shares of Common Stock are available for issuance pursuant to Awards."

LENNOX INTERNATIONAL INC. SUBSIDIARIES  
AS OF JANUARY 1, 2001

Name	Ownership	Jurisdiction of Inc.
Lennox Industries Inc. SEE ANNEX A	100%	Iowa
Heatcraft Inc	100%	Mississippi
Frigus-Bohn S.A. de C.V	50%	Mexico
LGL de Mexico, S.A. de C.V	1%	Mexico
Lennox Participacoes Ltda	1%	Brazil
Frigo-Bohn do Brasil Ltda	99%	Brazil
Heatcraft do Brasil Ltda	84.47%	Brazil
SIWA S.A	100%	Uruguay
Livernois Engineering Co.	100%	Michigan
Heatcraft Advanced Technologies Inc.	100%	Delaware
Heatcraft Heat Transfer Inc.	100%	Delaware
Advanced Distributor Products LLC	100%	Delaware
Heatcraft Refrigeration Products LLC	100%	Delaware
Armstrong Air Conditioning Inc.	100%	Ohio
Jensen-Klich Supply Co.	100%	Nebraska
Armstrong Distributors Inc.	100%	Delaware
Heatcraft Technologies Inc.	100%	Delaware
Strong LGL Colombia Ltda	50%	Colombia
LGL Peru S.A.C	10%	Peru
Alliance Compressor Partnership	24.5%	Louisiana
LPAC Corp.	100%	Delaware
Excel Comfort Systems Inc.	100%	Delaware
Allied Air Enterprises Inc.	100%	Delaware
Service Experts Inc. SEE ANNEX B	100%	Delaware
Lennox Inc.	100%	Canada
Lennox Canada Inc. SEE ANNEX C	100%	Canada
National Air Systems Inc.	100%	California
Lennox Global Ltd. SEE ANNEX D	100%	Delaware

ANNEX A  
TO  
EXHIBIT 21.1

LENNOX INDUSTRIES INC. SUBSIDIARIES

Name	Ownership	Jurisdiction of Inc.
Lennox Industries (Canada) Ltd.	100%	Canada
LHP Holding Inc.	100%	Delaware
Superior Fireplace Company	100%	Delaware
Marco Mfg., Inc.	100%	California
Marcomp Inc.	100%	California
Hearth Trends Inc.	100%	Washington
Securite Cheminees International Ltee	100%	Canada
SARL Cheminees Securite	100%	France
Security Chimneys UK Limited	100%	UK
Security USA	100%	
Firecraft Technologies Inc.	100%	Delaware
The Earth Stove, Inc.	100%	Oregon
Products Acceptance Corporation	100%	Iowa
Lennox Manufacturing Inc.	100%	Delaware
Lennox Finance Inc.	100%	Canada

ANNEX B  
TO  
EXHIBIT 21.1

SERVICE EXPERTS INC. SUBSIDIARIES

The following are all organized in the state indicated and owned 100% by Service Experts Inc.:

A. Frank Woods and Sons LLC - Virginia  
AC/DAC, L.L.C. - Tennessee  
Academy Air Service Experts, Inc. - Tennessee  
Ainsley & Son Heating LLC - Ohio  
Air Conditioning and Heating, LLC - Tennessee  
Air Engineers, Inc. - Florida  
Air Experts LLC - Georgia  
Air Experts LLC - Ohio  
Air Systems of Florida, Inc. - Florida  
Aire-Tech LLC - Ohio  
Airmaster Heating & Air Conditioning LLC - Michigan  
Allbritten Plumbing, Heating and Air Conditioning Service, Inc. - Tennessee  
Alliance Mechanical Heating & Air Conditioning, Inc. - California  
Andros Refrigeration LLC - Arizona  
Andy Lewis Heating & Air Conditioning LLC - North Carolina  
Andy Lewis Heating & Air Conditioning, Inc. - Georgia  
Arrow Heating & Air Conditioning, Inc. - Wisconsin  
Artic Aire of Chico, Inc. - California  
Atlantic Air Conditioning and Heating LLC - Maryland  
Atmostemp LLC - New Jersey  
Austin Brothers, Inc. - Tennessee  
Barlow Heating and Air Conditioning LLC - Delaware  
Bartels Heating & Air Conditioning LLC - Colorado  
Becht Heating & Cooling LLC - Delaware  
Ben Peer Heating LLC - New York  
Berkshire Air Conditioning LLC - Tennessee  
Berkshire Heating & Cooling LLC - Delaware  
Blue Springs Heating & Air Conditioning LLC - Missouri  
Broad Ripple Heating & Air Conditioning Inc. - Indiana  
Burnsville Heating & Air Conditioning LLC - Minnesota  
C. Iapaluccio Company LLC - Delaware  
C. Woods Company LLC - Delaware  
Calverley Air Conditioning & Heating LLC - Delaware  
Chanin Air LLC - Florida  
Chief/Bauer Heating & Air Conditioning LLC - Delaware  
Claire's Air Conditioning and Refrigeration, Inc. - Tennessee  
Climate Control LLC - Alabama  
Climate Design Systems LLC - Tennessee  
Climate Masters Service LLC - Colorado  
Coastal Air Conditioning Service LLC - Georgia  
Comfort Masters Heating & Cooling LLC - Delaware  
Comfort Tech Cooling & Heating LLC - Tennessee  
Comfortech, Inc. - Tennessee  
Contractor Success Group, Inc. - Missouri  
Controlled Comfort LLC - Nebraska  
Cook Heating & Air Conditioning LLC - Michigan  
Cook Heating and Air Conditioning LLC - Delaware  
Cool Breeze LLC - Ohio  
Cool Power LLC - New York

ANNEX B  
TO  
EXHIBIT 21.1

SERVICE EXPERTS INC. SUBSIDIARIES (CONT'D.)

D.A. Bennett LLC - New York  
Dan Jacobs Heating & Cooling LLC - Pennsylvania  
Davis the Plumber LLC - New Mexico  
Dial One Raymond Plumbing, Heating & Cooling, Inc. - Tennessee  
DiMarco Mechanical LLC - Ohio  
Dodge Heating & Air Conditioning LLC - Georgia  
Doler Plumbing & Heating LLC - Delaware  
Economy Heating & Air Conditioning LLC - Pennsylvania  
Edison Heating and Cooling LLC - New Jersey  
Epperson LLC - South Carolina  
Eveready LLC - Virginia  
Falso Service Experts LLC - New York  
Fras-Air Contracting LLC - New Jersey  
Freschi Air Systems, Inc. - Tennessee  
Frosty Mechanical Contractors LLC - Delaware  
Future Acquisition Sub, Inc. - Tennessee  
Gables Air Conditioning LLC - Florida  
General Conditioning LLC - New Jersey  
General Conditioning Plumbing, Inc. - New Jersey  
George B. Givins Company, Inc. - Tennessee  
Getzschman Heating & Sheet Metal Contractors LLC - Nebraska  
Golden Seal Heating & Air Conditioning LLC - Delaware  
Gordon's Specialty Company LLC - Oklahoma  
Gray Refrigeration LLC - Delaware  
Greenwood Heating & A/C LLC - Washington  
Gregory's Plumbing Co. LLC - Oklahoma  
H.S. Stevenson & Sons LLC - Ohio  
Holmes Sales & Service LLC - Iowa  
Industrial Building Services, Inc. - Florida  
International Service Leadership Inc. - Delaware  
Jack Nelson Co. LLC - Oklahoma  
Jansen Heating and Air Conditioning LLC - Delaware  
Jebco Heating & Air Conditioning LLC - Colorado  
JM Mechanical LLC - Delaware  
John P. Timmerman Co. LLC - Ohio  
K & S Heating, Air Conditioning & Plumbing LLC - Minnesota  
Kiko Heating & Air Conditioning LLC - Ohio  
Klawinski LLC - Delaware  
Knochelmann Plumbing, Heating & Air LLC - Kentucky  
Kozon LLC - Tennessee  
Kruger's Heating & Air Conditioning LLC - Delaware  
Lake Arbor Heating LLC - Colorado  
Lee Voisard Plumbing & Heating LLC - Ohio  
Local Furnace LLC - Colorado  
Marco Cooling and Refrigeration LLC - Florida  
Mathews Heating & Air Conditioning LLC - Tennessee  
Matz Heating & Air Conditioning LLC - New York  
McPhee Service Experts, Inc. - Colorado  
Midland Heating & Air LLC - South Carolina  
Miller Refrigeration, A/C, & Htg. Co. - North Carolina  
National Air Systems, Inc. - California  
Neal Harris Heating, Air Conditioning & Plumbing LLC - Missouri  
Norrell Heating and Air Conditioning LLC - Alabama  
Pardee Refrigeration LLC - South Carolina  
Parker-Pearce Service Experts LLC - Maryland

ANNEX B  
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SERVICE EXPERTS INC. SUBSIDIARIES (CONT'D.)

Parrott Mechanical, Inc. - Idaho  
Peachtree Service Experts LLC - Georgia  
Peitz Heating and Cooling LLC - South Dakota  
PTM Enterprises LLC - Georgia  
R&M Climate Control LLC - Tennessee  
Roland J. Down LLC - New York  
Rolf Griffin Heating & Air Conditioning LLC - Delaware  
Russell Mechanical LLC - Delaware  
Ryan Heating LLC - Missouri  
S & W Air Conditioning LLC - Tennessee  
San Antonio Air Conditioning LLC - Delaware  
Sanders Indoor Comfort LLC - South Carolina  
Sanders Service Experts, Inc. - Tennessee  
Sedgwick Heating & Air Conditioning LLC - Minnesota  
SEI Management Company, LLC - Tennessee  
SEIIN GP, Inc. - Indiana  
SEITN GP, Inc. - Tennessee  
Service Experts DFW LLC - Tennessee  
Service Experts LLC - Florida  
Service Experts of Arkansas LLC - Arkansas  
Service Experts of Clearwater, Inc. - Tennessee  
Service Experts of Denver LLC - Colorado  
Service Experts of Imperial Valley, Inc. - California  
Service Experts of Indiana, L.P. - Tennessee  
Service Experts of Indianapolis, Inc. - Indiana  
Service Experts of Northeast Louisiana LLC - Louisiana  
Service Experts of Northwest Louisiana LLC - Louisiana  
Service Experts of Palm Springs, Inc. - California  
Service Experts of Raleigh LLC - North Carolina  
Service Experts of Salt Lake City LLC - Tennessee  
Service Experts of the Bay Area, Inc. - California  
Service Experts of Utah LLC - Delaware  
Service Experts Services, LLC - Tennessee  
Service Now, Inc. - California  
Shumate Mechanical LLC - Georgia  
Steel City Heating & Air LLC - Alabama  
Strand Brothers LLC - Tennessee  
Strogen's HVAC LLC - New Hampshire  
Sunbeam Service Experts LLC - New York  
Sylvester's Corp. - Indiana  
Sylvester's, L.P. - Tennessee  
Teays Valley Heating and Cooling LLC - West Virginia  
The McElroy Service Company LLC - Nebraska  
TML LLC - Idaho  
Total Comfort Specialists - California  
Triton Mechanical LLC - New York  
Valentine Heating & Air Conditioning LLC - Georgia  
Venture International, Inc. - Tennessee  
Vogt Heating & Air Conditioning LLC - Minnesota  
Wangsgaard A-Plus, Inc. - Utah  
Wesley G. Wood LLC - Pennsylvania



ANNEX C  
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LENNOX CANADA INC. SUBSIDIARIES

The following are all organized in Canada and owned 100% by Lennox Canada Inc.:

Bradley Air Conditioning Limited  
Valley Refrigeration Limited  
Dearie Contracting Inc.  
Dearie Martino Contractors Ltd.  
Foster Air Conditioning Ltd.  
Bryant Heating & Cooling Co. Ltd.  
Bryant Newco Inc.  
Montwest Air Ltd.  
Fahrhall Mechanical Contractors Limited  
Arpi's Industries Canada Ltd.  
    Arpi's Holdings Ltd.  
    Advance Mechanical Ltd.

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LENNOX GLOBAL LTD. SUBSIDIARIES

Name	Ownership	Jurisdiction of Inc.
Lennox Global Asia-Pacific Pte Ltd	100%	Rep. of Singapore
Lennox Global (Wuxi) Co. Ltd.	100%	China
Fairco S.A	50%	Argentina
LGL Europe Holding Co. SEE ANNEX E	100%	Delaware
UK Industries, Inc.	100%	Delaware
LGL de Mexico, S.A. de C.V	99%	Mexico
Lennox Participacoes Ltda	99%	Brazil
Frigo-Bohn do Brasil Ltda	1%	Brazil
Strong LGL Dominicana, S.A	100%	Dominican Republic
Strong LGL Colombia Ltda	50%	Colombia
LGL Belgium S.P.R.L	0.4%	Belgium
LGL Thailand Ltd.	100%	Thailand
LGL Peru S.A.C	90%	Peru
LGL Australia (US) Inc. SEE ANNEX F	100%	Delaware

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LGL EUROPE HOLDING CO. SUBSIDIARIES

Name	Ownership	Jurisdiction of Inc.
LGL Holland B.V	100%	Holland
Friga-Coil S.R.O	50%	Czech Republic
Ets. Brancher S.A	100%	France
Frinotec S.A	99.68%	France
LGL France S.A	100%	France
Herac Ltd.	100%	United Kingdom
SCI Groupe Brancher	100%	France
Hyfra Ind. GmbH	0.1%	Germany
LGL Germany GmbH	100%	Germany
Friga-Bohn Warmeaustauscher GmbH	100%	Germany
Hyfra Ind. GmbH	99.9%	Germany
Lennox Deutschland GmbH	100%	Germany
Lennox Global Spain S.L	100%	Spain
Lennox Refrigeration Spain S.A	90.1%	Spain
Aldo Marine	70%	Spain
Lennox Espana, S.A	100%	Spain
Redi sur Andalucia	70%	Spain
Lennox Climatizacao Lda	50%	Portugal
LGL Refrigeration Italia s.r.l	80%	Italy
LGL Polska Spzoo	100%	Poland
LGL Belgium S.P.R.L	99.6%	Belgium
Lennox Benelux B.V	100%	Netherlands
Lennox Benelux N.V	100%	Belgium
HCF Lennox Ltd.	100%	United Kingdom
Lennox Industries (UK)	100%	United Kingdom
Environheat Limited	100%	United Kingdom
Lennox Janka a.s	100%	Czech Republic
Friga Coil s.r.o	50%	Czech Republic
Janka Slovensko, s.r.o	100%	Slovak Republic
Ecoclima	15%	

ANNEX F  
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LGL AUSTRALIA (US) INC. SUBSIDIARIES

Name	Ownership	Jurisdiction of Inc.
LGL Co Pty Ltd	100%	Australia
LGL Australia Investment Pty Ltd	100%	Australia
LGL Australia Finance Pty Ltd	10%	Australia
LGL Australia Finance Pty Ltd	90%	Australia
LGL Australia Holdings Pty Ltd	100%	Australia
Lennox Australia Pty. Ltd.	100%	Australia
LGL (Australia) Pty Ltd	100%	Australia
LGL Refrigeration Pty. Ltd	100%	Australia
James N Kirby Pty Ltd	100%	Australia
Kirby Refrigeration Pty. Ltd (Albury)	75%	Australia
Kirby Refrigeration Pty. Ltd (Sunshine Coast)	75%	Australia
Kirby Refrigeration Pty. Ltd (Gold Coast)	75%	Australia
Kirby Refrigeration Pty. Ltd (Tasmania)	75%	Australia
Kirby Refrigeration Pty. Ltd (Hobart)	100%	Australia
Refrigeration & Heating Wholesale Pty Ltd (Vid)	100%	Australia
Refrigeration & Heating Wholesale Pty Ltd (SA)	100%	Australia
R&H Wholesale Pty Ltd	100%	Australia
Kirby Refrigeration Pty. Ltd. (NT)	75%	Australia
Kirby Tubes & Contract Coils Pty Ltd	100%	Australia
Kirby Sheet Metal Pty Ltd	100%	Australia
Kirby Central Warehouse Pty Ltd	100%	Australia
Kulthom Kirby Public Company Limited	18%	Australia
Kulthom Control Company Limited	70%	Australia
Thai Sintered Products Co. Limited	44.4%	Thailand
Thai Compressor Manufacturing Co. Limited	25.5%	Thailand
Kulthom Kirby Foundry Co. Limited	100%	Australia
J.N.K. Pty Limited	100%	Australia
P.R.L. Pty Limited	100%	Australia
Kirby USA Inc.	100%	North Carolina
JNK Draughting Pty Limited	100%	Australia
P.R.L Sales Pty Limited	100%	Australia
Air Safe Pty Limited	100%	Australia
James N. Kirby Limited (NZ)	100%	New Zealand

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statement File Nos. 333-83961, 333-83959, 333-86989, 333-92389 and 333-52046 on Form S-8 and the Company's previously filed Registration Statement File No. 333-81555 on Form S-4.

Arthur Andersen LLP  
March 27, 2001