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

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 001-15149

Lennox International Inc.

(Exact name of Registrant as specified in its charter)

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

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

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $.01 par value per share	New York Stock Exchange

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

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

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

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

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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (see definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.)

Large Accelerated Filer ☑ Accelerated Filer o Non-Accelerated Filer o

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

As of June 30, 2006, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $1,647,049,000 based on the closing price of the registrant's common stock on the New York Stock Exchange on such date. Common stock held by non-affiliates excludes common stock held by the registrant's executive officers, directors and stockholders whose ownership exceeds 5% of the common stock outstanding at June 30, 2006. As of February 15, 2007, there were 67,525,707 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the registrant's 2007 Annual Meeting of Stockholders to be held on May 17, 2007 are incorporated by reference into Part III of this report.

LENNOX INTERNATIONAL INC.

FORM 10-K
For the Fiscal Year Ended December 31, 2006

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PART I

Item 1. *Business*

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

The Company

Through our subsidiaries, we are a leading global provider of climate control solutions. We design, manufacture and market a broad range of products for the heating, ventilation, air conditioning and refrigeration ("HVACR") markets. We have leveraged our expertise to become an industry leader known for innovation, quality and reliability. Our products and services are sold through multiple distribution channels under well-established brand names including "Lennox," "Armstrong Air," "Ducane," "Bohn," "Larkin," "Advanced Distributor Products," "Service Experts" and others.

Shown below are our four business segments, the key products and brand names within each segment and 2006 net sales by segment. Segment financial data for the years 2006, 2005 and 2004, including financial information about foreign and domestic operations, is included in Note 3 of the Notes to our Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" and is incorporated herein by reference.

Segment	Products/Services	Brand Names	2006 Net Sales (In Millions)
Residential Heating & Cooling	Furnaces, air conditioners, heat pumps, packaged heating and cooling systems, indoor air quality equipment, pre-fabricated fireplaces, freestanding stoves	Lennox, Armstrong Air, Ducane, Aire-Flo, AirEase, Concord, Magic-Pak, Advanced Distributor Products, Superior, Whitfield, Country Stoves, Security Chimneys	$ 1,848.4
Commercial Heating & Cooling	Unitary heating and air conditioning equipment, applied systems	Lennox, Allied Commercial	723.2
Service Experts	Sales, installation and service of residential and light commercial heating and cooling equipment	Service Experts, various individual service center names	654.1
Refrigeration	Chillers, condensing units, unit coolers, fluid coolers, air cooled condensers, air handlers	Bohn, Larkin, Climate Control, Chandler Refrigeration, Heatcraft Worldwide Refrigeration, Friga-Bohn, HK Refrigeration, Kirby, Lovelocks, Frigus-Bohn	526.4
Eliminations			(81.0)
		Total	$ 3,671.1

We were founded in 1895 in Marshalltown, Iowa when Dave Lennox, the owner of 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 that time. Manufacturing these furnaces grew into a significant business and was diverting the Lennox Machine Shop from its core focus. 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. We reincorporated as a Delaware corporation in 1991 and completed our initial public offering in 1999. Over the years, D.W. Norris ensured ownership was distributed to succeeding generations of his family. We believe a significant portion of our outstanding common stock is currently broadly distributed among descendants of, or persons otherwise related to, D.W. Norris.

Products and Services

Residential Heating & Cooling

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

The “Lennox” and “Aire-Flo” brands are sold directly to a network of approximately 7,000 installing dealers, making us one of the largest wholesale distributors of residential heating and air conditioning products in North America. The “Armstrong Air,” “Ducane,” “AirEase,” “Concord,” “Magic-Pak” and “Advanced Distributor Products” brands are sold through third party distributors.

Our Advanced Distributor Products operation builds evaporator coils and air handlers under the “Advanced Distributor Products” brand as well as the “Lennox,” “Armstrong Air,” “AirEase,” “Concord” and “Ducane” brands. In addition to supplying us with components for our heating and cooling systems, Advanced Distributor Products produces evaporator coils to be used in connection with competitors’ heating and cooling products as an alternative to such competitors’ brand name components. We have achieved a significant share of the market for evaporator coils through the application of technological and manufacturing skills and customer service capabilities.

Hearth Products. Our hearth products include prefabricated gas, wood burning and electric 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. We currently market our hearth products under the “Lennox,” “Superior,” “Whitfield,” “Country Stoves,” and “Security Chimneys” brand names.

Commercial Heating & Cooling

North America. In North America, we sell unitary heating and cooling equipment used in light commercial applications, such as low-rise office buildings, restaurants, retail centers, churches and schools, as opposed to larger applied systems. Our product offerings for these applications include rooftop units ranging from two to 50 tons of cooling capacity and split system/air handler combinations, which range from 1.5 to 20 tons. These products are distributed primarily through commercial contractors. We believe the success of our products is attributable to their efficiency, design flexibility, low life cycle cost, ease of service and advanced control technology.

Europe. In Europe, we manufacture and sell unitary products, which range from two to 30 tons, and applied systems with up to 500 tons of cooling capacity. Our European products consist of small package units, rooftop units, chillers, air handlers and fan coils that serve medium-rise commercial buildings, shopping malls, other retail and entertainment buildings, institutional applications and other field-engineered applications. We manufacture heating and cooling products in several locations in Europe and market these products through both direct and indirect distribution channels in Europe, Russia and the Middle East.

Service Experts

Approximately 120 Company-owned Service Experts dealer service centers provide installation, preventive maintenance, emergency repair and replacement of heating and cooling systems directly to residential and light commercial customers in metropolitan areas in the United States and Canada. In connection with these services, we sell a wide range of Company manufactured equipment, parts and supplies, as well as non-LII branded products from third parties. We focus primarily on service and replacement opportunities, which we believe are more stable and profitable than new construction in our Service Experts segment. We use a portfolio of management procedures and best practices, including standards of excellence for customer service, a training program for new general managers, common IT systems and financial controls, regional accounting centers and an inventory management program designed to enhance the quality, effectiveness and profitability of operations.

Refrigeration

We manufacture and market equipment for the global commercial refrigeration market through subsidiaries organized under the Heatcraft Worldwide Refrigeration name. These products are sold to distributors, installing contractors, engineering design firms, original equipment manufacturers and end users.

North America. Our commercial refrigeration products for the North American market include condensing units, unit coolers, fluid coolers, air cooled condensers, compressor racks and air handlers. These products are sold for cold storage applications, primarily to preserve food and other perishables, and are used by supermarkets, convenience stores, restaurants, refrigerated warehouses and distribution centers. As part of the sale of commercial refrigeration products, we routinely provide application engineering for consulting engineers, contractors and others. We also sell products for non-cold storage applications, such as telecommunications and medical applications.

International. In international markets, we manufacture and market refrigeration products including condensing units, unit coolers, air-cooled condensers, fluid coolers, compressor racks and small chillers. We have manufacturing locations in Europe, Australia, New Zealand, Brazil and China. We also own a 50% interest in a joint venture in Mexico that produces unit coolers and condensing units of the same design and quality as those manufactured by us in the United States. This venture produces a smaller range of products, and therefore the product line is complemented with imports from the United States, which are sold through the joint venture's distribution network. We also own a 21.75% interest in a manufacturer in Thailand that produces compressors for use in our products as well as for other HVACR customers.

Business Strategy

Our business strategy includes both organic growth and acquisition initiatives, and capitalizes on our competitive strengths to improve profitability and expand market share in each of the HVACR markets we serve. The key elements of this strategy include:

Residential Heating & Cooling

- introducing innovative new products, including a broader offering of Indoor Air Quality related products and services;
- leveraging synergies in manufacturing and distribution across all residential business units;
- expanding market share through increased sales in larger sunbelt markets; and
- exploring acquisitions, joint ventures and strategic alliances to enhance capabilities, increase market penetration and expand product offerings.

Commercial Heating & Cooling

- solidifying our position in the new construction market through continued focus on national accounts;
- improving replacement sales by leveraging distribution capabilities to shorten delivery times and promoting planned replacement programs with national account customers;
- expanding domestic manufacturing capacity to support continued sales growth;
- increasing unitary product sales, rationalizing product lines and focusing on cost reduction and factory efficiency to improve profitability in Europe; and
- exploring acquisitions, joint ventures and strategic alliances to enhance capabilities and extend product reach into segments adjacent to our core commercial heating, ventilation, and air conditioning ("HVAC") markets.

Service Experts

- promoting consumer equipment protection plans to strengthen relationships with homeowners;
- employing a Customer Contact Center to improve in-coming call conversion rates;

- utilizing wireless technology to increase the efficiency, productivity, and revenue potential of field service technicians; and
- optimizing the performance of our dealer network by selectively expanding and/or rationalizing service centers.

Refrigeration

- extending successful domestic business model and product knowledge into developing international markets;
- leveraging internal and external intellectual property to drive innovation; and
- exploring acquisitions, joint ventures and strategic alliances to enhance capabilities, expand geographic presence and extend product reach into segments adjacent to our core commercial refrigeration systems market.

Marketing and Distribution

We utilize multiple channels of distribution and offer different brands at various price points in order to better penetrate the HVACR markets. Our products and services are sold through a combination of distributors, independent and Company-owned dealer service centers, other installing contractors, wholesalers, manufacturers' representatives, original equipment manufacturers and national accounts. Dedicated sales forces and manufacturers' representatives are deployed across all of our business segments and brands in a manner designed to maximize their ability to service a particular distribution channel. To optimize enterprise-wide effectiveness, we have active cross-functional and cross-organizational teams coordinating approaches to pricing, product design, distribution and national account customers.

An example of the competitive strength of our marketing and distribution strategy is in the North American residential heating and cooling market in which we use three distinctly different distribution approaches: the one-step distribution system, the two-step distribution system and sales made directly to consumers. We distribute our "Lennox" and "Aire-Flo" brands in a one-step process directly to dealers that install these heating and cooling products. We distribute our "Armstrong Air," "Ducane," "AirEase," "Concord," Magic-Pak" and "Advanced Distributor Products" brands through the traditional two-step distribution process whereby we sell our products to distributors who, in turn, sell the products to installing contractors. In addition, we provide heating and cooling products and services directly to consumers through Company-owned Service Experts dealer service centers.

Over the years, the "Lennox" brand has become synonymous with "Dave Lennox," a highly recognizable advertising icon in the heating and cooling industry. The "Dave Lennox" image is utilized in mass media advertising, as well as in numerous locally produced dealer advertisements, open houses and trade events.

Manufacturing

We operate manufacturing facilities in the United States and throughout the world. We have embraced lean-manufacturing principles, a manufacturing philosophy which reduces waste in manufactured products by shortening the timeline between the customer order and delivery, accompanied by initiatives to achieve high product quality across our manufacturing operations. In our facilities most impacted by seasonal demand, we manufacture both heating and cooling products to smooth seasonal production demands and maintain a relatively stable labor force. We are generally able to hire temporary employees to meet changes in demand.

Supply Chain Logistics

We rely on various suppliers to furnish the raw materials and components used in the manufacturing of our products. To maximize our buying effectiveness in the marketplace, we have developed a central strategic sourcing group that consolidates required purchases of materials, components and indirect items across business segments. The strategic sourcing group generally concentrates purchases for a given item with one or two suppliers, although we believe there are alternative suppliers for all of our key raw material and component needs. Compressors, motors and controls constitute our most significant component purchases, while steel, copper and aluminum account for the bulk of our raw material purchases. We own a 24.5% interest in a joint venture that manufactures compressors in the 1.5 to 6.5 horsepower range. This joint venture provides us with the majority of our domestic compressor requirements for our residential and commercial businesses.

In 2006, we created a centrally led business excellence program to drive improvements globally in the area of lean manufacturing and six sigma. Our business functions have been utilizing these tools independently. With the central focus, we will leverage the knowledge base from these tools and expand the program to include programs in all of our transactional areas.

We drive cross business improvements in supply chain through an order fulfillment council. This council focuses on improvements in processes from the time an order is taken until a product is delivered to the customer.

Research and Development and Technology

An important part of our growth strategy is continued investment in research and product development to both develop new products as well as make improvements to existing product lines. As a result, we spent an aggregate of $42.2 million, $40.3 million and $37.6 million on research and development during 2006, 2005 and 2004, respectively. We operate a global engineering council that focuses on product development innovation and process improvements.

Intellectual property and innovative designs are leveraged across our businesses. We leverage product development cycle time improvement and product data management to drive key programs to market more rapidly. Advanced, commercially available computer-aided design, computer-aided manufacturing, computational fluid dynamics and other sophisticated software are used not only to streamline the design and manufacturing processes, but also to run complex computer simulations on a product design before a working prototype is created.

We operate a full line of metalworking equipment and advanced laboratories certified by applicable industry associations.

Seasonal Nature of Business

Our sales and related segment profit tend to be seasonally higher in the second and third quarters of the year because, in the U.S. and Canada, summer is the peak season for sales of air conditioning equipment and services.

Patents and Trademarks

We hold numerous patents that relate to the design and use of our products. We consider these patents important, but no single patent is material to the overall conduct of our business. Our policy is to obtain and protect patents whenever such action would be beneficial. We own or license several trademarks we consider important in the marketing of our products, including Lennox®, Armstrong Air™, Ducane™, Allied Commercial™, Advanced Distributor Products®, Aire-Flo™, AirEase®, Concord®, Magic-Pak®, Superior®, Whitfield®, Earth Stove™, Security Chimneys™, Country Stoves™, Service Experts®, Bohn®, Larkin™, Climate Control™, Chandler Refrigeration®, Kirby™, Heatcraft Worldwide Refrigeration™, Lovelocks™, HK Refrigeration™, Frigus-Bohn™ and Friga-Bohn™. These trademarks have no fixed expiration date and we believe our rights in these trademarks are adequately protected.

Competition

Substantially all markets in which we participate are highly competitive. The most significant competitive factors we face are product reliability, product performance, service and price, with the relative importance of these factors varying among our businesses. In our Service Experts segment, we face competition from independent dealers, as well as dealers owned by utility companies. Listed below are some of the companies we view as significant competitors in the three other segments we serve, with relevant brand names, when different than the company name, shown in parentheses.

- Residential Heating & Cooling — United Technologies Corp. (Carrier, Bryant, Tempstar, Comfortmaker, Heil, Arcoaire, Keeprite); Goodman Global, Inc. (Goodman, Amana); American Standard Companies Inc. (Trane); Paloma Co., Ltd. (Rheem, Ruud); Johnson Controls, Inc. (York, Weatherking); Nordyne (Westinghouse, Frigidaire, Tappan, Philco, Kelvinator, Gibson); HNI Corporation (Heatilator, Heat-n-Glo); and CFM Corporation (Majestic).
- Commercial Heating & Cooling — United Technologies Corp. (Carrier); American Standard Companies Inc. (Trane); Johnson Controls, Inc. (York); AAON, Inc.; and Daikin Industries, Ltd. (McQuay).
- Refrigeration — United Technologies Corp. (Carrier); Ingersoll-Rand Company Limited (Hussmann); Tecumseh Products Company; and Emerson Electric Co. (Copeland).

Employees

As of December 31, 2006, we employed approximately 16,000 employees, of whom approximately 5,000 were salaried and 11,000 were hourly. The number of hourly workers we employ may vary in order to match our labor needs during periods of fluctuating demand. Approximately 3,600 employees are represented by unions. We believe our relationships with our employees and with the unions representing our employees are generally good and we do not anticipate any material adverse consequences resulting from negotiations to renew any collective bargaining agreements.

Environmental Regulation

Our operations are subject to evolving and often increasingly stringent international, federal, state, and local laws and regulations concerning the environment. Environmental laws that affect or could affect our domestic operations include, among others, the National Appliance Energy Conservation Act of 1987, as amended (“NAECA”), the Energy Policy Act, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the National Environmental Policy Act, the Toxic Substances Control Act, any regulations promulgated under these acts and various other international, federal, state and local laws and regulations governing environmental matters. We believe we are in substantial compliance with such existing environmental laws and regulations and do not expect that any compliance measures taken by us will have a material effect on our capital expenditures, earnings or competitive position in fiscal 2007.

Energy Efficiency. We are subject to appliance efficiency regulations promulgated under NAECA and various state regulations concerning the energy efficiency of our products. As of January 23, 2006, all residential central air conditioners manufactured in the United States must comply with a minimum 13 seasonal energy efficiency rating, or “SEER,” standard under NAECA. We have successfully developed energy-efficient products that meet this standard. The U.S. Department of Energy is currently revising the national residential furnace standard. We have established a process that will allow us to offer new products that meet or exceed these new national standards well in advance of the new standards implementation. Similar new standards are being promulgated for commercial air conditioning and refrigeration equipment. We are actively involved in the development of these new standards and believe we are prepared to have product in place in advance of the implementation of all such regulations being considered by the U.S. Department of Energy.

Refrigerants. The use of hydrochlorofluorocarbons, or “HCFCs,” as a refrigerant for air conditioning and refrigeration equipment is common practice in the HVACR industry. However, international and country specific regulations require the use of certain substances deemed to be ozone depleting, including HCFCs, to be phased out over a particular period of time. Under the Clean Air Act and implementing regulations, the use of all HCFCs in new equipment within the U.S. must be phased out by 2010. We, together with major chemical manufacturers, are reviewing and addressing the potential impact of these regulations on our product offerings and have developed and continue to develop new products that replace the use of HCFCs with the widely accepted Hydroflurocarbons, or “HFCs,” and other approved substitutes. We have been an active participant in the ongoing international dialogue on this subject and believe we are well positioned to react in a timely manner to any changes in the regulatory landscape. In addition, we are taking proactive steps to implement responsible use principles and guidelines with respect to limiting refrigerants from escaping into the atmosphere throughout the life span of HVACR equipment.

Remediation Activity. In addition to affecting our ongoing operations, applicable environmental laws can impose obligations to remediate hazardous substances at our properties, at properties formerly owned or operated by us and at facilities to which we have sent or send waste for treatment or disposal. We are aware of contamination at some of our facilities; however, based on facts presently known, we do not believe that any future remediation costs at such facilities will be material to our results of operations. At one site located in Brazil, we are currently evaluating the remediation efforts that may be required by applicable environmental laws related to the release of certain hazardous materials. We currently believe that the release of the hazardous materials occurred over an extended period of time, including a time when we did not own the site. We plan to complete additional assessments of the site by the second quarter of 2007 in order to help determine the possible remediation activities that may be conducted at this site. Once the site assessments are completed and the possible remediation activities are known, approval of the remediation plan by local governmental authorities will be required before such activities can begin. We believe that containment is one of the several viable options in order to comply with local regulatory standards. For more information see Note 13 in the Notes to our Consolidated Financial Statements.

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

European WEEE and RoHS Compliance. In the European marketplace, electrical and electronic equipment is required to comply with the Directive on Waste Electrical and Electronic Equipment (“WEEE”) and the Directive on Restriction of Use of Certain Hazardous Substances (“RoHS”). WEEE aims to prevent waste by encouraging reuse and recycling and RoHS restricts the use of six hazardous substances in electrical and electronic products. All HVACR products and certain components of such products “put on the market” in the EU (whether or not manufactured in the EU) are potentially subject to WEEE and RoHS. Because all HVACR manufacturers selling within or from the EU are subject to the standards promulgated under WEEE and RoHS, we believe that neither WEEE nor RoHS uniquely impact us as compared to such other manufacturers. Similar directives are being introduced in other parts of the world, including the United States. For example, California, China and Japan have all adopted unique versions of RoHS possessing similar intent. We are actively monitoring the development of such directives and believe we are well positioned to comply with such directives in the required time frames.

Available Information

Our web site address is www.lennoxinternational.com. We make available, free of charge through this web site, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the “SEC”).

Certifications

We submitted the 2006 New York Stock Exchange (the “NYSE”) Annual CEO Certification regarding our compliance with the NYSE’s corporate governance listing standards to the NYSE on May 19, 2006.

The certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002 are filed and furnished, respectively, as exhibits to this Annual Report on Form 10-K.

Executive Officers of the Company

Our executive officers, their present positions and their ages are as follows:

Name	Age	Position
Robert E. Schjerven	64	Chief Executive Officer
Harry J. Ashenhurst, Ph.D	58	Executive Vice President and Chief Administrative Officer
Harry J. Bizios	56	Executive Vice President and President and Chief Operating Officer, LII Commercial Heating & Cooling
Scott J. Boxer	56	Executive Vice President and President and Chief Operating Officer, Service Experts
Susan K. Carter	48	Executive Vice President and Chief Financial Officer
Linda A. Goodspeed	45	Executive Vice President and Chief Supply Chain, Logistics, and Technology Officer
David W. Moon	45	Executive Vice President and President and Chief Operating Officer, LII Worldwide Refrigeration
William F. Stoll, Jr.	58	Executive Vice President, Chief Legal Officer and Secretary
Douglas L. Young	44	Executive Vice President and President and Chief Operating Officer, LII Residential Heating & Cooling
Roy A. Rumbough, Jr.	51	Vice President, Controller and Chief Accounting Officer

The following biographies describe the business experience of our executive officers:

Robert E. Schjerven was named our Chief Executive Officer in 2001 and has served on the Board of Directors since that time. Prior to his appointment as Chief Executive Officer, he served as our Chief Operating Officer in 2000 and as President and Chief Operating Officer of Lennox Industries Inc., one of our subsidiaries, from 1995 to 2000. He joined us in 1986 as Vice President of Marketing and Engineering of Heatcraft Inc., one of our subsidiaries. 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., one of our former subsidiaries. Mr. Schjerven spent the first 20 years of his career with The Trane Company, an international manufacturer and marketer of HVAC systems, and McQuay-Perfex Inc. As announced in September 2006, Mr. Schjerven has advised us of his intention to retire from his duties as Chief Executive Officer by mid-2007. We are conducting an internal and external search for Mr. Schjerven's successor.

Harry J. Ashenhurst, Ph.D. was appointed our Chief Administrative Officer in 2000. Dr. Ashenhurst joined us in 1989 as Vice President of Human Resources, was named our Executive Vice President, Human Resources in 1990 and in 1994 became Executive Vice President, Human Resources and Administration and assumed responsibility for the public relations and communications and aviation departments. Dr. Ashenhurst is also responsible for risk management, corporate safety, facilities and government affairs. From June 2005 to August 2006, Dr. Ashenhurst assumed additional responsibilities as interim President and Chief Operating Officer of our Worldwide Refrigeration business. Prior to joining us, Dr. Ashenhurst worked as an independent management consultant with the consulting firm of Roher, Hibler and Replogle.

Harry J. Bizios was appointed Executive Vice President and President and Chief Operating Officer of our Commercial Heating & Cooling segment in October 2006. Mr. Bizios had previously served as Vice President and General Manager, Worldwide Commercial Systems since 2005 and as Vice President and General Manager of Lennox North American Commercial Products from 2003 to 2005. Mr. Bizios began his career with us in 1976 as an industrial engineer at our manufacturing facility in Marshalltown, Iowa and was promoted to Production Manager in 1980 and Factory Manager in 1986. He was next promoted to Vice President of Operations at Armstrong Air

Conditioning Inc., one of our former subsidiaries, in 1989. In 1991, Mr. Bizios was appointed Vice President of Manufacturing for Lennox Industries Inc., one of our subsidiaries, and served as Vice President and General Manager of Lennox Industries Commercial from June 1998 to 2003.

Scott J. Boxer joined us in 1998 as Executive Vice President, Lennox Global Ltd., one of our subsidiaries, and President, European Operations. He was appointed President of Lennox Industries Inc., one of our subsidiaries, in 2000 and was named President and Chief Operating Officer of our Service Experts segment in July 2003. Prior to joining us, Mr. Boxer spent 26 years with York International Corporation, a HVACR manufacturer, in various roles, including President, Unitary Products Group Worldwide, where he reported directly to the Chairman of that company and directed residential and light commercial heating and air conditioning operations worldwide. Mr. Boxer previously served as an Executive Board Member of the Air-Conditioning & Refrigeration Institute and is currently Chairman of the Board of Trustees of North American Technical Excellence, Inc.

Susan K. Carter was appointed our Executive Vice President and Chief Financial Officer in August 2004. Ms. Carter also served as our Treasurer from August 2004 through September 2005. Prior to joining us, Ms. Carter was Vice President of Finance and Chief Accounting Officer of Cummins, Inc., a global power leader and manufacturer of engines, electric power generation systems, and engine-related products from 2002 to 2004. From 1996 to 2002, Ms. Carter served as Vice President and Chief Financial Officer of Transportation & Power Systems and held other senior financial management positions at Honeywell, Inc., formerly AlliedSignal, Inc. She also previously served in senior financial management positions at Crane Co. and DeKalb Corporation. Ms. Carter currently serves on the Board of Directors of Lyondell Chemical Company.

Linda A. Goodspeed was appointed our Executive Vice President and Chief Supply Chain, Logistics and Technology Officer (formerly known as “Chief Technology Officer”) in September 2001. Prior to joining us, Ms. Goodspeed served as President and Chief Operating Officer of Partminer, Inc., a privately held electronics business-to-business supply chain parts and service company from 2000 to 2001. Beginning her career in engineering with Ford Motor Company in 1984, Ms. Goodspeed moved to Nissan research and development in 1989 and joined the Appliance division of General Electric Company (“GE”) in 1996. She became GE’s Range Product Development Manager in 1997 and was promoted to Product General Manager in 1999. She also became General Manager in 1999 for Six Sigma, managing a team of 160 GE quality leaders spanning operations across the company. Ms. Goodspeed currently serves as a member of the Board of Directors of Columbus McKinnon Corporation and American Electric Power Company Inc.

David W. Moon was appointed Executive Vice President and President and Chief Operating Officer of our Worldwide Refrigeration business in August 2006. Mr. Moon had previously served as Vice President and General Manager of Worldwide Refrigeration, Americas Operations since July 2002. Prior to serving in that position, he served as Managing Director in Australia beginning in July 1999, where his responsibilities included heat transfer manufacturing and distribution, refrigeration wholesaling and manufacturing, and HVAC manufacturing and distribution in Australia and New Zealand. Mr. Moon originally joined us in 1998 as Operations Director, Asia Pacific. Prior to that time, Mr. Moon held various management positions at Allied Signal, Inc., Case Corporation, and Tenneco Inc. in the United States, Hong Kong, Taiwan and Germany.

William F. Stoll, Jr. became our Executive Vice President, Chief Legal Officer and Secretary in March 2004. Prior to that time, Mr. Stoll served as Executive Vice President and Chief Legal Officer of Borden, Inc. from 1996 to 2003. Prior to his career with Borden, Inc., he worked for 21 years with Westinghouse Electric Corporation, becoming Vice President and Deputy General Counsel in 1993.

Douglas L. Young was appointed Executive Vice President and President and Chief Operating Officer of our Residential Heating & Cooling segment in October 2006. Mr. Young had previously served as Vice President and General Manager of North American Residential Products since 2003 and as Vice President and General Manager of Lennox North American Residential Sales, Marketing, and Distribution from August 1999 to 2003. Prior to his career with us, Mr. Young was employed in the Appliances division of GE, where he held various management positions in sales, marketing, and international and consumer services, before serving as General Manager of Marketing for GE Appliance division’s $3 billion retail group from 1997 to 1999 and as General Manager of Strategic Initiatives in 1999.

Roy A. Rumbough, Jr. was appointed our Vice President, Controller and Chief Accounting Officer in July 2006. Prior to joining us, Mr. Rumbough served as Vice President, Corporate Controller of Maytag Corporation ("Maytag"), a position he held since June 2002. From 1998 to June 2002, Mr. Rumbough served as VP Controller of Blodgett Corporation, a portfolio of foodservice equipment companies and former affiliate of Maytag. Mr. Rumbough's career at Maytag spanned 17 years and included internal audit, financial planning and analysis, and business unit controller roles. Prior to his career at Maytag, Mr. Rumbough worked for Deloitte and Touche, LLP.

Item 1A. *Risk Factors*

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on information currently available to management as well as management's assumptions and beliefs. All statements, other than statements of historical fact, included in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, 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 our current views with respect to future events, based on what we believe are reasonable assumptions; however, such statements are subject to certain risks and uncertainties. In addition to the specific uncertainties discussed elsewhere in this Annual Report on Form 10-K, the risk factors set forth below may affect our performance and results of operations. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those in the forward-looking statements. We disclaim any intention or obligation to update or review any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Risk Factors

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

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

Demand for our products and for our services is strongly affected by the weather. Cooler than normal summers depress our sales of replacement air conditioning and refrigeration products and warmer than normal winters have the same effect on our heating products.

We May Incur Substantial Costs as a Result of Warranty and Product Liability Claims Which Could Negatively Affect Our Profitability.

The development, manufacture, sale and use of our products involve risks of warranty and product liability claims. In addition, because we own installing heating and air conditioning dealers in the United States and Canada, we incur the risk of liability claims for the installation and service of heating and air conditioning products. Our product liability insurance policies have limits that, if exceeded, may result in substantial costs that would have an adverse effect on our future profitability. In addition, warranty claims are not covered by our product liability insurance and certain product liability claims may not be covered by our product liability insurance either.

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

Our Business Could be Adversely Affected by an Economic Downturn.

Our business is affected by a number of economic factors, including the level of economic activity in the markets in which we operate. Our sales in the residential and commercial new construction market correlate to the number of new homes and buildings that are built, which in turn is influenced by cyclical factors such as interest rates, inflation, consumer spending habits, employment rates and other macroeconomic factors over which we have no control. In the HVACR business, a decline in economic activity as a result of these cyclical or other factors typically results in a decline in new construction and replacement purchases, which could result in a decrease in our sales and profitability.

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

Substantially all of the markets in which we operate are highly competitive. The most significant competitive factors we face are product reliability, product performance, service and price, with the relative importance of these factors varying among our product lines. Other factors that affect competition in the HVACR market include the development and application of new technologies, an increasing emphasis on the development of more efficient HVACR products, and new product introductions. The establishment of manufacturing in low cost countries could also provide cost advantages to existing and emerging competitors. Our competitors may have greater financial resources than we have, allowing them to invest in more extensive research and development and/or marketing activity. In addition, our Service Experts segment faces competition from independent dealers and dealers owned by utility companies and other consumer service providers, some of whom may be able to provide their products or services at lower prices than we can. We may not be able to compete successfully against current and future competitors and current and future competitive pressures may cause us to reduce our prices or lose market share, or could negatively affect our cash flow, which could have an adverse effect on our future financial results.

We May Not be Able to Successfully Develop and Market New Products.

Our future success depends on our continued investment in research and new product development and our ability to commercialize new technological advances in the HVACR industry. If we are unable to continue to successfully develop and market new products or to achieve technological advances on a pace consistent with that of our competitors, our business and results of operations could be adversely impacted.

We May Not be Able to Successfully Integrate and Operate Businesses that We May Acquire.

From time to time, we may seek to complement or expand our business through strategic acquisitions. The success of these transactions will depend, in part, on our ability to integrate and operate the acquired businesses profitably. If we are unable to successfully integrate acquisitions with our operations, we may not realize the anticipated benefits associated with such transactions, which could adversely affect our business and results of operations.

We Use a Variety of Raw Materials and Components in Our Business and Price Increases or Significant Supply Interruptions Could Increase Our Operating Costs and/or Depress Sales.

In the manufacture of our products, we depend on raw materials, such as steel, copper and aluminum, and components purchased from third parties. We generally concentrate purchases for a given raw material or component with one or two suppliers. Although we believe there are alternative suppliers for all of our key raw material and component needs, if a supplier is unable or unwilling to meet our supply requirements, we could experience supply interruptions or cost increases, either of which could have an adverse effect on our gross profit. In addition, although we regularly pre-purchase a portion of our raw materials at fixed prices each year to hedge against price increases, a large increase in raw materials prices could significantly increase our cost of goods sold and negatively impact our margins if we are unable to effectively pass such price increases on to our customers. Alternatively, if we increase our prices in response to increases in the prices or quantities of raw materials or components we require or encounter significant supply interruptions, our competitive position could be adversely effected, which may result in depressed sales.

Because a Significant Percentage of Our Workforce is Unionized, We Face Risks of Work Stoppages and Other Labor Relations Problems.

As of December 31, 2006, approximately 23% of our workforce was unionized. As we expand our operations, we may be subject to increased unionization of our workforce. While we believe our relationships with the unions representing our employees are generally good, the results of future negotiations with these unions and the effects of any production interruptions or labor stoppages could have an adverse effect on our financial results.

We are Subject to Litigation and Environmental Regulations that Could Have an Adverse Effect on Our Results of Operations.

We are involved in various claims and lawsuits incidental to our business, including those involving product liability, labor relations and environmental matters, some of which claim significant damages. Given the inherent uncertainty of litigation, we cannot be certain that existing litigation or any future adverse developments will not have a material adverse impact on our financial condition. In addition, we are subject to extensive and changing federal, state and local laws and regulations designed to protect the environment including, among others, the National Appliance Energy Conservation Act of 1987, as amended, the Energy Policy Act, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the National Environmental Policy Act, the Toxic Substances Control Act, any regulations promulgated under these acts and various other international, federal, state and local laws and regulations governing environmental matters. These laws and regulations could impose liability for remediation costs and civil or criminal penalties in cases of non-compliance. Compliance with environmental laws increases our costs of doing business. Because these laws are subject to frequent change, we are unable to predict the future costs resulting from environmental compliance.

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

As of December 31, 2006, we had goodwill, net of accumulated amortization, of approximately $239.8 million on our Consolidated Balance Sheet. Any future determination that a significant impairment of the value of goodwill has occurred would require a write-down of the impaired portion of unamortized goodwill to fair value, which would reduce our assets and stockholders’ equity and could have a material adverse affect on our results of operations.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

The following chart lists our principal domestic and international manufacturing, distribution and office facilities as of February 15, 2007 and indicates the business segment that uses such facilities, the approximate size of such facilities and whether such facilities are owned or leased:

Location	Segment	Approx. Sq. Ft. (In thousands)	Owned/Leased
Richardson, TX	Headquarters	311	Owned & Leased
Marshalltown, IA	Residential Heating & Cooling	1,300	Owned & Leased
Blackville, SC	Residential Heating & Cooling	375	Owned
Orangeburg, SC	Residential Heating & Cooling	559	Owned
Columbia, SC	Residential Heating & Cooling	63	Leased
Grenada, MS	Residential Heating & Cooling	300	Leased
Union City, TN	Residential Heating & Cooling	295	Owned
Lynwood, CA	Residential Heating & Cooling	200	Leased
Laval, Canada	Residential Heating & Cooling	152	Owned
Des Moines, IA	Residential & Commercial Heating & Cooling	352	Leased
Stuttgart, AR	Commercial Heating & Cooling	530	Owned
Prague, Czech Republic	Commercial Heating & Cooling	161	Owned
Longvic, France	Commercial Heating & Cooling	133	Owned
Mions, France	Commercial Heating & Cooling	129	Owned
Danville, IL	Refrigeration	322	Owned
Tifton, GA	Refrigeration	232	Owned
Stone Mountain, GA	Refrigeration	145	Owned
Milperra, Australia	Refrigeration	830	Owned
Genas, France	Refrigeration	172	Owned
San Jose dos Campos, Brazil	Refrigeration	160	Owned
Auckland, New Zealand	Refrigeration	110	Owned
Carrollton, TX	Research and Development facility	130	Owned

Additional manufacturing, distribution and office facilities include the following:

Location	Segment	Approx. Sq. Ft. (In thousands)	Owned/Leased
Auburn, WA	Residential Heating & Cooling	80	Leased
Orange, CA	Residential Heating & Cooling	67	Leased
Burgos, Spain	Commercial Heating & Cooling	71	Owned
Barcelona, Spain	Refrigeration	65	Leased
Krunkel, Germany	Refrigeration	48	Owned
Wuxi, China	Refrigeration	23	Owned

In addition to the properties described above, we lease over 100 facilities in the United States for use as sales and service offices and district warehouses and additional facilities worldwide for use as sales and service offices and regional warehouses. The majority of our Service Experts' service center facilities are leased. We routinely evaluate our production facilities to ensure adequate capacity, effective cost structure, and consistency with our business strategy. We believe that our properties are in good condition, suitable and adequate for their present requirements and that our principal plants are generally adequate to meet our production needs.

In February 2006, Allied Air Enterprises, a division of our Residential Heating & Cooling segment, announced that we commenced plans to close our facility and current operations in Bellevue, Ohio. The consolidation has been a phased process expected to be completed by the end of the first quarter of fiscal 2007.

Item 3. ***Legal Proceedings***

We are involved in various claims and lawsuits incidental to our business. As previously reported, in January 2003, we, along with one of our subsidiaries, Heatcraft Inc., were named in the following lawsuits in connection with our former heat transfer operations:

- Lynette Brown, et al., vs. Koppers Industries, Inc., Heatcraft Inc., Lennox International Inc., et al., Circuit Court of Washington County, Civil Action No. CI 2002-479;
- Likisha Booker, et al., vs. Koppers Industries, Inc., Heatcraft Inc., Lennox International Inc., et al., Circuit Court of Holmes County; Civil Action No. 2002-549;
- Walter Crowder, et al., vs. Koppers Industries, Inc., Heatcraft Inc. and Lennox International Inc., et al., Circuit Court of Leflore County, Civil Action No. 2002-0225; and
- Benobe Beck, et al., vs. Koppers Industries, Inc., Heatcraft Inc. and Lennox International Inc., et al., Circuit Court of the First Judicial District of Hinds County, No. 03-000030.

On behalf of approximately 100 plaintiffs, the lawsuits allege personal injury resulting from alleged emissions of trichloroethylene, dichloroethylene, and vinyl chloride and other unspecified emissions from the South Plant in Grenada, Mississippi, previously owned by Heatcraft Inc. Each plaintiff seeks to recover actual and punitive damages. On our motion to transfer venue, two of the four lawsuits (Booker and Crowder) were ordered severed and transferred to Grenada County by the Mississippi Supreme Court, requiring plaintiffs' counsel to maintain a separate lawsuit for each of the individual plaintiffs named in these suits. To our knowledge, as of February 15, 2007, plaintiffs' counsel has requested the transfer of files regarding five individual plaintiffs from the Booker case and five individual plaintiffs from the Crowder case. While at this time, only the Booker and Crowder cases have been ordered severed and transferred by the Mississippi Supreme Court, we expect the Beck and Brown cases to be transferred, as well, in the near future. It is not possible to predict with certainty the outcome of these matters or an estimate of any potential loss. Based on present knowledge, we believe that it is unlikely that any final resolution of these matters will result in a material liability.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of our stockholders during the fourth quarter of fiscal 2006.

PART II

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

Market Price for Common Stock

Our common stock is listed for trading on the New York Stock Exchange under the symbol "LII." The high and low sales prices for our common stock for each quarterly period during 2006 and 2005 were as follows:

	Price Range Per Common Share			
	2006		2005	
	High	Low	High	Low
First Quarter	$ 32.63	$ 27.90	$ 22.99	$ 19.33
Second Quarter	34.76	22.92	22.41	18.65
Third Quarter	26.68	21.15	27.42	20.50
Fourth Quarter	31.39	22.44	30.60	24.81

Dividends

During 2006 and 2005, we declared quarterly cash dividends as set forth below:

	Dividends Per Common Share	
	2006	2005
First Quarter	$ 0.11	$ 0.10
Second Quarter	0.11	0.10
Third Quarter	0.11	0.10
Fourth Quarter	0.13	0.11
Fiscal Year	$ 0.46	$ 0.41

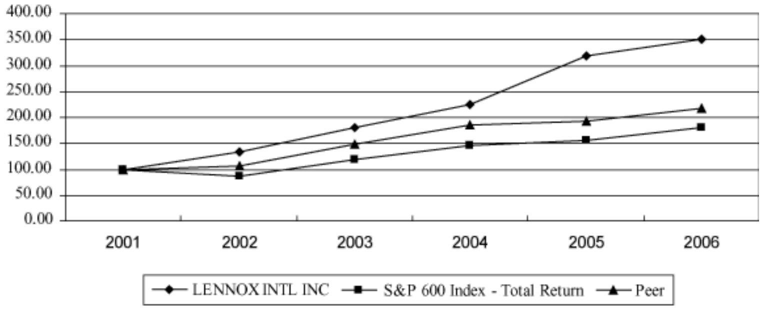
The amount and timing of dividend payments are determined by our Board of Directors and subject to certain restrictions under our credit agreements. As of the close of business on February 15, 2007, there were approximately 812 record holders of our common stock.

In December 2006, our Board of Directors voted to increase the quarterly cash dividend 18%, from $0.11 per share of common stock to $0.13 per share of common stock.

Comparison of Total Stockholder Return

The following performance graph compares our cumulative total returns with the cumulative total returns of the Standard & Poor's Small-Cap 600 Index and a peer group of U.S. industrial manufacturing and service companies in the heating, ventilation, air conditioning and refrigeration businesses from December 31, 2001 through December 31, 2006. The graph assumes that $100 was invested on December 31, 2001, with dividends reinvested. Peer group returns are weighted by market capitalization. Our peer group includes AAON, Inc., American Standard Companies Inc., Comfort Systems USA, Inc., Goodman Global, Inc., and Watsco, Inc.

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of $100
December 2006



Our Purchase of LII Equity Securities

On September 19, 2005, we announced that the Board of Directors authorized a stock repurchase program, pursuant to which we may repurchase up to 10,000,000 shares of our common stock, from time to time, through open market-purchases (the "2005 Stock Repurchase Program"). Prior to October 1, 2006, we had repurchased 5,194,741 shares of common stock under the 2005 Stock Repurchase Program. In the fourth quarter of 2006, we made the following repurchases of common stock under the 2005 Stock Repurchase Program:

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share (including fees)(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
October 1 through October 31	1,151	$ 26.08	—	4,805,259
November 1 through November 30	1,172,630	$ 27.71	1,162,300	3,642,959
December 1 through December 31(2)	66,832	$ 31.04	—	3,642,959
Total	1,240,613	$ 27.88	1,162,300	3,642,959

(1) In addition to purchases under the 2005 Stock Repurchase Program, this column reflects the surrender to us of an aggregate of 78,313 shares of common stock to satisfy tax withholding obligations in connection with the exercise of stock appreciation rights and the vesting of restricted stock awards.

(2) All purchases during the month of December were settled in December 2006 but traded in November 2006.

Item 6. ***Selected Financial Data (unaudited)***

The table below shows selected financial data for the five years ended December 31, 2006:

	For the Years Ended December 31,				
	2006	2005	2004	2003	2002
	(In millions, except per share data)				
Statements of Operations Data					
Net Sales	$ 3,671.1	$ 3,366.2	$ 2,982.7	$ 2,789.9	$ 2,727.4
Operational Income (Loss) From Continuing Operations	222.4	253.4	(36.6)	157.8	101.3
Income (Loss) From Continuing Operations	166.0	152.1	(93.5)	86.7	(209.5)
Net Income (Loss)	166.0	150.7	(134.4)	86.4	(203.5)
Diluted Earnings (Loss) Per Share From Continuing Operations	2.26	2.13	(1.56)	1.36	0.66
Dividends Per Share	0.46	0.41	0.385	0.38	0.38
Other Data					
Capital Expenditures	$ 73.8	$ 63.3	$ 40.3	$ 39.7	$ 22.4
Research and Development Expenses	42.2	40.3	37.6	38.0	38.2
Balance Sheet Data at Period End					
Total Assets	$ 1,719.8	$ 1,737.6	$ 1,518.6	$ 1,720.1	$ 1,510.9
Total Debt	109.2	120.5	310.5	362.3	379.9
Stockholders' Equity	804.4	794.4	472.9	577.7	433.6

In 2004, we recorded a non-cash goodwill impairment charge of $208.0 million, which is included as a component of operating income in the accompanying Consolidated Statements of Operations. Upon the adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"), on January 1, 2002, we recorded a $283.7 million ($247.9 million, net of tax) goodwill impairment charge. See further discussion in Note 2 in the Notes to our Consolidated Financial Statements.

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

Overview

We participate in four reportable business segments of the HVACR industry. The first reportable segment is Residential Heating & Cooling, in which we manufacture and market a full line of heating, air conditioning and hearth products for the residential replacement and new construction markets in the United States and Canada. The second reportable segment is Commercial Heating & Cooling, in which we primarily manufacture and sell rooftop products and related equipment for light commercial applications in the United States and Canada and primarily rooftop products, chillers and air handlers in Europe. The third reportable segment is Service Experts, which includes sales, installation, maintenance, and repair services for HVAC equipment in the United States and Canada. The fourth reportable segment is Refrigeration, in which we manufacture and sell unit coolers, condensing units and other commercial refrigeration products in the United States and international markets.

Our products and services are sold through a combination of distributors, independent and Company-owned dealer service centers, other installing contractors, wholesalers, manufacturers' representatives, original equipment manufacturers and national accounts. The demand for our products and services is seasonal and dependent on the weather. Hotter than normal summers generate strong demand for replacement air conditioning and refrigeration products and services and colder than normal winters have the same effect on heating products and services. Conversely, cooler than normal summers and warmer than normal winters depress HVACR sales and services. In addition to weather, demand for our products and services is influenced by national and regional economic and demographic factors, such as interest rates, the availability of financing, regional population and employment trends, new construction, general economic conditions and consumer confidence.

The principal elements of cost of goods sold in our manufacturing operations are components, raw materials, factory overhead, labor and estimated costs of warranty expense. In our Service Experts segment, the principal components of cost of goods sold are equipment, parts and supplies and labor. The principal raw materials used in our manufacturing processes are steel, copper and aluminum. Higher prices for these commodities and related components continue to present a challenge to us and the HVACR industry in general. We partially mitigated the impact of higher commodity prices in 2006 and 2005 through a combination of price increases, commodity contracts, improved production efficiency and cost reduction initiatives.

We estimate approximately 30% of the sales of our Residential Heating & Cooling segment is for new construction, with the balance attributable to repair, retrofit and replacement. With the current downturn in residential new construction activity, we are seeing a decline in the demand for the products and services we sell into this market.

Our fiscal year ends on December 31 and our interim 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

Overview of 2006 Results

- Consolidated net sales increased 9.1% in 2006 as compared to the prior year primarily due to price increases and a higher average price point for residential HVAC products that comply with the NAECA 13 SEER energy efficiency standard. Net sales increased across all of our segments.
- Operational income from continuing operations was $222.4 million in 2006 as compared to $253.4 million in 2005 as higher commodity costs and increased selling, general and administrative ("SG&A") costs more than offset the favorable impact of increased net sales.
- Net income for 2006 increased to $166.0 million from $150.7 million in 2005 primarily due to lower income taxes in 2006.
- Net cash provided by operating activities decreased to $199.7 million for 2006 as compared to $228.7 million for 2005 primarily due to an increase in working capital in 2006.
- We paid $163.4 million to repurchase shares of common stock and paid cash dividends of $31.3 million to our stockholders in 2006.
- We recorded an adjustment in the fourth quarter to decrease retained earnings as of January 1, 2006 by $12.4 million for errors in estimates associated with pre-existing product warranty liabilities under the provisions of Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB No. 108").

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

	For the Years Ended December 31,					
	2006		2005		2004	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Net sales	$ 3,671.1	100.0%	$ 3,366.2	100.0%	$ 2,982.7	100.0%
Cost of goods sold	2,515.9	68.5	2,258.2	67.1	1,985.2	66.6
Gross profit	1,155.2	31.5	1,108.0	32.9	997.5	33.4
Selling, general and administrative expenses	973.2	26.5	916.6	27.2	835.2	28.0
(Gains), losses and other expenses, net	(45.7)	(1.2)	(50.2)	(1.5)	—	—
Restructuring charges	13.3	0.4	2.4	0.1	—	—
Goodwill impairment	—	—	—	—	208.0	7.0
Equity in earnings of unconsolidated affiliates	(8.0)	(0.2)	(14.2)	(0.4)	(9.1)	(0.3)
Operational income (loss) from continuing operations	$ 222.4	6.0%	$ 253.4	7.5%	$ (36.6)	(1.3)%
Loss from discontinued operations	$ —	—%	$ 1.4	—%	$ 40.9	1.4%
Net income (loss)	$ 166.0	4.5%	$ 150.7	4.5%	$ (134.4)	(4.5)%

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005 — Consolidated Results

Net Sales

Net sales increased $304.9 million, or 9.1%, to $3,671.1 million for the year ended December 31, 2006 from $3,366.2 million for the year ended December 31, 2005. The increase in net sales was primarily due to increased prices in response to an increase in commodity costs across our segments in 2006. Additionally, net sales increased as we sold more expensive HVAC products meeting the NAECA 13 SEER energy efficiency standard. The favorable impact of foreign currency translation increased net sales by $25.1 million.

Gross Profit

Gross profit was $1,155.2 million for the year ended December 31, 2006 compared to $1,108.0 million for the year ended December 31, 2005, an increase of $47.2 million. Gross profit margin declined to 31.5% for the year ended December 31, 2006 from 32.9% in 2005. The decline in gross profit margin is largely due to an increase in costs for commodities and related components experienced by our manufacturing businesses for the year ended December 31, 2006 as compared to 2005. Margins were also impacted as a higher proportion of our sales came from more price competitive markets.

Our gross profit margin may not be comparable to the gross profit margin of other entities because some entities include all of the costs related to their distribution network in cost of goods sold, whereas we exclude a portion of such costs from gross profit margin and record them in SG&A instead. For more information see Note 2 in the Notes to our Consolidated Financial Statements.

Selling, General and Administrative Expenses

SG&A expenses increased $56.6 million, or 6.2%, in 2006. Higher SG&A costs are attributable to an incremental increase of approximately $50 million in higher distribution and selling expenses in 2006. Selling and distribution costs increased due to shipping larger HVAC products meeting the NAECA 13 SEER energy efficiency standard and in correlation with increased volumes stemming from our strategic growth initiatives. As a percentage of total net sales, SG&A expenses declined to 26.5% for the year ended December 31, 2006 from 27.2% for the year ended December 31, 2005.

(Gains), Losses, and Other Expenses, net

(Gains), losses and other expenses, net for the year ended December 31, 2006 includes the following (in millions):

Realized (gains) on settled futures contracts	$ (66.0)
Unrealized losses (gains) on open futures contracts	20.8
Other items, net	(0.5)
(Gains), losses and other expenses, net	$ (45.7)

Restructuring Charges

Restructuring charges increased by $10.9 million to $13.3 million for the year ended December 31, 2006 from $2.4 million for the year ended December 31, 2005. Restructuring charges incurred in 2006 primarily relate to the consolidation of our manufacturing, distribution, research and development, and administrative operations of our two-step operations into South Carolina and closing of our current operations in Bellevue, Ohio. The charges incurred in 2005 relate to the closing of one of our facilities in Burlington, Washington.

Equity in Earnings of Unconsolidated Affiliates

Investments in affiliates in which the Company does not exercise control and has a 20% or more voting interest are accounted for using the equity method of accounting. Equity in earnings of unconsolidated affiliates decreased by $6.2 million to $8.0 million in 2006 as compared to $14.2 million in 2005. The decrease is due to the divestiture of our heat transfer joint venture in 2005 and the performance of our affiliates.

Interest Expense, net

Interest expense, net, decreased $11.0 million to $4.4 million for the year ended December 31, 2006 from $15.4 million for the year ended December 31, 2005. The lower interest expense was due primarily to lower average debt levels as all of our outstanding 6.25% convertible subordinated notes (“Convertible Notes”) were converted to shares of our common stock on October 7, 2005. Interest income earned increased on higher average cash and cash equivalent balances and higher short-term investment rate increases.

Other (Income) Expense

Other (income) expense was ($0.4) million for the year ended December 31, 2006, compared to $3.0 million for 2005. The increase in other income was due primarily to foreign currency exchange losses, which relate principally to our operations in Canada, Australia and Europe.

Provision for Income Taxes

The provision for income taxes on continuing operations was $52.4 million for the year ended December 31, 2006 compared to a provision for income taxes on continuing operations of $83.0 million for the year ended December 31, 2005. The effective tax rate on continuing operations was 24.0% and 35.3% for the years ended December 31, 2006 and December 31, 2005, respectively. The decrease in our provision for taxes is primarily due to net tax benefits from the release of tax contingency reserves established in prior years and the revaluation of deferred tax asset valuation allowances. Our effective rates differ from the statutory federal rate of 35% for other items, in addition to those above, including state and local taxes, non-deductible expenses, foreign operating losses for which no tax benefits have been recognized and foreign taxes at rates other than 35%.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005 — Results by Segment

The key performance indicators of our segments are net sales and operational profit. We define segment profit (loss) as a segment’s income (loss) from continuing operations before income taxes included in the accompanying Consolidated Statements of Operations; excluding (gains), losses and other expenses, net; restructuring charge;

goodwill impairment; interest expense, net; and other (income) expense, net; less (plus) realized gains (losses) on settled futures contracts.

Residential Heating & Cooling

The following table details our Residential Heating & Cooling segment's net sales and profit for the years ended December 31, 2006 and 2005 (dollars in millions):

	Year Ended December 31, 2006	Year Ended December 31, 2005	Difference	% Change
Net sales	$ 1,848.4	$ 1,685.8	$ 162.6	9.6%
Profit	212.1	206.9	5.2	2.5
% of net sales	11.5%	12.3%		

Net sales in our Residential Heating & Cooling business segment increased $162.6 million, or 9.6%, to $1,848.4 million for the year ended December 31, 2006 from $1,685.8 million for year ended December 31, 2005. Net sales increased due to an increase in prices in response to higher commodity and component costs and the impact of shipping more expensive HVAC products meeting the NAECA 13 SEER energy efficiency standard. However, the increases in sales were partially offset by a decline in unit volumes. The North American Residential HVAC Industry experienced a mid-teen percentage drop in shipments in 2006 as compared to 2005 due to the strong cooling season in 2005 and the increase in products shipped in the fourth quarter of 2005 in advance of the January 2006 effective date for the NAECA 13 SEER energy efficiency standard. We did not experience as much of a decline in units shipped as compared to the industry.

Segment profit in Residential Heating & Cooling increased 2.5% to $212.1 million for 2006 from $206.9 million in 2005. Cost of goods sold increased with higher commodity and component costs. Operating expenses increased as we strategically increased our presence in the larger sunbelt markets. We experienced higher freight costs from shipping larger HVAC products meeting the NAECA 13 SEER energy efficiency standard. Segment profits were negatively impacted in 2006 by operating inefficiencies resulting from industry-wide component availability issues for cooling products as well as the relocation of production from Ohio to South Carolina consistent with our restructuring plans. Warranty expense increased in 2006 related to warranty reserve adjustments. An increase in the realized gains on settled future contracts offset a portion of the segment's increased costs.

Commercial Heating & Cooling

The following table details our Commercial Heating & Cooling segment's net sales and profit for the years ended December 31, 2006 and 2005 (dollars in millions):

	Year Ended December 31, 2006	Year Ended December 31, 2005	Difference	% Change
Net sales	$ 723.2	$ 651.7	$ 71.5	11.0%
Profit	73.1	56.9	16.2	28.5
% of net sales	10.1%	8.7%		

Net sales in our Commercial Heating & Cooling segment increased $71.5 million, or 11.0%, to $723.2 million for the year ended December 31, 2006 from $651.7 million for the year ended December 31, 2005. The increase in net sales was due primarily to increased volumes coupled with higher prices. Volumes were higher in both the domestic and European markets with strong European sales growth, particularly in our two-step distribution channels. Prices increased in 2006 in response to higher commodity and component costs. Net sales were slightly higher in the segment's European operations.

Segment profit in Commercial Heating & Cooling increased 28.5% to $73.1 million for the year ended December 31, 2006 from $56.9 million for the year ended December 31, 2005. Price increases effectively offset increases in commodity and component costs. Selling and distribution expenses were higher for the year ended December 31, 2006 due to strategic efforts to leverage expanded distribution capabilities to shorten delivery times and an increase in unit volumes. As a percentage of net sales, selling and distribution costs remained consistent. Margins were favorably impacted by an increase in the realized gains on settled futures contracts.

Service Experts

The following table details our Service Experts segment's net sales and profit for the years ended December 31, 2006 and 2005 (dollars in millions):

	Year Ended December 31, 2006	Year Ended December 31, 2005	Difference	% Change
Net sales	$ 654.1	$ 641.4	$ 12.7	2.0%
Profit (loss)	19.2	17.0	2.2	12.9
% of net sales	2.9%	2.7%		

Net sales in our Service Experts segment increased $12.7 million, or 2.0%, to $654.1 million for the year ended December 31, 2006 from $641.4 million for the year ended December 31, 2005. Declines in the residential new construction market were offset by growth in the residential and commercial service and replacement markets. The improvement in net sales also reflects the favorable impact of foreign currency fluctuations.

Segment profit in Service Experts increased $2.2 million to $19.2 million for 2006 from $17.0 million in 2005. Cost of goods sold increased proportionately to the increase in net sales. However, profit margins remained relatively flat due to increased administrative expenses primarily resulting from an increase in insurance costs and salaries and benefits.

Refrigeration

The following table details our Refrigeration segment's net sales and profit for the years ended December 31, 2006 and 2005 (dollars in millions):

	Year Ended December 31, 2006	Year Ended December 31, 2005	Difference	% Change
Net sales	$ 526.4	$ 467.2	$ 59.2	12.7%
Profit	52.3	44.4	7.9	17.8
% of net sales	9.9%	9.5%		

Net sales in our Refrigeration segment increased $59.2 million, or 12.7%, to $526.4 million in 2006 from $467.2 million in 2005. The increase in sales is due to volume growth coupled with price increases. Volumes in North and South America increased primarily due to growth in original equipment manufacturer sales that service the supermarket, walk-in refrigeration and cold storage market segments. European volumes grew primarily due to new product development and enhanced market penetration. Sales in our Australian operations were stronger due to market growth and greater geographical coverage. Price increases also favorably impacted net sales. These increases were partially offset by lower sales in the segment's southeast Asia markets.

Segment profit in Refrigeration increased 17.8% to $52.3 million for the year ended December 31, 2006 from $44.4 million for the year ended December 31, 2005. Cost of goods sold increased due to higher commodity and component costs. SG&A expenses increased in 2006 due to increased volumes and with the implementation of our strategic growth initiative in Asia. Income from investments in joint ventures decreased. Margins were favorably impacted by an increase in the realized gains on settled futures contracts.

Corporate and Other

Corporate and other costs decreased from $103.1 million in 2005 to $101.5 million in 2006. Increases in corporate and other costs due to insurance and information technology expenses were more than offset by reduced long-term incentive costs and slightly higher allocation of costs to our operating segments.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004 — Consolidated Results

Net Sales

Net sales increased $383.5 million, or 12.9%, to $3,366.2 million for the year ended December 31, 2005 from $2,982.7 million for the year ended December 31, 2004. The increase in net sales was primarily in response to a strong residential heating and cooling industry resulting from favorable weather and increased prices due to rising commodity costs across our segments. In addition, the comparison was favorably impacted by increased sales of commercial equipment to national accounts and mechanical contractors. The favorable impact of foreign currency translation increased net sales by $28.9 million.

Gross Profit

Gross profit was $1,108.0 million for the year ended December 31, 2005 compared to $997.5 million for the year ended December 31, 2004, an increase of $110.5 million. Higher costs were incurred by our manufacturing businesses as costs for commodities and related components increased significantly. We were generally able to offset higher commodity prices through price increases.

Gross profit margin declined to 32.9% for the year ended December 31, 2005 from 33.4% in 2004. The decline was due to the realization of $16.7 million of gains related to settled futures contracts included in (gains), losses and other expenses, net rather than cost of goods sold. See “Accounting for Futures Contracts” below. Our gross profit margin may not be comparable to the gross profit margin of other entities because some entities include all of the costs related to their distribution network in cost of goods sold, whereas we exclude a portion of such costs from gross profit margin and record them in the SG&A line item instead. For more information see Note 2 in the Notes to our Consolidated Financial Statements.

Selling, General and Administrative Expenses

SG&A expenses increased by 9.7%, or $81.4 million, to $916.6 million for the year ended December 31, 2005 as compared to 2004. The increase in SG&A expenses was due primarily to higher distribution, selling and marketing expenses of $56.4 million driven by higher sales volumes, unfavorable foreign currency translation (part of which is included in the higher distribution, selling and marketing expenses), higher expenses for short-term and long-term incentive compensation programs due to our improved financial performance coupled with our higher common stock price and expenses associated with personnel changes. As a percentage of total net sales, SG&A expenses declined to 27.2% for the year ended December 31, 2005 from 28.0% for the year ended December 31, 2004.

(Gains), Losses, and Other Expenses, net

(Gains), losses and other expenses, net for the year ended December 31, 2005 includes the following (in millions):

Realized (gains) on settled futures contracts	$ (16.7)
Unrealized (gains) on open futures contracts	(23.3)
(Gain) on sale of our 45% interest in a heat transfer joint venture	(9.3)
Estimated on-going remediation costs in conjunction with the sale of our 45% interest in a heat transfer joint venture	2.2
Other items, net	(3.1)
(Gains), losses and other expenses, net	$ (50.2)

Restructuring Charges

We incurred $2.4 million in restructuring charges in 2005 related to the closing of one of our facilities in Burlington, Washington. No restructuring charges were recognized in 2004.

Goodwill Impairment

We incurred a $208.0 million impairment charge related to our Service Experts segment in 2004. No impairment charges were recognized in 2005.

Equity in Earnings of Unconsolidated Affiliates

Investments in affiliates in which the Company does not exercise control and has a 20% or more voting interest are accounted for using the equity method of accounting. Equity in earnings of unconsolidated affiliates increased by $5.1 million to $14.2 million in 2005 as compared to $9.1 million in 2004. The increase is due to the performance of our affiliates. Losses in a heat transfer joint venture reduced affiliates' earnings in 2004.

Interest Expense, Net

Interest expense, net, decreased $11.8 million from $27.2 million for the year ended December 31, 2004 to $15.4 million for the year ended December 31, 2005. The lower interest expense was due primarily to lower average debt levels, the absence of $1.9 million of make-whole expenses for the year ended December 31, 2004 related to our $35 million pre-payment of certain long-term debt in June 2004 and interest income earned on higher average cash and cash equivalent balances.

Other (Income) Expense, Net

Other (income) expense, net, was $3.0 million for the year ended December 31, 2005 compared to ($0.8) million for 2004. The increase in other expense was due primarily to foreign currency exchange losses, which relate principally to our operations in Canada, Australia and Europe.

Provision for Income Taxes

The provision for income taxes on continuing operations was $83.0 million for the year ended December 31, 2005 compared to a provision for income taxes on continuing operations of $30.5 million for the year ended December 31, 2004. The effective tax rate on continuing operations was 35.3% and (48.4)% for the years ended December 31, 2005 and December 31, 2004, respectively. Excluding the impact of goodwill impairment, the provision for income taxes on continuing operations would have been $53.7 million for the year ended December 31, 2004 and the effective tax rate on continuing operations would have been 37.0% for the year ended December 31, 2004. These effective rates differ from the statutory federal rate of 35% principally due to state and local taxes, non-deductible expenses, foreign operating losses for which no tax benefits have been recognized and foreign taxes at rates other than 35%.

Cumulative Effect of Accounting Change, Net

Effective July 1, 2005, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* ("SFAS No. 123R"), using the modified-prospective-transition method. The cumulative effect of change in accounting principle related to the adoption of SFAS No. 123R was not material for the year ended December 31, 2005.

In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 47, *"Accounting for Conditional Asset Retirement Obligations — An Interpretation of FASB Statement No. 143"* ("FIN No. 47"), which was effective as of December 31, 2005. The cumulative effect of the change in accounting related to the adoption of FIN No. 47 was not material for the year ended December 31, 2005.

The cumulative effect of change in accounting related to the adoption of SFAS No. 123R and FIN No. 47 was after-tax income of $0.1 million for the year ended December 31, 2005.

Loss from Discontinued Operations

In the first quarter of 2004, our Board of Directors approved a turnaround plan designed to improve the performance of the Service Experts segment. The plan realigned Service Experts' dealer service centers to focus on service and replacement opportunities in the residential and light commercial markets. We identified certain centers, whose primary business is residential and light commercial service and replacement, to comprise the ongoing Service Experts business segment and divested the remaining centers.

Under Statement of Financial Accounting Standards No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"), the operating results of the centers that are no longer a part of the Service Experts segment for all periods presented are reported as Discontinued Operations in our Consolidated Statements of Operations. The following table details the pre-tax loss from discontinued operations for the years ended December 31, 2005 and 2004 (in millions):

	Year Ended December 31,	
	2005	2004
Goodwill impairment	$ —	$ 14.8
Impairment of property, plant and equipment	—	3.1
Operating loss	—	14.9
Other divestiture costs	2.0	6.1
Subtotal	2.0	38.9
Loss on disposal of centers	0.1	14.9
Total loss from discontinued operations before income tax	$ 2.1	$ 53.8

The pre-tax loss of $2.0 million from discontinued operations for the year ended December 31, 2005 was primarily related to salary, severance, legal and other related expenses. Any future additional expenses are not expected to be material. The income tax benefit on discontinued operations was $0.7 million and $12.9 million for the years ended December 31, 2005 and 2004, respectively. The income tax benefit on discontinued operations for the year ended December 31, 2004 includes a $1.6 million tax benefit related to goodwill impairment. Through December 31, 2005, cumulative proceeds from the sale of the divested centers totaled $25.8 million.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004 — Results by Segment

The key performance indicators of our segments are net sales and operational profit. We define segment profit (loss) as a segment's income (loss) from continuing operations before income taxes included in the accompanying Consolidated Statements of Operations; excluding (gains), losses and other expenses, net; restructuring charge; goodwill impairment; interest expense, net; and other (income) expense, net; less (plus) realized gains (losses) on settled futures contracts.

Residential Heating & Cooling

The following table details the Residential Heating & Cooling segment's net sales and profit for the years ended December 31, 2005 and 2004 (dollars in millions):

	Year Ended December 31,			
	2005	2004	Difference	% Change
Net sales	$ 1,685.8	$ 1,419.8	$ 266.0	18.7%
Profit	206.9	169.7	37.2	21.9
% of net sales	12.3%	12.0%		

Net sales in the Residential Heating & Cooling segment increased $266.0 million, or 18.7%, to $1,685.8 million for the year ended December 31, 2005 from $1,419.8 million for the year ended December 31, 2004. The increase in net sales was primarily due to strong HVAC industry demand as U.S. factory shipments of unitary air conditioners and heat pumps were up 16% in 2005 as compared to the prior year. The industry benefited from favorable weather in 2005 during the cooling season. According to the National Oceanic and Atmospheric Administration's Climate Prediction Center, total U.S. cooling days were 19% above normal and 15% above the prior year. Volumes increased in 2005 due to customers buying units in advance of the January 2006 effective date for the NAECA 13 SEER energy efficiency standard. In addition, price increases in response to higher commodity prices favorably impacted net sales.

Segment profit in Residential Heating & Cooling increased 21.9% from $169.7 million in 2004 to $206.9 million for 2005. The increase in segment profit was primarily driven by increased revenues. Pricing actions in the second half of 2004 that were in effect for the full year of 2005 allowed us to offset the negative impact from significant cost increases in commodities and fuel. SG&A expenses increased due to planned higher sales and marketing costs resulting from the strategy to grow revenues in select domestic regional markets where the market share for the Lennox brand had been historically lower than the national average. Higher performance based compensation also impacted selling general and administrative costs.

Commercial Heating & Cooling

The following table details the Commercial Heating & Cooling segment's net sales and profit for the years ended December 31, 2005 and 2004 (dollars in millions):

	Year Ended December 31,			
	2005	2004	Difference	% Change
Net sales	$ 651.7	$ 580.8	$ 70.9	12.2%
Profit	56.9	51.2	5.7	11.1
% of net sales	8.7%	8.8%		

Net sales in the Commercial Heating & Cooling segment increased $70.9 million, or 12.2%, to $651.7 million for the year ended December 31, 2005 from $580.8 million for the year ended December 31, 2004. The increase in net sales was due primarily to strong domestic sales growth, particularly in sales to national accounts and to commercial mechanical contractors. In addition, net sales were favorably impacted by price increases in response to higher commodity prices. Net sales were slightly higher in the segment's European operations.

Segment profit in Commercial Heating & Cooling increased 11.1% from $51.2 million for the year ended December 31, 2004 to $56.9 million for the year ended December 31, 2005. Profit margins in the domestic business improved due to higher volumes and price increases that offset higher commodity costs. However, these improvements were partially offset by declining profits in the European operations due to price compression that resulted from a continued decline in non-residential new construction in 2005.

Service Experts

The following table details the Service Experts segment's net sales and profit for the years ended December 31, 2005 and 2004 (dollars in millions):

	Year Ended December 31,			
	2005	2004	Difference	% Change
Net sales	$ 641.4	$ 611.7	$ 29.7	4.9%
Profit (loss)	17.0	(2.2)	19.2	n/m
% of net sales	2.7%	(0.4)%		

n/m = not meaningful

Net sales in the Service Experts segment increased $29.7 million, or 4.9%, to $641.4 million for the year ended December 31, 2005 from $611.7 million in the prior year. The increase in net sales was primarily in the residential service and replacement business that was impacted by favorable weather during the cooling season. This increase in net sales was also impacted by a $7.7 million improvement attributable to foreign currency fluctuations.

Segment profit in Service Experts increased $19.2 million from a loss of $2.2 million in 2004 to income of $17.0 million in 2005. Profit improved based on higher revenues and slightly better margins. In addition, the profit was impacted by lower SG&A expenses due to cost reduction activities and lower marketing costs.

Refrigeration

The following table details the Refrigeration segment's net sales and profit for the years ended December 31, 2005 and 2004 (dollars in millions):

	Year Ended December 31, 2005	2004	Difference	% Change
Net sales	$ 467.2	$ 444.7	$ 22.5	5.1%
Profit	44.4	42.7	1.7	4.0
% of net sales	9.5%	9.6%		

Net sales in the Refrigeration segment increased $22.5 million, or 5.1%, to $467.2 million for the year ended December 31, 2005 from $444.7 million for the year ended December 31, 2004. This increase in net sales included a $9.7 million improvement attributable to the favorable impact of foreign currency fluctuations in 2005. Sales in North and South America increased primarily due to the growth in original equipment manufacturer sales that service the supermarket, walk-in refrigeration and cold storage market segments. Price increases also favorably impacted net sales. These increases were partially offset by lower sales in the segment's Asia Pacific markets.

Segment profit in Refrigeration increased 4.0% from $42.7 million in 2004 to $44.4 million in 2005. The increase in segment profits was primarily attributable to increased revenues, favorable pricing and product mix. These favorable items were partially offset by increased commodity prices and higher SG&A expenses, which increased as a result of increased selling expense in international markets.

Corporate and Other

Corporate and other costs increased from $91.6 million for the year ended December 31, 2004 to $103.1 million for the year ended December 31, 2005. The primary reasons for this increase included the recognition of share based compensation expense related to long-term incentives due to the early adoption of SFAS 123R and higher short-term performance-based awards that resulted from better than planned operating performance. In addition, our costs increased due to the formation of a central strategic sourcing group at the corporate level. These unfavorable items were partially offset by reduced costs related to regulatory compliance and legal fees.

Adoption of SAB No. 108

During the fourth quarter of 2006, we adopted SAB No. 108. The transition provisions of SAB No. 108 permitted us to adjust for the cumulative effect in retained earnings for immaterial errors relating to prior periods. In accordance with SAB No. 108, we reduced retained earnings as of January 1, 2006 by $12.4 million to reflect understatements in product warranty liabilities caused by misstatements that occurred in prior years. The resulting adjustments do not affect previously reported cash flows from operations and the impact on prior years' financial position and results of operations was immaterial. See Note 2 to the Consolidated Financial Statements for more information. The total cumulative impact is as follows (in millions):

Retained earnings	$ 12.4
Deferred income taxes	7.2
Product warranty liability	(19.6)

Accounting for Futures Contracts

In connection with our 2005 year-end procedures related to the accounting for futures contracts for copper and aluminum, we determined that certain of our futures contracts previously designated as cash flow hedges did not qualify for hedge accounting under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"), as our documentation did not meet the criteria specified by SFAS No. 133 in order for the hedging instruments to qualify for cash flow designation. This determination resulted in two different types of adjustments to our quarterly consolidated financial statements for the year ended December 31, 2005.

First, we recorded an unrealized gain of $23.3 million pre-tax, or $14.9 million after-tax, related to open futures contracts, in (Gains), Losses and Other Expenses, net in the accompanying Consolidated Statements of Operations. We had previously recorded this unrealized gain in Accumulated Other Comprehensive Income in the accompanying Consolidated Balance Sheets. Second, we realized gains of $16.7 million pre-tax, or $10.7 million after-tax, related to settled futures contracts, which are also recorded in (Gains), Losses and Other Expenses, net in the accompanying Consolidated Statements of Operations. These adjustments did not affect our cash flows and the impact on results for all periods presented prior to 2005 was not material.

In 2006 we redesigned our policies, procedures, and controls with respect to our commodity hedging activities. Accordingly, futures contracts entered into in the fourth quarter of 2006 that meet the criteria to qualify for hedge accounting under SFAS No. 133 were designated as cash flow hedges and are accounted for in accordance with the standard. For more information see Note 21 to our Consolidated Financial Statements.

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

Liquidity and Capital Resources

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

As of December 31, 2006, our debt-to-total-capital ratio was 12%, down from 13% as of December 31, 2005, primarily due to repayment of debt.

	2006	2005 (In millions)	2004
Net cash provided by operating activities	$ 199.7	$ 228.7	$ 60.2
Net cash used in investing activities	(94.5)	(20.8)	(20.7)
Net cash used in financing activities	(175.5)	(56.9)	(55.1)

Net cash provided by operating activities

During 2006, cash provided by operating activities was $199.7 million compared to $228.7 million in 2005 and $60.2 million in 2004. The primary reasons for the decrease in cash provided by operations in 2006 was a $25.9 million decline in accounts payable in 2006 compared to a $64.4 million increase in 2005. In addition, inventories increased by $47.3 million in 2006 compared to a $0.1 million increase in 2005. Accounts payable declined in 2006 due to lower production in the fourth quarter as we made an effort to reduce inventories. However, inventories did increase in 2006 compared to 2005 due to higher costs of the new 13 SEER HVAC products and due to higher commodity costs. The unfavorable impact of accounts payable and inventories was partially offset by the favorable impact of increased warranty accruals in 2006.

As of December 31, 2006, we had approximately $14.9 million in unfunded post retirement benefit obligations that relate to our medical and life insurance benefits to eligible employees. We do not intend to pre-fund these obligations at this time. Benefits provided under these plans have been and will continue to be paid as they arise. Our employer contributions were $2.7 million, $2.4 million and $2.1 million in 2006, 2005 and 2004, respectively. Based on current information, we do not expect a significant change in 2007 and future years nor do we expect the cash flow required to pay the benefits under these plans to impact our ability to operate.

Net cash used in investing activities

Net cash used in investing activities was $94.5 million in 2006 compared to $20.8 million and $20.7 million in 2005 and 2004, respectively. Capital expenditures of $73.8 million, $63.3 million and $40.3 million in 2006, 2005 and 2004, respectively, resulted primarily from purchases of production equipment in the manufacturing plants in our Residential Heating & Cooling and Commercial Heating & Cooling segments. Additional investments in affiliates made in 2006 consisted of (i) strategic acquisitions of various third-party entities that are immaterial both individually and in the aggregate and (ii) additional investments in unconsolidated affiliates. Net cash used in investing activities in 2005 includes $39.3 million of proceeds from the sale of our 45% interest in our heat transfer joint venture to Outokumpu. Net cash used in investing activities in 2004 includes $21.8 million of proceeds from the sale of discontinued service centers of our Service Experts segment.

Net cash used in financing activities

Net cash used in financing activities was $175.5 million in 2006 compared to $56.9 million and $55.1 million in 2005 and 2004, respectively. We paid a total of $31.3 million in dividends on our common stock in 2006 as compared to $24.8 million and $22.8 million in 2005 and 2004, respectively. The primary reasons for the increase in cash dividends paid are the full conversion of our Convertible Notes in October 2005 and an increase in the quarterly cash dividend from $0.10 to $0.11 per share of common stock, effective as of the dividend paid on January 11, 2006. Net repayments of long-term debt, short-term borrowings and revolving long-term borrowings totaled approximately $11.6 million in 2006 as compared to $45.5 million and $52.3 million in 2005 and 2004, respectively. During 2006, we used approximately $155.5 million to repurchase approximately 5,910,000 shares of our common stock under the 2005 Stock Repurchase Program and approximately 273,000 shares of our common stock to satisfy tax withholding obligations in connection with the exercise of stock appreciation rights, the payout of shares of our common stock pursuant to vested performance share awards and the vesting of restricted stock awards.

As of December 31, 2006, we had outstanding long-term debt obligations totaling $108.2 million, which was down from $119.3 million and $304.5 million at December 31, 2005 and 2004, respectively. The amount outstanding as of December 31, 2006 consisted primarily of outstanding promissory notes with an aggregate principal outstanding of $107.2 million. The promissory notes mature at various dates through 2010 and have interest rates ranging from 6.73% to 8.00%.

We have bank lines of credit aggregating $434.4 million, of which $1.0 million was borrowed and outstanding and $91.2 million was committed to standby letters of credit at December 31, 2006. Of the remaining $342.2 million, the entire amount was available for future borrowings after consideration of covenant limitations at December 31, 2006. Included in the lines of credit are several regional facilities and a multi-currency facility governed by agreements between us and a syndicate of banks. The revolving credit facility, which matures in July 2010, has a borrowing capacity of $400 million. The facility contains certain financial covenants and bears interest at a rate equal to, at our option, either (a) the greater of the bank's prime rate or the federal funds rate plus 0.5% or (b) the London Interbank Offered Rate plus a margin equal to 0.475% to 1.20% depending upon the ratio of total funded debt-to-adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), as defined in the facility. We pay a facility fee, depending upon the ratio of total funded debt to Adjusted EBITDA, equal to 0.15% to 0.30% of the capacity. The facility includes restrictive covenants that limit our ability to incur additional indebtedness, encumber our assets, sell our assets and make certain payments, including amounts for share repurchases and dividends. The credit facility is secured by the stock of our major subsidiaries.

As of December 31, 2006, $14.8 million of cash and cash equivalents were restricted primarily due to routine lockbox collections and letters of credit issued with respect to the operations of our captive insurance subsidiary, which expire on December 31, 2007. These letter of credit restrictions can be transferred to our revolving lines of credit as needed.

On September 7, 2005, we called for redemption all of our Convertible Notes on October 7, 2005. The redemption price was 103.571% of the principal amount. As of September 7, 2005, there was $143.75 million aggregate principal amount of Convertible Notes outstanding, which could be converted into our common stock at a rate of 55.2868 shares of common stock per $1,000 principal amount of Convertible Notes at any time before the close of business on the business day prior to the redemption date. As of October 6, 2005, the holders of all of the Convertible Notes had converted the Convertible Notes into an aggregate of approximately 7.9 million shares of common stock.

In June 2004, we made a $35 million pre-payment on long-term debt that was scheduled to mature in the third quarter of 2005. The pre-payment make-whole amount associated with the debt was $1.9 million and was expensed in 2004.

On September 19, 2005, we announced our Board of Directors had authorized a stock repurchase program, pursuant to which we may repurchase up to ten million shares of our common stock, and had terminated a prior repurchase program that was announced November 2, 1999. Purchases under the stock repurchase program are made on an open-market basis at prevailing market prices. The timing of any repurchases depends on market conditions, the market price of our common stock and management's assessment of our liquidity needs and investment requirements and opportunities. No time limit was set for completion of the program and there is no guarantee as to the exact number of shares that will be repurchased. As of December 31, 2006, we had repurchased 6,357,041 shares of common stock at an average price of $26.48 per share, including fees and commissions, under the stock repurchase program.

Our domestic revolving and term loans contain certain financial covenant restrictions. As of December 31, 2006, we believe we were in compliance with all covenant requirements. We periodically review our capital structure, including our primary bank facility, to ensure that it has adequate liquidity. We believe that cash flow from operations, as well as available borrowings under our revolving credit facility and other sources of funding, will be sufficient to fund our operations for the foreseeable future.

Off-Balance Sheet Arrangements

In addition to the revolving and term loans described above, we utilize the following financing arrangements in the course of funding our operations:

- Trade accounts receivable are sold on a non-recourse basis to third parties. The sales are reported as a reduction of Accounts and Notes Receivable, Net in the Consolidated Balance Sheets. As of December 31, 2006 and December 31, 2005, respectively, we had not sold any of such accounts receivable. The receivables are sold at a discount from face value. We incurred maintenance costs and discounts of $0.3 million, $0.9 million and $2.3 million in 2006, 2005 and 2004, respectively, which are included as a component of SG&A in the Consolidated Statements of Operations.
- We also lease real estate and machinery and equipment pursuant to leases that, in accordance with Generally Accepted Accounting Principles ("GAAP"), are not capitalized on the balance sheet, including high-turnover equipment such as autos and service vehicles and short-lived equipment such as personal computers. These operating leases generated rent expense of approximately $54.1 million, $52.9 million and $55.3 million in 2006, 2005 and 2004, respectively.

Contractual Obligations

Summarized below are our long-term payment obligations as of December 31, 2006 (in millions):

	Payments Due by Period				
	Total	1 Year or Less	3-2 Years	4-5 Years	After 5 Years
Long-term debt and capital leases	$ 108.2	$ 11.4	$ 61.6	$ 35.2	$ —
Operating leases	153.9	43.5	57.0	29.2	24.2
Purchase obligations	19.0	19.0	—	—	—
Estimated interest payments on long-term debt and capital leases	35.1	11.0	13.6	7.4	3.1
Total contractual obligations	$ 316.2	$ 84.9	$ 132.2	$ 71.8	$ 27.3

Purchase obligations consist of aluminum commitments. The above table does not include retirement, postretirement and warranty liabilities because it is not certain when these liabilities will become due. For additional information regarding our contractual obligations, see Note 2, Note 11 and Note 13 of the Notes to our Consolidated Financial Statements.

The majority of our Service Experts segment's motor vehicle fleet is leased through operating leases. The lease terms are generally non-cancelable for the first 12-month term and then are month-to-month, cancelable at our option. While there are residual value guarantees on these vehicles, we have not historically made significant payments to the lessors as the leases are maintained until the fair value of the assets fully mitigates our obligations under the lease agreements. As of December 31, 2006, we estimate that we will incur an additional $6.2 million above the contractual obligations on these leases until the fair value of the leased vehicles fully mitigates our residual value guarantee obligation under the lease agreements.

Market Risk

Our results of operations can be affected by changes in exchange rates. Net sales and expenses in foreign currencies are translated into United States dollars for financial reporting purposes based on the average exchange rate for the period. During 2006, 2005 and 2004, net sales from outside the United States represented 22.8%, 22.7% and 24.4%, respectively, of our total net sales. Historically, foreign currency transaction gains (losses) have not had a material effect on our overall operations. The impact to net income of a 10% change in exchange rates is estimated to be approximately $5.3 million.

Our results of operations can be affected by changes in interest rates due to variable rates of interest on the revolving credit facilities. A 10% change in interest rates would not be material to our results of operations.

Currently, we utilize various alternatives to mitigate higher raw material costs, including cash flow and economic hedges and fixed forward contracts. We enter 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, 2006, we had metal futures contracts maturing at various dates through December 2007 with a fair value as an asset of $0.5 million. The impact of a 10% change in commodity prices would have a significant impact on our results from operations on an annual basis, absent any other contravening actions.

Critical Accounting Policies

The preparation of financial statements requires the use of judgments and estimates. The critical accounting policies are described below to provide a better understanding of how we develop our judgments about future events and related estimations and how such policies can impact our financial statements. A critical accounting policy is one that requires difficult, subjective or complex estimates and assessments and is fundamental to the results of operations. We identified the most critical accounting policies to be:

- product warranties;
- goodwill and other intangible assets;
- allowance for doubtful accounts;
- pension and postretirement benefits;
- stock-based compensation;
- self-insurance expense;
- income taxes; and
- derivative accounting.

This discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related Notes in "Item 8. Financial Statements and Supplementary Data."

Product Warranties

For some of our HVAC products, we provide warranty terms ranging from one to 20 years to customers for certain components. For select products, we have provided lifetime warranties for heat exchangers. A liability for estimated warranty expense is recorded on the date that revenue is recognized. Our 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 to repair or replace such products to determine our estimated future warranty cost. We do not discount product warranty liabilities as the amounts are not fixed and the timing of future cash payments are neither fixed nor reliably determinable. We also provide for specifically identified warranty obligations.

Our estimated future warranty cost requires significant assumptions about what costs will be incurred in the future and is subject to adjustment from time to time depending on changes in factors such as actual failure rate and cost experience. Should actual warranty costs differ from our estimates, we may be required to record adjustments to accruals and expense in the future. The subsequent costs incurred for warranty claims serve to reduce the accrued product warranty liability. We recorded warranty expense of $37.4 million, $36.3 million and $28.2 million for the years ended December 31, 2006, 2005 and 2004, respectively. For more information see Note 2 in the Notes to our Consolidated Financial Statements.

Goodwill and Other Intangible Assets

Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually by reporting unit in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144.

We estimate reporting unit fair values using standard business valuation techniques such as discounted cash flows and reference to comparable business transactions. The discounted cash flows fair value estimates are based on management's projected future cash flows and the estimated weighted average cost of capital. The estimated weighted average cost of capital is based on the risk-free interest rate and other factors such as equity risk premiums and the ratio of total debt and equity capital.

In addition, we periodically review intangible assets with estimable useful lives for impairment as events or changes in circumstances indicate that the carrying amount of such assets might not be recoverable. In order to assess recoverability, we compare 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.

We must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets in assessing the fair value of our goodwill and other intangibles. If these estimates or the related assumptions change, we may be required to record non-cash impairment charges for these assets in the future.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is generally established during the period in which receivables are recognized and is maintained at a level deemed appropriate by management based on historical and other factors that affect collectibility. Such factors include the historical trends of write-offs and recovery of previously written-off accounts, the financial strength of the customer and projected economic and market conditions. The evaluation of these factors involves complex, subjective judgments. Thus, changes in these factors or changes in economic circumstances may significantly impact our consolidated financial statements.

Pensions and Postretirement Benefits

We have domestic and foreign pension plans covering essentially all employees. We also maintain 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 Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions*, as amended by Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS No. 158"). The postretirement benefit plan is accounted for under the provisions of SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*, as amended by SFAS No. 158. See Note 11 in the Notes to our Consolidated Financial Statements for a discussion of the impact of the initial adoption of SFAS No. 158.

The benefit plan assets and liabilities included in our Consolidated Financial Statements and associated Notes reflect management's assessment as to the long-range performance of our benefit plans, using the following assumptions:

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Weighted-average assumptions as of December 31:				
Discount rate	5.89%	5.75%	5.82%	5.75%
Expected return on plan assets	8.25	8.25	—	—

To develop the expected long-term rate of return on assets assumption, we considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio and the effect of periodic rebalancing. These results were adjusted for the payment of reasonable expenses of the plan from plan assets. This resulted in the selection of the 8.25% long-term rate of return on assets assumption. Should actual results differ from our estimates, revisions to the benefit plan assets and liabilities would be required.

To select a discount rate for the purpose of valuing the plan obligations, we performed an analysis in which the duration of projected cash flows from defined benefit and retiree health care plans were matched with a yield curve based on the appropriate universe of high-quality corporate bonds that were available. We used the results of the yield curve analysis to select the discount rate that matched the duration and payment stream of the benefits in each plan. This resulted in the selection of the 5.89% and 5.82% discount rate assumption for pension benefits and other benefits, respectively. Should actual results differ from our estimates, revisions to the benefit plan liabilities would be required.

Stock-Based Compensation

The implementation of SFAS No. 123R on July 1, 2005, regarding stock-based compensation changed our financial statements as detailed in Note 2 and Note 12 to our Consolidated Financial Statements. Determining the amount of expense for stock-based compensation, as well as the associated impact to our balance sheets and statements of cash flows, requires us to develop estimates of the fair value of stock-based compensation expense. The most significant factors of that expense that require estimates or projections include the expected volatility, expected lives and estimated forfeiture rates of stock-based awards.

For grants made prior to July 1, 2005, an analysis of historical volatility was used to develop the estimate of expected volatility. Effective July 1, 2005, we changed our method of determining expected volatility on all stock option and stock appreciation rights granted after that date to a combination of historical volatility and available market implied volatility rates. After giving consideration to recently available regulatory guidance, we believe that a combination of historical volatility and market-based measures of implied volatility are currently the best available indicators of expected volatility of our stock price.

The expected lives of stock options and stock appreciation rights are determined based on historical exercise experience, using a rolling 7-year average and estimated forfeiture rates are derived from historical forfeiture patterns. We believe the historical experience method is the best estimate of future exercise patterns and forfeitures currently available.

Self-Insurance Expense

We use a combination of third party insurance and self-insurance plans (large deductible or captive) to provide protection against claims relating to worker's compensation, general liability, product liability, property damage, aviation liability, directors and officers' liability, auto liability, physical damage and other exposures. We maintain third party coverage for risks not retained within our large deductible or captive insurance plans.

The expense and liabilities are determined based on our historical claims information, as well as industry factors and trends in the level of such claims and payments.

As of December 31, 2006, our self-insurance and captive reserves, calculated on an undiscounted basis, represent the best estimate of the future payments to be made on losses reported and unreported for 2006 and prior years. The majority of our self-insured risks (excluding auto liability and physical damage) have relatively long payout patterns. Pursuant to our accounting policy, we do not discount our self-insurance or captive reserves. We maintain safety and manufacturing programs that are designed to improve the safety and effectiveness of our business processes and, as a result, reduce the level and severity of our various self-insurance risks.

Our reserves for self-insurance and captive risks totaled $58.2 million and $56.5 million at December 31, 2006 and 2005, respectively. Actual payments for claims reserved at December 31, 2006 may vary depending on various factors including the development and ultimate settlement of reported and unreported claims. To the extent actuarial assumptions change and claims experience rates differ from historical rates, our liability may change.

Income Taxes

In determining income for financial statement purposes, we must make certain estimates and judgments in the calculation of tax provisions and the resultant tax liabilities and in the recoverability of deferred tax assets that arise from temporary differences between the tax and financial statement recognition of revenue and expense.

In the ordinary course of global business, there may be many transactions and calculations where the ultimate tax outcome is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws. We recognize potential liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on an estimate of the ultimate resolution of whether, and the extent to which, additional taxes will be due. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals.

As part of our financial process, we must assess the likelihood that our deferred tax assets can be recovered. If recovery is not likely, the provision for taxes must be increased by recording a reserve in the form of a valuation allowance for the deferred tax assets that are estimated not to be ultimately recoverable. In this process, certain relevant criteria are evaluated including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, the taxable income in prior carryback years that can be used to absorb net operating losses and credit carrybacks and taxable income in future years. Our judgment regarding future taxable income may change due to future market conditions, changes in U.S. or international tax laws and other factors. These changes, if any, may require material adjustments to these deferred tax assets and an accompanying reduction or increase in net income in the period when such determinations are made.

In addition to the risks to the effective tax rate described above, the effective tax rate reflected in forward-looking statements is based on current tax law. Any significant changes in the tax laws could affect these estimates.

Derivative Accounting

We use futures contracts and fixed forward contacts to mitigate our exposure to volatility in commodity prices in the ordinary course of business. Futures contracts that meet established accounting criteria are formally designated as cash flow hedges. We account for instruments that qualify as cash flow hedges utilizing SFAS No. 133. In accounting for cash flow hedges, we must make estimates about future prices of commodities and component parts used in our manufacturing process. Pricing structure changes could result in increased levels of ineffectiveness which could significantly impact our consolidated results.

SFAS No. 133 contains strict requirements for preparation of contemporaneous documentation in order for futures contracts to be formally designated as cash flow hedges. Our failure to comply with the strict documentation requirements could result in de-designation of cash flow hedges, which may significantly impact our consolidated financial statements.

Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement 109* ("FIN No. 48"). FIN No. 48 clarifies the accounting for income taxes by prescribing a minimum threshold that a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting for interim periods, disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. We will adopt this Interpretation in the first quarter of calendar year 2007. We are currently evaluating the requirements of FIN No. 48 on our consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"), which establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Early adoption is allowed, provided that the reporting entity has not yet issued financial statements (including interim financial statements) for the fiscal year in which SFAS No. 157 is adopted. We are currently evaluating the requirements of the standard and have not yet determined the impact on our consolidated financial statements.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

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

Item 8. ***Financial Statements and Supplementary Data***

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Lennox International Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

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

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

Management has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this assessment, management has concluded that as of December 31, 2006, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

KPMG LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this report, has issued an audit report on management's assessment of internal control over financial reporting, a copy of which appears on the next page of this Annual Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Lennox International Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Lennox International Inc. (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management's assessment that Lennox International Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Lennox International Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lennox International Inc. (and subsidiaries) as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated February 26, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Dallas, Texas
February 26, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Lennox International Inc.:

We have audited the accompanying consolidated balance sheets of Lennox International Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedule II. These consolidated financial statements and financial statement schedule II are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lennox International Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective July 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *"Share—Based Payment"*, effective January 1, 2006, the Company adopted the provision of Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements*, and effective December 31, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and other Post Retirement Plans.*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Lennox International Inc.'s internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2007, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Dallas, Texas
February 26, 2007

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
As of December 31, 2006 and 2005
(In millions, except share and per share data)

	As of December 31, 2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 144.3	$ 213.5
Accounts and notes receivable, net	502.6	508.4
Inventories	305.5	242.4
Deferred income taxes	22.2	20.3
Other assets	43.8	62.6
Total current assets	1,018.4	1,047.2
PROPERTY, PLANT AND EQUIPMENT, net	288.2	255.7
GOODWILL	239.8	223.9
DEFERRED INCOME TAXES	104.3	71.9
OTHER ASSETS	69.1	138.9
TOTAL ASSETS	$ 1,719.8	$ 1,737.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term debt	$ 1.0	$ 1.2
Current maturities of long-term debt	11.4	11.3
Accounts payable	278.6	296.8
Accrued expenses	326.3	321.7
Income taxes payable	33.8	24.8
Liabilities held for sale	—	0.7
Total current liabilities	651.1	656.5
LONG-TERM DEBT	96.8	108.0
POSTRETIREMENT BENEFITS, OTHER THAN PENSIONS	12.9	15.1
PENSIONS	49.6	80.8
OTHER LIABILITIES	105.0	82.8
Total liabilities	915.4	943.2
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, 76,974,791 shares and 74,671,494 shares issued for 2006 and 2005, respectively	0.8	0.7
Additional paid-in capital	706.6	649.3
Retained earnings	312.5	191.0
Accumulated other comprehensive (loss) income	(5.1)	0.4
Treasury stock, at cost, 9,818,904 shares and 3,635,947 shares for 2006 and 2005, respectively	(210.4)	(47.0)
Total stockholders' equity	804.4	794.4
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,719.8	$ 1,737.6

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

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LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2006, 2005 and 2004
(In millions, except per share data)

	For the Years Ended December 31, 2006	2005	2004
NET SALES	$ 3,671.1	$ 3,366.2	$ 2,982.7
COST OF GOODS SOLD	2,515.9	2,258.2	1,985.2
Gross profit	1,155.2	1,108.0	997.5
OPERATING EXPENSES:			
Selling, general and administrative expenses	973.2	916.6	835.2
(Gains), losses and other expenses, net	(45.7)	(50.2)	—
Restructuring charges	13.3	2.4	—
Goodwill impairment	—	—	208.0
Equity in earnings of unconsolidated affiliates	(8.0)	(14.2)	(9.1)
Operational income (loss) from continuing operations	222.4	253.4	(36.6)
INTEREST EXPENSE, net	4.4	15.4	27.2
OTHER (INCOME) EXPENSE, net	(0.4)	3.0	(0.8)
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change	218.4	235.0	(63.0)
PROVISION FOR INCOME TAXES	52.4	83.0	30.5
Income (loss) from continuing operations before cumulative effect of accounting change	166.0	152.0	(93.5)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET	—	(0.1)	—
Income (loss) from continuing operations	166.0	152.1	(93.5)
DISCONTINUED OPERATIONS:			
Loss from operations of discontinued operations	—	2.0	38.9
Income tax benefit	—	(0.5)	(9.3)
Loss on disposal of discontinued operations	—	0.1	14.9
Income tax benefit	—	(0.2)	(3.6)
Loss from discontinued operations	—	1.4	40.9
Net income (loss)	$ 166.0	$ 150.7	$ (134.4)
INCOME (LOSS) PER SHARE FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE:			
Basic	$ 2.37	$ 2.37	$ (1.56)
Diluted	$ 2.26	$ 2.13	$ (1.56)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE PER SHARE:			
Basic	$ —	$ —	$ —
Diluted	$ —	$ —	$ —
INCOME (LOSS) PER SHARE FROM CONTINUING OPERATIONS:			
Basic	$ 2.37	$ 2.37	$ (1.56)
Diluted	$ 2.26	$ 2.13	$ (1.56)
(LOSS) PER SHARE FROM DISCONTINUED OPERATIONS:			
Basic	$ —	$ (0.02)	$ (0.68)
Diluted	$ —	$ (0.02)	$ (0.68)
NET INCOME (LOSS) PER SHARE:			
Basic	$ 2.37	$ 2.35	$ (2.24)
Diluted	$ 2.26	$ 2.11	$ (2.24)
AVERAGE SHARES OUTSTANDING:			
Basic	69.9	64.2	60.0
Diluted	73.5	73.7	60.0
CASH DIVIDENDS DECLARED PER SHARE	$ 0.46	$ 0.41	$ 0.385

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

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2006, 2005 and 2004
(In millions, except per share data)

	Common Stock Issued Shares	Common Stock Issued Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Deferred Compensation	Treasury Stock at Cost	Total Stockholders' Equity	Comprehensive Income (Loss)
BALANCE AT DECEMBER 31, 2003	64.4	$ 0.6	$ 420.4	$ 224.4	$ (18.4)	$ (18.2)	$ (31.1)	$ 577.7	
Net loss	—	—	—	(134.4)	—	—	—	(134.4)	$ (134.4)
Dividends, $0.385 per share	—	—	—	(23.2)	—	—	—	(23.2)	—
Foreign currency translation adjustments, net	—	—	—	—	23.0	—	—	23.0	23.0
Minimum pension liability adjustments, net of tax provision of $4.4	—	—	—	—	(9.0)	—	—	(9.0)	(9.0)
Deferred compensation	—	—	7.9	—	—	—	—	7.9	—
Derivatives, net of tax provision of $2.9	—	—	—	—	5.1	—	—	5.1	5.1
Common stock issued	2.0	0.1	20.3	—	—	—	—	20.4	—
Tax benefits of stock compensation	—	—	5.5	—	—	—	—	5.5	—
Treasury stock purchases	—	—	—	—	—	—	(0.1)	(0.1)	—
Comprehensive loss	—	—	—	—	—	—	—	—	$ (115.3)
BALANCE AT DECEMBER 31, 2004	66.4	$ 0.7	$ 454.1	$ 66.8	$ 0.7	$ (18.2)	$ (31.2)	$ 472.9	
Net income	—	—	—	150.7	—	—	—	150.7	$ 150.7
Dividends, $0.41 per share	—	—	—	(26.5)	—	—	—	(26.5)	—
Foreign currency translation adjustments, net	—	—	—	—	(10.9)	—	—	(10.9)	(10.9)
Minimum pension liability adjustments, net of tax benefit of $9.4	—	—	—	—	17.0	—	—	17.0	17.0
Adoption of Statement of Financial Accounting Standard No. 123R	(2.3)	—	(2.6)	—	—	7.4	—	4.8	—
Stock-based compensation expense	—	—	18.0	—	—	10.8	—	28.8	—
Derivatives, net of tax provision of $3.8	—	—	—	—	(6.4)	—	—	(6.4)	(6.4)
Common stock issued	2.7	—	25.8	—	—	—	—	25.8	—
Redemption of Convertible Notes	7.9	—	144.3	—	—	—	—	144.3	—
Treasury stock purchases	—	—	—	—	—	—	(15.8)	(15.8)	—
Tax benefits of stock compensation	—	—	9.7	—	—	—	—	9.7	—
Comprehensive income	—	—	—	—	—	—	—	—	$ 150.4
BALANCE AT DECEMBER 31, 2005	74.7	$ 0.7	$ 649.3	$ 191.0	$ 0.4	$ —	$ (47.0)	$ 794.4	
Impact of adjustments recorded under provisions of SAB No. 108	—	—	—	(12.4)	—	—	—	(12.4)	—
ADJUSTED BALANCE AT JANUARY 1, 2006	74.7	$ 0.7	$ 649.3	$ 178.6	$ 0.4	$ —	$ (47.0)	$ 782.0	
Net income	—	—	—	166.0	—	—	—	166.0	166.0
Dividends, $0.46 per share	—	—	—	(32.1)	—	—	—	(32.1)	—
Foreign currency translation adjustments, net	—	—	—	—	20.8	—	—	20.8	20.8
Minimum pension liability adjustments, net of tax benefit of $13.6	—	—	—	—	(24.4)	—	—	(24.4)	(24.4)
Stock-based compensation expense	—	—	24.4	—	—	—	—	24.4	
Derivatives, net of tax provision of $1.0	—	—	—	—	(1.9)	—	—	(1.9)	(1.9)
Common stock issued	2.3	0.1	19.7	—	—	—	—	19.8	—
Treasury stock purchases	—	—	—	—	—	—	(163.4)	(163.4)	—
Tax benefits of stock compensation	—	—	13.2	—	—	—	—	13.2	—
Comprehensive income	—	—	—	—	—	—	—	—	$ 160.5
BALANCE AT DECEMBER 31, 2006	77.0	$ 0.8	$ 706.6	$ 312.5	$ (5.1)	$ —	$(210.4)	$ 804.4	

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, 2006, 2005 and 2004
(In millions)

	For the Years Ended December 31,		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 166.0	$ 150.7	$ (134.4)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in earnings of unconsolidated affiliates	(8.0)	(14.2)	(9.1)
Dividends from affiliates	5.4	—	2.8
Minority interest	0.5	0.3	1.0
Non-cash restructuring expenses	7.9	0.9	—
Non-cash impairment of long-lived assets and goodwill	—	—	208.0
Unrealized loss (gain) on futures contracts	20.8	(23.3)	—
Stock-based compensation expense	24.4	28.8	11.9
Depreciation and amortization	44.3	37.4	42.6
Deferred income taxes	(26.3)	11.9	3.2
Other (gains), losses and expenses, net	(0.3)	(2.9)	13.7
Changes in assets and liabilities, net of effects of acquisitions and divestitures:			
Accounts and notes receivable	11.1	(53.6)	(57.3)
Inventories	(47.3)	0.1	(28.3)
Other current assets	(0.8)	(16.2)	(8.0)
Accounts payable	(25.9)	64.4	(15.4)
Accrued expenses	(2.1)	40.3	2.4
Income taxes payable and receivable	11.0	23.1	(6.4)
Long-term warranty, deferred income and other liabilities	19.0	(16.9)	(2.6)
Net cash (used in) provided by operating activities from discontinued operations	—	(2.1)	36.1
Net cash provided by operating activities	199.7	228.7	60.2
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the disposal of property, plant and equipment	3.5	0.7	1.5
Purchases of property, plant and equipment	(73.8)	(63.3)	(40.3)
Additional investments in affiliates	(24.2)	—	(3.7)
Proceeds from disposal of investments (continuing operations)	—	39.3	—
Net cash provided by investing activities from discontinued operations	—	2.5	21.8
Net cash used in investing activities	(94.5)	(20.8)	(20.7)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Short-term (repayments) borrowings, net	(0.4)	(4.2)	2.0
Long-term debt repayments, net	(11.2)	(36.3)	(56.3)
Revolver long-term (repayments) borrowings, net	—	(5.0)	2.0
Sales of common stock	19.8	25.8	20.4
Payments of deferred financing costs	(0.3)	(1.7)	(0.3)
Repurchases of common stock	(163.4)	(15.8)	(0.1)
Excess tax benefits related to share based payments	11.3	5.1	—
Cash dividends paid	(31.3)	(24.8)	(22.8)
Net cash used in financing activities	(175.5)	(56.9)	(55.1)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(70.3)	151.0	(15.6)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	1.1	1.6	0.4
CASH AND CASH EQUIVALENTS, beginning of year	213.5	60.9	76.1
CASH AND CASH EQUIVALENTS, end of year	$ 144.3	$ 213.5	$ 60.9
Supplementary disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 10.0	$ 16.3	$ 29.7
Income taxes (net of refunds)	$ 43.8	$ 66.1	$ 17.4
Non-cash items:			
Redemption of Convertible Notes	$ —	$ 144.3	$ —
Impact of adjustments recorded under provisions of SAB No. 108	$ 12.4	$ —	$ —

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, 2006, 2005 and 2004

1. Nature of Operations:

Lennox International Inc., a Delaware corporation, and subsidiaries (the "Company" or "LII"), 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 participates in four reportable business segments of the HVACR industry. The first reportable segment is Residential Heating & Cooling, in which LII 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 reportable segment is Commercial Heating & Cooling, in which LII manufactures and sells rooftop products and related equipment for commercial applications in the United States and Canada and primarily rooftop products, chillers and air handlers in Europe. The third reportable segment is Service Experts, which includes sales, installation, maintenance, and repair services for heating, ventilation, and air conditioning ("HVAC") equipment by LII-owned service centers in the United States and Canada. The fourth reportable segment is Refrigeration, which manufactures and sells unit coolers, condensing units and other commercial refrigeration products in the United States and international markets. See Note 3 for financial information regarding the Company's reportable segments.

The Company sells its products and services to numerous types of customers, including distributors, independent and Company-owned dealer service centers, other installing contractors, wholesalers, manufacturers' representatives, original equipment manufacturers and national accounts.

As of December 31, 2006, approximately 23% of the Company's employees were represented by collective bargaining agreements. The Company believes its relationships with the unions representing its employees are generally good and does not anticipate any material adverse consequences resulting from negotiations to renew any collective bargaining agreements.

2. Summary of Significant Accounting Policies:

Principles of Consolidation

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

Cash and Cash Equivalents

The Company considers all highly liquid temporary investments with original maturity dates of three months or less to be cash equivalents. Cash and cash equivalents of $144.3 million and $213.5 million as of December 31, 2006 and 2005, respectively, consisted of cash, overnight repurchase agreements and investment grade securities and are stated at cost, which approximates fair value.

As of December 31, 2006 and 2005, $14.8 million and $23.1 million, respectively, of cash and cash equivalents were restricted primarily due to routine lockbox collections and letters of credit issued with respect to the operations of the Company's captive insurance subsidiary, which expire on December 31, 2007. These letter of credit restrictions can be transferred to the Company's revolving lines of credit as needed.

Accounts and Notes Receivable

Accounts and notes receivable are shown in the accompanying Consolidated Balance Sheets, net of allowance for doubtful accounts of $16.7 million and $16.7 million, as of December 31, 2006 and 2005, respectively. The allowance for doubtful accounts is generally established during the period in which receivables are recognized and is maintained at a level deemed appropriate by management based on historical and other factors that affect collectibility. Such factors include the historical trends of write-offs and recovery of previously written-off accounts, the financial strength of the customer and projected economic and market conditions. The Company has no significant concentration of credit risk within its accounts and notes receivable.

Inventories

Inventory costs include material, labor, depreciation and plant overhead. Inventories of $134.0 million and $129.4 million as of December 31, 2006 and 2005, 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. The Company elected to use the LIFO inventory valuation method for the Company's domestic manufacturing companies in 1974 and continued to elect the LIFO method for new operations through the late 1980s. The types of inventory include raw materials, purchased components, work-in-process, repair parts and finished goods. Starting in the late 1990s, the Company began adopting the FIFO inventory valuation method for all new domestic manufacturing operations (primarily acquisitions). The Company's operating entities with a previous LIFO election continue to use LIFO accounting. The Company also uses the FIFO inventory method for all of the Company's foreign-based manufacturing facilities as well as the Company's Service Experts segment, whose inventory is limited to service parts and finished goods. For the year ended December 31, 2006, the Company recognized approximately $1.7 million of LIFO inventory liquidations in net income. LIFO inventory liquidations did not have a material impact on gross margins during the years ended December 31, 2005 and 2004.

Property, Plant and Equipment

Property, plant and equipment are 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. 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

The Company periodically reviews long-lived assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets might 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. 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.

In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations — An Interpretation of FASB Statement No. 143* ("FIN No. 47"), which was effective for the Company as of December 31, 2005. This interpretation provides additional guidance as to when companies should record the fair value of a liability for a conditional asset retirement obligation when there is uncertainty about the timing or method of settlement of the obligation. The cumulative effect of the change in accounting related to the adoption of FIN No. 47 was not material for the year ended December 31, 2005. There were no material changes in conditional asset retirement obligations during 2006.

Investments in Affiliates

Investments in affiliates in which the Company does not exercise control and has a 20% or more voting interest are accounted for using the equity method of accounting. If the fair value of an investment in an affiliate is below its carrying value and the difference is deemed to be other than temporary, the difference between the fair value and the carrying value is charged to earnings.

Investments in affiliated companies accounted for under the equity method consist of a 24.5% common stock ownership interest in Alliance Compressor LLC, a joint venture engaged in the manufacture and sale of compressors; a 50% common stock ownership in Frigus-Bohn S.A. de C.V., a Mexican joint venture that produces unit coolers and condensing units; and a 21.75% common stock ownership interest in Kulthorn Kirby Public Company Limited, a Thailand company engaged in the manufacture of compressors for refrigeration applications. The Company had been accounting for its investment in Kulthorn Kirby Public Company Limited as a marketable equity security investment prior to October 2004, when the Company purchased an additional 1.3% common stock interest for approximately $1.5 million. The Company has adjusted prior years information to reflect the change to equity accounting.

As of December 31, 2004, the Company held a 45% common stock ownership interest in Outokumpu Heatcraft, a joint venture engaged in the manufacture and sale of heat transfer components, primarily coils. The Company accounted for its investment in Outokumpu Heatcraft using the equity method. On June 7, 2005, the Company completed the sale of its 45% interest in the heat transfer joint venture to Outokumpu Copper Products OY of Finland (“Outokumpu”) for $39.3 million pursuant to which it recorded a pre-tax gain of $9.3 million, which is included in (Gains), Losses and Other Expenses, net in the accompanying Consolidated Statements of Operations. In connection with the sale, the Company entered into an agreement with Outokumpu related to joint remediation of certain existing environmental matters. In conjunction with the new agreement, the Company updated its estimate of its portion of the on-going remediation costs and recorded expenses of $2.2 million for the year ended December 31, 2005.

The Company has recorded $8.0 million, $14.2 million and $9.1 million of equity in the earnings of these affiliates for the years ended December 31, 2006, 2005 and 2004, respectively, and has included these amounts in Equity in Earnings of Unconsolidated Affiliates in the accompanying Consolidated Statements of Operations. The carrying amount of investments in affiliates as of December 31, 2006 and 2005 is $52.4 million and $46.0 million, respectively, and is included in long-term Other Assets in the accompanying Consolidated Balance Sheets.

Goodwill

Goodwill represents the excess of cost over fair value of assets of acquired businesses. Goodwill and intangible assets determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (“SFAS No. 142”). Goodwill is tested at least annually by reporting unit for impairment. The Company completes its annual goodwill impairment tests in the first quarter of each fiscal year.

The Company estimates reporting unit fair values using standard business valuation techniques such as discounted cash flows and reference to comparable business transactions. The discounted cash flows fair value estimates are based on management’s projected future cash flows and the estimated weighted average cost of capital. The estimated weighted average cost of capital is based on the risk-free interest rate and other factors such as equity risk premiums and the ratio of total debt and equity capital.

Based on the results of its annual impairment tests required by SFAS No. 142, the Company determined that no impairment of its goodwill existed as of December 31, 2006 or 2005, respectively, and in 2004, the Company recorded an impairment charge associated with its Service Experts segment. This impairment charge reflected the segment’s performance below management’s expectations and management’s decision to divest centers that no longer matched the realigned Service Experts business model (see Note 6). The Company estimated the fair value of its Service Experts segment using the income method of valuation, which included the use of estimated discounted cash flows. Based on the comparison, the carrying value of Service Experts exceeded its fair value. Accordingly, the Company performed the second step of the test, comparing the implied fair value of Service Experts goodwill with the carrying amount of that goodwill. Based on this assessment, the Company recorded a non-cash impairment charge of $208.0 million ($184.8 million, net of tax), which is included as a component of Operating Income in the accompanying Consolidated Statements of Operations. In 2004, the Company also recognized a $14.8 million ($13.2 million, net of tax) goodwill impairment charge arising from goodwill allocated to centers held for sale and a

$3.1 million pre-tax impairment charge related to property, plant and equipment. These amounts are included as a part of Loss from Discontinued Operations in the accompanying Consolidated Statements of Operations.

In assessing the fair value of its goodwill, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or the related assumptions change, the Company may be required to record impairment charges for these assets in the future.

Intangible and Other Assets

As of December 31, 2006 and 2005, identifiable intangible and other assets subject to amortization are recorded in Other Assets in the accompanying Consolidated Balance Sheets and are comprised of the following (in millions):

	2006			2005		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Deferred financing costs	$ 5.2	$ (3.3)	$ 1.9	$ 5.8	$ (3.3)	$ 2.5
Customer relationships	3.3	(0.1)	3.2	—	—	—
Other	5.0	(3.2)	1.8	9.1	(7.7)	1.4
Total	$ 13.5	$ (6.6)	$ 6.9	$ 14.9	$ (11.0)	$ 3.9

SFAS No. 142 requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* (“SFAS No. 144”).

Amortization of intangible assets for the years ended December 31, 2006, 2005 and 2004 was approximately $1.4 million, $1.9 million and $3.6 million, respectively. Estimated intangible amortization expense for the next five years is as follows (in millions):

2007	$1.2
2008	1.2
2009	1.0
2010	0.8
2011	0.5

As of December 31, 2006, the Company had $4.3 million of intangible assets, primarily consisting of trademarks, which are not subject to amortization.

Identifiable intangible and other assets that have finite useful lives are amortized over their useful lives as follows:

Asset	Useful Life
Deferred financing costs	Straight-line method over terms of the related debt
Customer relationships	Straight-line method up to 10 years

The Company periodically reviews long-lived assets with estimable useful lives for impairment as events or changes in circumstances indicate that the carrying amount of such assets might 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. 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.

In assessing the fair value of its other intangibles, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or the related assumptions change, the Company may be required to record impairment charges for these assets in the future.

Product Warranties

For some of LII's HVAC products, the Company provides warranty terms ranging from one to 20 years to customers for certain components such as compressors or heat exchangers. For select products, LII has provided lifetime warranties for heat exchangers. A liability for estimated warranty expense is recorded on the date that revenue is recognized. 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 to repair or replace such products to determine the estimated future warranty cost. The Company does not discount product warranty liabilities as the amounts are not fixed and the timing of future cash payments are neither fixed nor reliably determinable. The Company also provides for specifically identified warranty obligations. The Company's estimated future warranty cost is subject to adjustment from time to time depending on changes in actual failure rate and cost experience. Subsequent costs incurred for warranty claims serve to reduce the accrued product warranty liability.

The Company recorded warranty expense of $37.4 million, $36.3 million and $28.2 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Total liabilities for estimated warranty expense are $104.7 million and $80.9 million as of December 31, 2006 and 2005, respectively, and are included in the following captions on the accompanying Consolidated Balance Sheets (in millions):

	December 31,	
	2006	2005
Accrued Expenses	$ 27.2	$ 25.3
Other Liabilities	77.5	55.6
	$ 104.7	$ 80.9

The changes in the carrying amount of the Company's total warranty liabilities for the years ended December 31, 2006 and 2005 are as follows (in millions):

Total warranty liability at December 31, 2004	$ 71.0
Payments made in 2005	(26.4)
Changes resulting from issuance of new warranties	28.8
Changes in estimates associated with pre-existing liabilities	7.5
Total warranty liability at December 31, 2005	$ 80.9
Errors in estimates associated with pre-existing liabilities recorded under the provisions of SAB No. 108	19.6
Payments made in 2006	(33.2)
Changes resulting from issuance of new warranties	33.6
Changes in estimates associated with pre-existing liabilities	3.8
Total warranty liability at December 31, 2006	$ 104.7

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The 2005 change in warranty liability that resulted from changes in estimates of warranties issued prior to 2005 was primarily due to revaluing warranty reserves based on higher material input costs and increased labor allowances on the Company's product lines, including the CompleteHeat® product line. See further discussion on the adjustments recorded under the provisions of Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB No. 108"), below.

Adoption of SAB No. 108

During the fourth quarter of 2006, the Company adopted SAB No. 108. The transition provisions of SAB No. 108 permit the Company to adjust for the cumulative effect in retained earnings for immaterial errors relating to prior periods. In accordance with SAB No. 108, the Company reduced retained earnings as of January 1, 2006 by $12.4 million to reflect understatements in product warranty liabilities caused by misstatements that occurred in prior years. The resulting adjustments do not affect previously reported cash flows from operations and the impact on prior years' financial position and results of operations was immaterial. The total cumulative impact is as follows (in millions):

Retained earnings	$	12.4
Deferred income taxes		7.2
Product warranty liability		(19.6)

Previously reported net income for the second quarter of 2006 was understated by $4.3 million as a result of warranty accrual adjustments made during the second quarter that were related to pre-existing warranties. Therefore, the Company increased net income for the second quarter of 2006 by $4.3 million. The adoption of SAB No. 108 had no impact on the previously reported amounts for the three months ended March 31, 2006 or the three months ended September 30, 2006.

The following table provides the impact on previously reported amounts recorded under the provisions of SAB No. 108 (unaudited, amounts in millions):

		For the Three Months and Six Months Ended June 30, 2006 and the Nine Months Ended September 30, 2006 Increase (Decrease)
Cost of goods sold	$	(6.8)
Gross profit		6.8
Operational income		6.8
Income from operations before income taxes		6.8
Provision for income taxes		2.5
Net income		4.3

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months and Six Months Ended June 30, 2006 and the Nine Months Ended September 30, 2006
(Unaudited, in millions, except per share data)

The following table reflects the adjusted Consolidated Statements of Operations for the three and six months ended June 30, 2006 and the nine months ended September 30, 2006. These statements reflect the $4.3 million adjustments made to second quarter net income under the provisions of SAB No. 108.

	For the Three Months Ended June 30, 2006 Adjusted	For the Six Months Ended June 30, 2006 Adjusted	For the Nine Months Ended September 30, 2006 Adjusted
NET SALES	$ 1,002.0	$ 1,801.5	$ 2,808.7
COST OF GOODS SOLD	679.4	1,225.5	1,921.7
Gross profit	322.6	576.0	887.0
OPERATING EXPENSES:			
Selling, general and administrative expenses	253.5	485.7	740.7
(Gains), losses and other expenses, net	(27.2)	(45.3)	(47.3)
Restructuring charges	2.3	8.6	13.1
Equity in earnings of unconsolidated affiliates	(2.9)	(5.0)	(7.5)
Operational income	96.9	132.0	188.0
INTEREST EXPENSE, net	1.8	2.4	3.6
OTHER EXPENSE (INCOME), net	—	1.0	0.1
Income from operations before income taxes	95.1	128.6	184.3
PROVISION FOR INCOME TAXES	26.8	39.3	59.4
Net income	$ 68.3	$ 89.3	$ 124.9
NET INCOME PER SHARE:			
Basic	$ 0.96	$ 1.25	$ 1.77
Diluted	$ 0.91	$ 1.18	$ 1.67
AVERAGE SHARES OUTSTANDING:			
Basic	71.5	71.4	70.7
Diluted	75.2	75.4	74.6
CASH DIVIDENDS DECLARED PER SHARE	$ 0.11	$ 0.22	$ 0.33

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

SEGMENT REVENUES AND OPERATING PROFIT
For the Three Months and Six Months Ended June 30, 2006 and the Nine Months Ended September 30, 2006
(Unaudited, in millions)

The following table reflects the adjusted segment revenues and operating profits for the three and six months ended June 30, 2006 and the nine months ended September 30, 2006. These statements reflect the $4.3 million adjustments made to second quarter net income under the provisions of SAB No. 108.

	For the Three Months Ended June 30, 2006 Adjusted	For the Six Months Ended June 30, 2006 Adjusted	For the Nine Months Ended September 30, 2006 Adjusted
Net Sales			
Residential	$ 539.2	$ 955.6	$ 1,454.5
Commercial	181.1	314.0	533.4
Service Experts	177.8	318.8	492.8
Refrigeration	129.9	255.7	392.0
Eliminations(A)	(26.0)	(42.6)	(64.0)
	$ 1,002.0	$ 1,801.5	$ 2,808.7
Segment Profit (Loss)(B)			
Residential	$ 73.1	$ 115.3	$ 168.9
Commercial	19.4	27.7	53.4
Service Experts	9.5	3.3	11.0
Refrigeration	14.3	26.4	40.4
Corporate and other	(21.0)	(45.1)	(67.9)
Eliminations(A)	(0.4)	(0.3)	0.3
	94.9	127.3	206.1
Reconciliation to income from operations before income taxes:			
(Gains), losses and other expenses, net	(27.2)	(45.3)	(47.3)
Restructuring charges	2.3	8.6	13.1
Interest expense, net	1.8	2.4	3.6
Other expense, net	—	1.0	0.1
	118.0	160.6	236.6
Less: Realized gains on settled futures contracts	22.9	32.0	52.3
	$ 95.1	$ 128.6	$ 184.3

(A) Eliminations consist of intercompany sales between business segments, such as products sold to Service Experts by the Residential Heating & Cooling segment.

(B) The Company defines segment profit (loss) as a segment's income (loss) from continuing operations before income taxes included in the accompanying Consolidated Statements of Operations; excluding (gains), losses and other expenses, net; restructuring charges; goodwill impairment; interest expense, net; and other (income) expense, net; less (plus) realized gains (losses) on settled futures contracts.

Adoption of SFAS No. 158

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pensions and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132R* ("SFAS No. 158"). On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158, which requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position, and provide additional disclosures. The effect of adopting SFAS No. 158 on the Company's financial condition at December 31, 2006 has been included in the accompanying consolidated financial statements. SFAS No. 158 did not have an effect on the Company's consolidated financial condition at December 31, 2005 or 2004. See Note 11 for further discussion.

Environmental Obligations

The Company accounts for environmental obligations in accordance with American Institute of Certified Public Accountants Statement of Position 96-1, *Environmental Remediation Liabilities* ("SOP 96-1"). The Company accrues for losses associated with environmental obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental obligations are discounted to their present value when the amounts are fixed and the timing of future cash payments are reliably determinable. Recoveries of environmental remediation and containment costs from other parties are recognized as assets when their receipt is deemed probable. For more information see Note 13.

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 carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Revenue Recognition

The Company's Residential Heating & Cooling, Commercial Heating & Cooling and Refrigeration segments' revenue recognition practices depend upon the shipping terms for each transaction. Shipping terms are primarily FOB Shipping Point and, therefore, revenues are recognized for these transactions when products are shipped to customers and title passes. However, certain customers in the Company's smaller operations, primarily outside of North America, have shipping terms where title and risk of ownership does not transfer until the product is delivered to the customer. For these transactions, revenues are recognized on the date that the product is received and accepted by such customers. LII has experienced returns for miscellaneous reasons and records a reserve for these returns based on historical experience for such returns at the time the Company recognizes revenue. The Company's historical rate of returns is insignificant as a percentage of sales.

The Company's Service Experts segment recognizes sales, installation, maintenance and repair revenues at the time the services are completed. The Service Experts segment also provides HVAC system design and installation services under fixed-price contracts, which may extend up to one year. Revenue for these services is recognized using the percentage-of-completion method, based on the percentage of incurred contract costs-to-date in relation to total estimated contract costs, after giving effect to the most recent estimates of total cost. The effect of changes to total estimated contract revenue or cost is recognized in the period such changes are determined. Provisions for estimated losses on individual contracts are made in the period in which the loss first becomes apparent.

The Company engages in cooperative advertising, customer rebate, cash discount and other miscellaneous programs that result in payments or credits being issued to its customers. The Company's policy is to record the discounts and incentives as a reduction of sales when the sales are recorded, with the exception of certain cooperative advertising expenditures that are charged to Selling, General and Administrative Expenses. The amounts charged to Selling, General and Administrative Expenses were approximately $11.8 million, $11.7 million and $8.9 million for the years ended December 31, 2006, 2005 and 2004, respectively. Under these cooperative advertising programs, the Company receives, or will receive, an identifiable benefit (goods or services) in exchange for the consideration given. The identified benefit is sufficiently separable from the customer's purchase of the Company's products such that the Company could have entered into an exchange transaction with a party other than the customer in order to receive the benefit. Additionally, the Company can reasonably estimate the fair value of the benefit that the Company receives, or will receive, and the amount of the consideration paid by the Company does not exceed the estimated fair value of the benefit received.

Cost of Goods Sold

The principal components of cost of goods sold in the Company's manufacturing operations are component costs, raw materials, factory overhead, labor and estimated costs of warranty expense. In the Company's Service Experts segment, the principal components of cost of goods sold are equipment, parts and supplies and labor. These principal components of costs include inbound freight charges, purchasing, receiving and inspection costs, internal transfer costs and warehousing costs through the manufacturing process.

Shipping and Handling

Shipping and handling costs relate to post-production activities. Costs of $188.9 million, $158.2 million, and $139.4 million are included in Selling, General and Administrative Expenses in the accompanying Consolidated Statements of Operations for the years ended December 31, 2006, 2005, and 2004, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include (a) all other payroll and benefit costs; (b) outbound freight, post-production warehousing and distribution costs; (c) advertising; (d) general selling and administrative costs, which include research and development and information technology costs; and (e) other selling, general and administrative related costs such as insurance, travel, and non-production depreciation and rent.

(Gains), Losses and Other Expenses, net

(Gains), losses and other expenses, net were ($45.7) million, ($50.2) million and zero for the years ended December 31, 2006, 2005 and 2004, respectively and included the following (in millions):

	For the Years Ended December 31, 2006	2005	2004
Realized gains on settled futures contracts	$ (66.0)	$ (16.7)	$ —
Unrealized losses (gains) on open futures contracts	20.8	(23.3)	—
Gain on sale of LII's 45% interest in its heat transfer joint venture to Outokumpu	—	(9.3)	—
Estimated on-going remediation costs in conjunction with the joint remediation agreement LII entered into with Outokumpu	—	2.2	—
Other items, net	(0.5)	(3.1)	—
(Gains), losses and other expenses, net	$ (45.7)	$ (50.2)	$ —

Stock-Based Compensation

Effective July 1, 2005, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* ("SFAS No. 123R"), using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the second half of 2005 included: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of July 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), and (b) compensation cost for all share-based payments granted subsequent to July 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. Prior to July 1, 2005, the Company accounted for stock-based awards under the intrinsic value method, which follows the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees and Related Interpretations* ("APB No. 25"), as permitted by SFAS No. 123. In accordance with SFAS No. 123R, results for prior periods have not been restated. Compensation expense of $24.4 million, $28.8 million and $11.9 million was recognized for the years ended December 31, 2006, 2005 and 2004, respectively, and is included in Selling, General and Administrative Expenses in the accompanying Consolidated Statements of Operations. The cumulative effect of the change in accounting related to the adoption of SFAS No. 123R was not material for the year ended December 31, 2005.

Prior to the adoption of SFAS No. 123R, the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. SFAS No. 123R requires the cash flows from the tax benefits of tax deductions in excess of the compensation cost recognized for those options ("excess tax benefits") to be classified as financing cash flows. The adoption of SFAS No. 123R resulted in excess tax benefits of $11.3 million and $5.1 million being classified as a financing cash inflow in the accompanying Consolidated Statements of Cash Flows for the years ended December 31, 2006 and 2005, respectively.

Had the Company used the fair value based accounting method for stock-based compensation expense described by SFAS No. 123 for the period beginning January 1, 2005 through June 30, 2005 and the 2004 fiscal period, the Company's diluted net income (loss) per common and equivalent share for the years ended December 31, 2005 and 2004, respectively, would have been as set forth in the table below (in millions, except per share data). As of July 1, 2005, the Company adopted SFAS No. 123R thereby eliminating pro forma disclosure for periods following such adoption. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes-Merton option valuation model and amortized to expense over the options' vesting periods.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	For the Years Ended December 31, 2005	2004
Net income (loss), as reported	$ 150.7	$ (134.4)
Add: Reported stock-based compensation expense, net of taxes	18.4	7.5
Deduct: Fair value based compensation expense, net of taxes	(19.4)	(10.0)
Net income (loss), pro-forma	$ 149.7	$ (136.9)
Earnings per share:		
Basic, as reported	$ 2.35	$ (2.24)
Basic, pro forma	$ 2.33	$ (2.28)
Diluted, as reported	$ 2.11	$ (2.24)
Diluted, pro forma	$ 2.09	$ (2.28)

Research and Development

Research and development costs are expensed as incurred. The Company expended approximately $42.2 million, $40.3 million and $37.6 million for the years ended December 31, 2006, 2005 and 2004, respectively, for research and product development activities. Research and development costs are included in Selling, General and Administrative Expenses in the accompanying Consolidated Statements of Operations.

Advertising

The costs of advertising, promotion and marketing programs are charged to operations in the period incurred. Expenses relating to advertising, promotions and marketing programs were $79.0 million, $79.6 million and $68.4 million for the years ended December 31, 2006, 2005 and 2004, respectively, and are included in Selling, General and Administrative Expenses in the accompanying Consolidated Statements of Operations.

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 included in Accumulated Other Comprehensive (Loss) Income in the accompanying Consolidated Balance Sheets. Transaction gains (losses) included in Other (Income) Expense, net in the accompanying Consolidated Statements of Operations were $0.9 million, $(2.7) million and $1.8 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Interest Expense, net

The Company incurred $10.1 million, $19.6 million, and $32.2 million in interest expense, net of capitalized interest, while earning $5.7 million, $4.2 million, and $5.0 million in interest income for the years ended December 31, 2006, 2005 and 2004, respectively.

Derivatives

The Company uses futures contracts and fixed forward contacts to mitigate the exposure to volatility in commodity prices. The Company hedges only exposures in the ordinary course of business and does not hold or trade derivatives for profit. All derivatives are recognized in the Consolidated Balance Sheet at fair value and are reported in Current Other Assets, Long-term Other Assets, Accrued Expenses, or Other Liabilities. Classification of each hedging instrument is based upon whether the maturity of the instrument is less than or greater than 12 months. Instruments that meet established accounting criteria are formally designated as cash flow hedges. The Company

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accounts for instruments that qualify as cash flow hedges utilizing Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS No. 133"). However, the Company may enter into instruments that economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting under SFAS No. 133. In these cases, there exists a natural hedging relationship in which changes in the fair value of the instrument, which are recognized currently in net income, act as an economic offset to changes in the fair value of the underlying hedged item(s). For more information see Note 21.

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.

3. Reportable Business Segments:

The Company operates in four reportable business segments of the HVACR markets: Residential Heating & Cooling, Commercial Heating & Cooling, Service Experts and Refrigeration. Transactions between segments, such as products sold to Service Experts by the Residential Heating & Cooling segment, are recorded on an arms-length basis using the market price for these products. The eliminations of these intercompany sales and any associated profit are noted in the reconciliation of segment results to the income from continuing operations before income taxes below. The Company uses segment profit (loss) as the primary measure of profitability to evaluate operating performance and to allocate capital resources. In the third quarter of 2006, the Company changed its definition of segment profit (loss) to include realized gains (losses) on settled futures contracts. Realized gains (losses) on settled futures contracts are a component of (Gains), Losses and Other Expenses, net in the accompanying Consolidated Statements of Operations. As a result of this change, the Company now defines segment profit (loss) as a segment's income (loss) from continuing operations before income taxes included in the accompanying Consolidated Statements of Operations; excluding (gains), losses and other expenses, net; restructuring charges; goodwill impairment; interest expense, net; and other (income) expense, net; less (plus) realized gains (losses) on settled futures contracts.

The Company's corporate costs include those costs related to corporate functions such as legal, internal audit, treasury, human resources, tax compliance, and senior executive staff. Corporate costs also include the long-term share-based incentive awards provided to employees throughout LII. The Company recorded these share-based awards as corporate costs to preserve confidentiality and based on the historical practice of doing so for internal reporting purposes.

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net sales and segment profit (loss) by business segment, along with a reconciliation of segment profit (loss) to net earnings (loss) for years ended December 31, 2006, 2005 and 2004 are shown below (in millions):

	For the Years Ended December 31,		
	2006	2005	2004
Net Sales			
Residential Heating & Cooling	$ 1,848.4	$ 1,685.8	$ 1,419.8
Commercial Heating & Cooling	723.2	651.7	580.8
Service Experts	654.1	641.4	611.7
Refrigeration	526.4	467.2	444.7
Eliminations(1)	(81.0)	(79.9)	(74.3)
	$ 3,671.1	$ 3,366.2	$ 2,982.7
Segment Profit (Loss)			
Residential Heating & Cooling	$ 212.1	$ 206.9	$ 169.7
Commercial Heating & Cooling	73.1	56.9	51.2
Service Experts	19.2	17.0	(2.2)
Refrigeration	52.3	44.4	42.7
Corporate and other	(101.5)	(103.1)	(91.6)
Eliminations(1)	0.8	0.2	1.6
	256.0	222.3	171.4
Reconciliation to income (loss) from continuing operations before income taxes:			
(Gains), losses and other expenses, net	(45.7)	(50.2)	—
Restructuring charges	13.3	2.4	—
Goodwill impairment	—	—	208.0
Interest expense, net	4.4	15.4	27.2
Other (income) expense, net	(0.4)	3.0	(0.8)
	284.4	251.7	(63.0)
Less: Realized gains on settled futures contracts	66.0	16.7	—
	$ 218.4	$ 235.0	$ (63.0)

(1) Eliminations consist of intercompany sales between business segments, such as products sold to Service Experts by the Residential Heating & Cooling segment.

On a consolidated basis, no revenues from transactions with a single customer were 10% or greater of the Company's consolidated net sales for any of the periods presented.

Total assets by business segment as of December 31, 2006 and 2005 are shown below (in millions). The assets in the corporate segment are primarily comprised of cash, deferred tax assets, and investments in consolidated subsidiaries. Assets recorded in the operating segments represent those assets directly associated with those segments.

	As of December 31, 2006	As of December 31, 2005
Total Assets		
Residential Heating & Cooling	$ 590.7	$ 589.1
Commercial Heating & Cooling	279.7	234.3
Service Experts	174.5	185.3
Refrigeration	340.9	308.9
Corporate and other	343.3	432.1
Eliminations(1)	(9.3)	(12.1)
Segment assets	$ 1,719.8	$ 1,737.6

(1) Eliminations consist of net intercompany receivables and intercompany profit included in inventory from products sold between business segments, such as products sold to Service Experts by the Residential Heating & Cooling segment.

Total capital expenditures by business segment for the years ended December 31, 2006, 2005 and 2004 are shown below (in millions):

	For the Years Ended December 31, 2006	2005	2004
Capital Expenditures			
Residential Heating & Cooling	$ 30.6	$ 34.7	$ 24.0
Commercial Heating & Cooling	11.3	8.6	5.5
Service Experts	2.5	2.0	1.3
Refrigeration	10.0	9.5	5.7
Corporate and other	19.4	8.5	3.8
Total capital expenditures	$ 73.8	$ 63.3	$ 40.3

The depreciation and amortization expense by business segment for the years ended December 31, 2006, 2005 and 2004 are shown below (in millions):

	For the Years Ended December 31, 2006	2005	2004
Depreciation and Amortization			
Residential Heating & Cooling	$ 21.5	$ 16.9	$ 18.6
Commercial Heating & Cooling	6.2	4.5	4.9
Service Experts	2.2	2.9	3.4
Refrigeration	7.9	7.3	8.2
Corporate and other	6.5	5.8	7.5
Total depreciation and amortization	$ 44.3	$ 37.4	$ 42.6

The following table sets forth certain financial information relating to the Company's operations by geographic area based on the domicile of the Company's operations (in millions):

	For the Years Ended December 31, 2006	2005	2004
Net Sales to External Customers			
United States	$ 2,835.5	$ 2,603.0	$ 2,254.8
Canada	315.9	294.6	272.7
International	519.7	468.6	455.2
Total net sales to external customers	$ 3,671.1	$ 3,366.2	$ 2,982.7

	As of December 31, 2006	2005
Long-Lived Assets		
United States	$ 432.4	$ 448.1
Canada	114.8	105.8
International	154.2	136.5
Total long-lived assets	$ 701.4	$ 690.4

4. Inventories:

Components of inventories are as follows (in millions):

	As of December 31, 2006	2005
Finished goods	$ 223.2	$ 174.0
Repair parts	43.3	35.8
Work in process	8.1	8.6
Raw materials	87.8	79.1
	362.4	297.5
Excess of current cost over last-in, first-out cost	(56.9)	(55.1)
Total inventories	305.5	$ 242.4

5. Property, Plant and Equipment:

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

	As of December 31, 2006	2005
Land	$ 32.7	$ 30.3
Buildings and improvements	181.6	177.1
Machinery and equipment	526.6	487.8
Construction in progress and equipment not yet in service	36.1	25.1
Total	777.0	720.3
Less-accumulated depreciation	(488.8)	(464.6)
Property, plant and equipment, net	$ 288.2	$ 255.7

6. Divestitures:

Sale of Interest in Heat Transfer Joint Venture

On June 7, 2005, the Company completed the sale of its 45% interest in its heat transfer joint venture to Outokumpu for $39.3 million pursuant to which the Company recorded a pre-tax gain of $9.3 million, which is included in (Gains), Losses and Other Expenses, net in the accompanying Consolidated Statements of Operations. In connection with the sale, the Company entered into an agreement with Outokumpu related to joint remediation of certain existing environmental matters. In conjunction with the new agreement, the Company updated its estimate of its portion of the on-going remediation costs and recorded expenses of $2.2 million for the year ended December 31, 2005.

Service Experts Discontinued Operations

In the first quarter of 2004, the Company's Board of Directors approved a turnaround plan designed to improve the performance of its Service Experts business segment. The plan realigned Service Experts' dealer service centers to focus on service and replacement opportunities in the residential and light commercial markets. The Company identified approximately 130 centers, whose primary business is residential and light commercial service and replacement. These centers comprise the ongoing Service Experts business segment. As of December 31, 2004, the Company had divested the remaining centers that no longer matched the realigned business model. The operating results of the centers that are no longer a part of Service Experts are classified as a Discontinued Operation in the accompanying Consolidated Statements of Operations. The related liabilities for these centers are classified as Liabilities Held for Sale in the accompanying Consolidated Balance Sheets.

A summary of net trade sales, pre-tax operating results and pre-tax loss on disposal of assets for the years ended December 31, 2006, 2005 and 2004 are detailed below (in millions):

	Discontinued Operations For the Years Ended December 31, 2006	2005	2004
Net trade sales	$ —	$ 0.2	$ 228.9
Pre-tax loss operating results	—	(2.0)	(38.9)
Pre-tax loss on disposal of assets	—	(0.1)	(14.9)

The following table details the Company's pre-tax loss from discontinued operations for the years ended December 31, 2006, 2005 and 2004 (in millions):

	For the Years Ended December 31, 2006	For the Years Ended December 31, 2005	For the Years Ended December 31, 2004	Cumulative Incurred through December 31, 2006
Goodwill impairment	$ —	$ —	$ 14.8	$ 14.8
Impairment of property, plant and equipment	—	—	3.1	3.1
Operating loss	—	—	14.9	14.9
Other divestiture costs	—	2.0	6.1	8.1
Subtotal	—	2.0	38.9	40.9
Loss on disposal of centers	—	0.1	14.9	15.0
Total loss from discontinued operations	$ —	$ 2.1	$ 53.8	$ 55.9

The income tax benefit on discontinued operations was $0.7 million and $12.9 million for the years ended December 31, 2005 and 2004, respectively. Through December 31, 2006, proceeds from the sale of the Service Experts centers described above totaled $25.8 million. No proceeds were received in 2006.

7. Restructuring Charges:

Restructuring charges incurred include the following amounts for the years ended December 31, 2006 and December 31, 2005 (in millions):

	For the Years Ended December 31, 2006	For the Years Ended December 31, 2005
Allied Air Enterprises consolidation	$ 15.9	$ —
Gain on sale of facility	(3.0)	—
Gain on sale of land	(0.8)	—
Lennox Hearth Products production relocation	1.2	2.4
	$ 13.3	$ 2.4

In February 2006, Allied Air Enterprises, a division of the Company's Residential Heating & Cooling segment, announced that it had commenced plans to consolidate its manufacturing, distribution, research and development, and administrative operations of the Company's two-step operations into South Carolina, and close its current operations in Bellevue, Ohio. The consolidation has been a phased process and is expected to be completed by the end of the first quarter of fiscal 2007.

In connection with this consolidation project, the Company recorded pre-tax restructuring charges of $15.9 million for the year ended December 31, 2006. The restructuring charges were primarily related to severance and benefits, the costs to move equipment and accelerated depreciation related to the reduction in useful lives and disposal of certain long-lived assets.

A summary of the severance and benefits and other exit costs incurred in connection with Allied Air Enterprises' consolidation are as follows (in millions):

	For the Year Ended December 31, 2006
Severance and benefits	$ 7.1
Other exit costs	8.8
Total	$ 15.9

For the year ended December 31, 2006, the Company recorded charges of $4.8 million of accelerated depreciation related to the reduction in useful lives and disposal of certain long-lived assets, which is included in other exit costs set forth above.

The following table summarizes the accrued expenses related to the consolidation of the operations of Allied Air Enterprises for the year ended December 31, 2006 (in millions), which are included in Accrued Expenses in the accompanying Consolidated Balance Sheets.

	Severance and Benefits	Other Exit Costs	Total
Balance at December 31, 2005	$ —	$ —	$ —
Amounts charged to earnings	7.1	8.8	15.9
Cash utilization	(3.4)	(4.0)	(7.4)
Non-cash utilization primarily consisting of accelerated depreciation	—	(4.8)	(4.8)
Balance at December 31, 2006	$ 3.7	$ —	$ 3.7

In conjunction with this consolidation effort, the Company expects to incur additional pre-tax restructuring related charges of approximately $3.1 million during the first quarter of 2007, consisting of approximately $0.3 million in severance and benefits and approximately $2.8 million in accelerated depreciation, relocation and other exit costs.

A gain of approximately $3.0 million related to the sale of a facility in Canada is also included in restructuring expense for the year ended December 31, 2006. The sale of the Canadian facility occurred in 2003 and the resulting gain was deferred pending approval of a Canadian regulatory agency, which occurred in December 2006. The Company had reduced the carrying value of the facility to its then net realizable value in connection with a prior restructuring initiative of its Service Experts operations in 2001.

Also included in restructuring expense for the year ended December 31, 2006, is a gain of $0.8 million related to the sale of a parcel of land in March 2006. The Company had reduced the carrying value of the land to its then net realizable value in connection with a prior restructuring initiative of its Service Experts operations in 2001.

Due to competitive cost pressures, in April 2005, Lennox Hearth Products Inc., a subsidiary of the Company, commenced plans to relocate its Whitfield pellet stove and Lennox cast iron product lines from Burlington, Washington to a third party production facility in Juarez, Mexico, discontinue its existing steel wood stove line manufactured in Burlington, and close the Burlington facility. These actions were substantially complete as of December 31, 2005. In connection with the plant closure, the Company recorded pre-tax restructuring-related charges of $2.4 million for the year ended December 31, 2005, which are included in Restructuring Charges in the accompanying Consolidated Statements of Operations. In 2006, the Company recorded an additional pre-tax restructuring-related charge of approximately $1.2 million related to an operating lease on the idle facility in Burlington, Washington. The charge reflects the net present value of the remaining lease payments on the operating lease, net of estimated sublease income on the facility. The lease expires in June 2011. These accruals are included in Accrued Expenses in the accompanying Consolidated Balance Sheets.

Strategic restructuring charges reflect decisions made at the corporate level and are not included in the business segments' operating profit performance.

8. Long-Term Debt and Lines of Credit:

Long-term debt at December 31, 2006 and 2005 consisted of the following (in millions):

	2006	2005
6.73% promissory notes, payable $11.1 annually through 2008	$ 22.2	$ 33.3
6.75% promissory notes, payable in 2008	50.0	50.0
8.00% promissory note, payable in 2010	35.0	35.0
Capitalized lease obligations and other	1.0	1.0
	108.2	119.3
Less current maturities	(11.4)	(11.3)
	$ 96.8	$ 108.0

At December 31, 2006, the aggregate amounts of required principal payments on long-term debt are as follows (in millions):

2007	$ 11.4
2008	61.4
2009	0.2
2010	35.2
2011	—
Thereafter	—

The Company has bank lines of credit aggregating $434.4 million, of which $1.0 million was borrowed and outstanding and $91.2 million was committed to standby letters of credit at December 31, 2006. Of the remaining $342.2 million, the entire amount was available for future borrowings after consideration of covenant limitations at December 31, 2006. Included in the lines of credit are several regional facilities and a multi-currency facility governed by agreements between the Company and a syndicate of banks. The revolving credit facility, which matures in July 2010, has a borrowing capacity of $400 million. As of December 31, 2006 and 2005, the Company has unamortized debt issuance costs of $1.9 million and $2.5 million, respectively, which are included in Other Assets in the accompanying Consolidated Balance Sheets. The facility contains certain financial covenants and bears interest at a rate equal to, at the Company's option, either (a) the greater of the bank's prime rate or the federal funds rate plus 0.5%, or (b) the London Interbank Offered Rate plus a margin equal to 0.475% to 1.20%, depending upon the ratio of total funded debt-to-adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), as defined in the facility. The Company pays a facility fee, depending upon the ratio of total funded debt to Adjusted EBITDA, equal to 0.15% to 0.30% of the capacity. The facility includes restrictive covenants that limit the Company's ability to incur additional indebtedness, encumber its assets, sell its assets and make certain payments, including amounts for share repurchases and dividends. The Company's facility and promissory notes are secured by the stock of the Company's major subsidiaries.

LII's domestic revolving and term loans contain certain financial covenant restrictions. As of December 31, 2006, LII believes it was in compliance with all covenant requirements. LII periodically reviews its capital structure, including its primary bank facility, to ensure that it has adequate liquidity. LII believes that cash flow from operations, as well as available borrowings under its revolving credit facility and other sources of funding will be sufficient to fund its operations for the foreseeable future.

Under a revolving period asset securitization arrangement, the Company is able to transfer beneficial interests in a portion of its trade accounts receivable to a third party in exchange for cash. The Company's continued involvement in the transferred assets is limited to servicing. These transfers are accounted for as sales rather than secured borrowing. The fair values assigned to the retained and transferred interests are based primarily on the receivables carrying value given the short term to maturity and low credit risk. As of December 31, 2006 and 2005, the Company had not sold any beneficial interests in accounts receivable. The discount incurred in the sale of such receivables of $0.3 million, $0.9 million and $2.3 million for the years ended December 31, 2006, 2005 and 2004, respectively, is included as part of Selling, General and Administrative Expenses in the accompanying Consolidated Statements of Operations.

On September 7, 2005, the Company called for redemption of all of its outstanding 6.25% convertible subordinated notes ("Convertible Notes") on October 7, 2005. The redemption price was 103.571% of the principal amount. As of September 7, 2005, there was $143.75 million aggregate principal amount of Convertible Notes outstanding, which could be converted into the Company's common stock at a rate of 55.2868 shares of common stock per $1,000 principal amount of Convertible Notes at any time before the close of business on the business day prior to the redemption date. As of October 6, 2005, the holders of all of the Convertible Notes had converted the Convertible Notes into an aggregate of approximately 7.9 million shares of common stock.

In June 2004, LII made a pre-payment of $35 million on its long-term debt, which was scheduled to mature in the third quarter of 2005. The pre-payment make-whole amount associated with the debt of $1.9 million was expensed in 2004 and is included in Interest Expense, net in the accompanying Consolidated Statements of Operations.

9. Income Taxes:

The Company's income tax provision from continuing operations for the years ended December 31, 2006, 2005 and 2004 consisted of the following (in millions):

	For the Years Ended December 31,		
	2006	2005	2004
Current:			
Federal	$ 49.8	$ 63.9	$ 12.9
State	5.5	7.2	3.3
Foreign	9.8	14.3	10.2
Total current	65.1	85.4	26.4
Deferred:			
Federal	0.3	(3.1)	10.9
State	(3.6)	4.1	(7.1)
Foreign	(9.4)	(3.4)	0.3
Total deferred	(12.7)	(2.4)	4.1
Total income tax provision	$ 52.4	$ 83.0	$ 30.5

Income (loss) from continuing operations before income taxes and cumulative effect of accounting change was comprised of the following for the years ended December 31, 2006, 2005 and 2004 (in millions):

	For the Years Ended December 31,		
	2006	2005	2004
Domestic	$ 172.4	$ 195.3	$ (92.4)
Foreign	46.0	39.7	29.4
Total	$ 218.4	$ 235.0	$ (63.0)

The difference between the income tax provision from continuing operations computed at the statutory federal income tax rate and the financial statement provision for taxes for the years ended December 31, 2006, 2005 and 2004 is summarized as follows (in millions):

	2006	2005	2004
Provision (benefit) at the U.S. statutory rate of 35%	$ 76.4	$ 82.3	$ (22.1)
Increase (reduction) in tax expense resulting from:			
State income tax, net of federal income tax benefit	3.9	7.3	1.5
Goodwill impairment	—	—	51.4
Other permanent items	6.5	(3.1)	1.4
Research tax credit	(0.9)	(0.7)	(5.6)
Decrease in tax audit reserves	(14.3)	—	—
Change in valuation allowance	(19.3)	—	6.2
Foreign taxes at rates other than 35% and miscellaneous other	0.1	(2.8)	(2.3)
Total income tax provision	$ 52.4	$ 83.0	$ 30.5

The 2006 decrease in tax audit reserves is primarily due to the release of tax contingency reserves established in prior years in connection with recently completed examinations.

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 non-current depending on the timing of the expected realization. The deferred tax provision for the periods shown represents the effect of changes in the amounts of temporary differences during those periods.

Deferred tax assets (liabilities), as determined under the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (“SFAS No. 109”), were comprised of the following at December 31, 2006 and 2005 (in millions):

	2006	2005
Gross deferred tax assets:		
Warranties	$ 36.6	$ 28.0
Net operating losses (foreign and U.S. state)	52.7	59.5
Postretirement and pension benefits	22.6	7.0
Inventory reserves	4.9	5.0
Receivable allowance	4.2	3.9
Compensation liabilities	32.3	26.3
Deferred income	9.0	8.9
Intangibles	9.6	14.1
Other	15.2	17.4
Total deferred tax assets	187.1	170.1
Valuation allowance	(32.8)	(50.5)
Total deferred tax assets, net of valuation allowance	154.3	119.6
Gross deferred tax liabilities:		
Depreciation	(8.9)	(10.8)
Insurance liabilities	(9.0)	(8.0)
Other	(9.9)	(8.6)
Total deferred tax liabilities	(27.8)	(27.4)
Net deferred tax assets	$ 126.5	$ 92.2

As of December 31, 2006, the Company has $14.3 million and $38.4 million in tax effected state and foreign net operating loss carryforwards, respectively. The state and foreign net operating loss carryforwards begin expiring in 2007. The deferred tax asset valuation allowance relates primarily to the operating loss carry forwards in various states in the U.S., European and Canadian tax jurisdictions. The decrease in the valuation allowance is primarily the result of foreign and state losses previously not benefited and currency fluctuation.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the reversal of existing taxable temporary differences, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2006.

In order to realize the net deferred tax asset, the Company will need to generate future foreign taxable income of approximately $81.9 million during the periods in which those temporary differences become deductible. The Company does not need to generate any additional federal income as it has sufficient carryback capacity to fully realize the federal deferred tax asset. U.S. taxable income for the years ended December 31, 2006, 2005 and 2004 was $176.3 million, $145.6 million and $2.4 million, respectively.

No provision has been made for income taxes which may become payable upon distribution of the Company’s foreign subsidiaries’ earnings. It is not practicable to estimate the amount of tax that might be payable because management's intent is to permanently reinvest these earnings or to repatriate earnings when it is tax effective to do so.

The Internal Revenue Service ("IRS") completed it examination of the Company's consolidated tax returns for the years 1999 through 2003 and issued a Revenue Agent's Report ("RAR") on April 6, 2006. The disallowed deductions primarily relate to certain insurance reserves and credits claimed for research activities. The Company disagrees with the RAR which is currently under review by the administrative appeals division of the IRS. Although the ultimate resolution is not known at this time, management believes that the Company has adequate reserves based on its assessment of the Company's tax position.

On May 18, 2006, Texas enacted legislation changing its tax system essentially replacing the existing franchise tax with a broad, new tax based on taxable margin. The legislation included redefining the tax base, lowering the tax rate, and extending imposition of the tax to numerous types of entities that were not previously subject to the franchise tax. As a result of the legislation and in accordance with SFAS No. 109, the Company recorded an income tax benefit of $0.1 million.

In June 2006, FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement 109"* ("FIN No. 48"). FIN No. 48 clarifies the accounting for income taxes by prescribing a minimum threshold that a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting for interim periods, disclosure and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company will adopt this Interpretation in the first quarter of calendar year 2007. The Company is currently evaluating the impact of FIN No. 48 on the consolidated financial statements.

On December 20, 2006, H.R. 6111, the Tax Relief and Health Care Act of 2006, was enacted extending the Internal Revenue Code Section 41 research credit retroactive to January 1, 2006. As a result of the legislation and in accordance with SFAS No. 109, the Company recorded an income tax benefit of $0.9 million.

10. Current Accrued Expenses:

Significant components of current accrued expenses at December 31, 2006 and 2005 are presented below (in millions):

	December 31, 2006	December 31, 2005
Accrued wages	$ 113.4	$ 114.8
Insurance reserves	63.0	61.7
Deferred income	36.6	35.8
Accrued warranties	27.2	25.3
Accrued rebates and promotions	33.9	33.6
Other	52.2	50.5
Total current accrued expenses	$ 326.3	$ 321.7

11. 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 $12.0 million, $14.0 million and $10.4 million in the years ended December 31, 2006, 2005 and 2004, respectively. The Company also sponsors several 401(k) plans with employer contribution-matching requirements. The Company contributed $1.6 million, $1.6 million and $2.3 million in the years ended December 31, 2006, 2005 and 2004, respectively, to these 401(k) plans.

Pension and Postretirement Benefit Plans

The Company has domestic and foreign pension plans covering essentially all employees. The Company also maintains an unfunded postretirement benefit plan, which provides certain medical and life insurance benefits to eligible employees. In 2006, the Company amended the postretirement benefit plan to (i) eliminate post-65 coverage for current and future retirees and (ii) gradually shift the pre-65 medical coverage cost from the Company to participants starting in 2007 such that by 2010, pre-65 retirees would be paying 100% of the cost. As a result of this amendment, the postretirement plan would still exist in 2010 and eligible participants would still be able to receive group coverage rates, however the Company would no longer be paying any portion of the participants' premiums.

The following table summarizes the impact of the initial adoption of SFAS No. 158 (in millions).

	As of December 31,			As of December 31, 2006
	2005	2006 Prior to SFAS No. 158 Adjustments	SFAS No. 158 Adjustments	After SFAS No. 158 Adjustments
Prepaid pension asset	$ 63.1	$ 61.3	$ (61.3)	$ —
Intangible pension asset	10.1	8.0	(8.0)	—
Accrued pension liabilities	(19.1)	(20.9)	(30.1)	(51.0)
Reserve for minimum pension liabilities	(62.3)	(54.3)	54.3	—
Other benefit liabilities	(16.5)	(16.6)	1.7	(14.9)
Accumulated other comprehensive income	52.2	46.3	43.4	89.7

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables set forth amounts recognized in the Company's financial statements and the plans' funded status for 2006 and 2005 (dollars in millions):

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Accumulated benefit obligation	$ 264.3	$ 262.5	$ N/A	$ N/A
Changes in projected benefit obligation:				
Benefit obligation at beginning of year	269.7	243.1	27.1	28.3
Service cost	7.1	7.0	1.2	1.2
Interest cost	14.8	13.1	1.4	1.6
Plan participants' contributions	0.1	0.1	2.1	2.2
Amendments	—	1.6	(15.9)	—
Actuarial loss (gain)	(8.2)	17.9	3.7	(1.6)
Benefits paid	(14.1)	(13.1)	(4.7)	(4.6)
Benefit obligation at end of year	269.4	269.7	14.9	27.1
Changes in plan assets:				
Fair value of plan assets at beginning of year	$ 200.1	$ 167.2	$ —	$ —
Actual return on plan assets	19.6	14.0	—	—
Employer contribution	8.3	29.8	2.6	2.4
Plan participants' contributions	0.1	0.1	2.1	2.2
Foreign currency changes	1.3	(0.6)	—	—
Benefits paid	(11.0)	(10.4)	(4.7)	(4.6)
Fair value of plan assets at end of year	218.4	200.1	—	—
Funded status	(51.0)	(69.6)	(14.9)	(27.1)
Unrecognized actuarial loss	82.9	102.1	18.4	15.5
Unamortized prior service cost	8.4	11.2	(20.1)	(4.9)
Unrecognized net obligation	0.1	0.3	—	—
Net amount recognized	$ 40.4	$ 44.0	$ (16.6)	$ (16.5)

	December 31,	
	2006	2005
Pension plans with an accumulated benefit obligation in excess of plan assets:		
Projected benefit obligation	$ 163.6	$ 158.2
Accumulated benefit obligation	155.8	152.0
Fair value of plan assets	105.8	88.5

	Pension Benefits			Other Benefits		
	2006	2005	2004	2006	2005	2004
Components of net periodic benefit cost at December 31:						
Service cost	$ 7.1	$ 7.0	$ 6.6	$ 1.2	$ 1.2	$ 1.0
Interest cost	14.8	13.1	13.2	1.4	1.6	1.4
Expected return on plan assets	(16.0)	(13.7)	(14.5)	—	—	—
Amortization of prior service cost	0.9	1.0	1.0	(0.6)	(0.5)	(0.6)
Recognized actuarial loss	6.3	3.5	3.0	0.8	1.0	0.8
Recognized transition obligation	1.9	—	—	—	—	—
Settlement	—	0.1	0.7	—	—	—
Net periodic benefit cost	$ 15.0	$ 11.0	$ 10.0	$ 2.8	$ 3.3	$ 2.6

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	5.89%	5.75%	5.82%	5.75%
Rate of compensation increase	4.30	4.28	—	—

	Pension Benefits			Other Benefits		
	2006	2005	2004	2006	2005	2004
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:						
Discount rate	5.75%	5.75%	6.00%	5.75%	5.75%	6.00%
Expected long-term return on plan assets	8.25	8.25	8.75	—	—	—
Rate of compensation increase	4.28	4.00	4.00	—	—	—

To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset category, as well as the target asset allocation of the pension portfolio and the effect of periodic rebalancing. These results were adjusted for the payment of reasonable expenses of the plan from plan assets. This resulted in the selection of the 8.25% long-term rate of return on assets assumption.

To select a discount rate for the purpose of valuing the plan obligations, the Company performed an analysis in which the duration of projected cash flows from defined benefit and retiree health care plans were matched with a yield curve based on the appropriate universe of high-quality corporate bonds that were available. The Company used the results of the yield curve analysis to select the discount rate that matched the duration and payment stream of the benefits in each plan. This resulted in the selection of the 5.89% discount rate assumption for the pension benefits and 5.82% for the other benefits.

	2006	2005
Assumed health care cost trend rates at December 31:		
Health care cost trend rate assumed for next year	9.0%	10.0%
Rate to which the cost rate is assumed to decline (the ultimate trend rate)	5.0	5.0
Year that the rate reaches the ultimate trend rate	2014	2011

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

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost	$ 0.2	$ (0.2)
Effect on the post-retirement benefit obligation	1.5	(1.3)

The Company's U.S.-based pension plan weighted-average asset allocations at December 31, 2006 and 2005, by asset category, are as follows:

Asset Category	Plan Assets at December 31, 2006	2005
Domestic equity	56.0%	47.6%
International equity	10.5	8.9
Investment Grade Bonds	28.7	26.4
Money Market/Cash/Annuities	4.8	17.1
Total	100.0%	100.0%

Plan investments are invested within the following range targets:

	Target	+ / −
Domestic equity	55%	+/−3%
International equity	10%	+/−3%
Investment grade bonds	30%	+/−3%
Money market/cash	5%	+1% /− 4%

The weighted-average asset allocations for the Company's U.S.-based pension plan as of December 31, 2005 are not consistent with the Company's target allocations. This is due primarily to the fact that in late December 2005, the Company funded contributions of $19.9 million to the U.S.-based pension plan and this amount was included in the money market and cash asset category as of December 31, 2005.

The plan's investment advisors have discretion within the above ranges. Investments are rebalanced based upon guidelines developed by the Company with input from its consultants and investment advisers. Additional contributions are invested under the same guidelines and may be used to rebalance the portfolio. The investment allocation and individual investments are chosen with regard to the duration of the obligations under the plan. The Company estimates its 2007 minimum required contribution will be $9.9 million to its pension plans. The Company will evaluate additional voluntary pension contributions throughout 2007; however, no voluntary contributions for 2007 are planned at this time. The Company estimates its 2007 contribution to its postretirement benefit plan to be approximately $2.0 million. Included in total plan assets above are approximately $29.2 million of assets related to foreign plans with a weighted-average expected rate of return of 6.9%.

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

	2007	2008	2009	2010	2011	2012-2016
Pension benefits	$ 15.3	$ 14.0	$ 15.0	$ 15.1	$ 16.5	$ 82.8
Other benefits	2.0	1.8	1.6	0.8	0.8	5.3

12. Stock-Based Compensation Plans:

Incentive Plan

Under the Company's Amended and Restated 1998 Incentive Plan (the "1998 Incentive Plan"), the Company is authorized to issue awards for 24,254,706 shares of common stock. As of December 31, 2006, awards for 21,662,506 shares of common stock had been granted and 4,143,212 shares had been cancelled or repurchased under the 1998 Incentive Plan. Consequently, as of December 31, 2006, there were 6,735,412 shares available for future issuance.

The 1998 Incentive Plan provides for various long-term incentive and retentive awards, which include stock options, performance shares, restricted stock awards and stock appreciation rights. A description of these long-term incentive and retentive awards and related activity within each award category is provided below.

Stock Options

Under the 1998 Incentive Plan, the exercise price for stock options equals the stock's fair value on the date of grant. Options granted prior to 1998 vested on the date of grant. Options granted in 1998 and after vest over three years. Options issued prior to December 2000 expire after ten years and options issued in December 2000 and after expire after seven years.

In addition to the options discussed above, there were 111,463 stock options outstanding as of December 31, 2006 that were issued in connection with LII's acquisition of Service Experts Inc. All such options are fully vested.

Prior to the adoption of SFAS No. 123R, and in accordance with APB No. 25, no stock-based compensation cost was reflected in net income for grants of stock options to employees because the Company grants stock options with an exercise price equal to the fair market value of the stock on the date of grant. For footnote disclosures under SFAS No. 123, the fair value of each option award was estimated on the date of grant using a Black-Scholes-Merton option valuation model that uses the assumptions noted below. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards. Subsequent events are not indicative of the reasonableness of the original estimates made by the Company. Under SFAS No. 123, the Company used historical data to estimate the expected volatility for the term of new options and the outstanding period of the option for separate groups of employees that had similar historical exercise behavior. The risk free interest rate was based on zero-coupon U.S. Treasury instruments with a remaining term equal to the expected life of the stock option at the time of grant.

No stock options were granted during 2006. During the years ended December 31, 2005 and 2004, the Company granted stock options to purchase 2,964 shares and 408,976 shares of common stock, respectively. These stock options were granted prior to June 30, 2005 and were accounted for in accordance with APB No. 25. Therefore, no stock-based compensation expense was reflected in net income for the granting of these stock options at the time of grant, as the stock options were granted to employees and the exercise price for such options was equal to the fair market value of the stock on the date of grant. For future stock options grants, the fair value of each stock option award will be estimated using the Black-Scholes-Merton valuation model and will follow the provisions of SFAS No. 123R and Staff Accounting Bulletin No. 107, *Share Based Payment* ("SAB No. 107"). The Company will use historical data and other pertinent information to estimate the expected volatility for the term of new options and the outstanding period of the option for separate groups of employees that had similar historical exercise behavior. The risk free interest rate will be based on the U.S. Treasury yield curve in effect at the time of grant.

Prior to the adoption of SFAS No. 123R, the fair value of an option was amortized to expense in the pro forma footnote disclosure using the graded method. Upon the adoption of SFAS No. 123R, options granted prior to the date of adoption continue to be amortized to expense using the graded method. For options granted after the date of adoption, the fair value is amortized to expense ratably over the vesting period.

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A summary of stock option activity for the years ended December 31, 2006, 2005 and 2004 follows (in millions, except per share data):

	Years Ended December 31,					
	2006		2005		2004	
	Shares	Weighted-Average Exercise Price Per Share	Shares	Weighted-Average Exercise Price Per Share	Shares	Weighted-Average Exercise Price Per Share
Outstanding at beginning of year	5.4	$ 14.81	7.5	$ 14.00	9.0	$ 13.09
Granted	—	—	—	21.57	0.4	18.91
Exercised	(1.4)	14.01	(2.0)	12.52	(1.7)	10.37
Forfeited	—	18.36	(0.1)	16.38	(0.2)	16.56
Outstanding at end of year	4.0	$ 14.63	5.4	$ 14.81	7.5	$ 14.00
Exercisable at end of year	3.9	$ 14.50	5.1	$ 14.58	6.5	$ 13.70
Fair value of options granted		$ —		$ 7.50		$ 7.27

The following table summarizes information about stock options outstanding as of December 31, 2006 (in millions, except per share data and years):

	Options Outstanding				Options Exercisable			
Range of Exercise Prices Per Share	Number Outstanding	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value	Number Exercisable	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value
$7.875 - $49.63	4.0	2.4	$ 14.63	$ 64.5	3.9	2.3	$ 14.50	$ 63.2

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

	December 31,		
	2006	2005	2004
Expected dividend yield	—	2.13%	2.13%
Risk-free interest rate	—	4.33%	4.23%
Expected volatility	—	40.0%	40.0%
Expected life (in years)	—	7	7

As of December 31, 2006, the Company had approximately $0.3 million of unrecognized compensation cost related to nonvested options. Such cost is expected to be recognized over a weighted-average period of one year. The Company's estimated forfeiture rate for stock options was 8% as of December 31, 2006. Total compensation expense for stock options was $0.7 million, $1.3 million and zero for the years ended December 31, 2006, 2005, and 2004, respectively.

The total intrinsic value of options exercised, the resulting tax deductions to realize tax benefits and the tax benefits in excess of the hypothetical deferred tax asset were as follows (in millions):

	For the Years Ended December 31,		
	2006	2005	2004
Intrinsic Value of Options Exercised	$ 22.9	$ 23.6	$ 12.8
Realized Tax Benefits from Tax Deductions	8.5	8.8	4.8
Tax Benefits in Excess of the Hypothetical Deferred Tax Asset	2.0	1.7	N/A

The Company's practice is to issue new shares of common stock to satisfy the exercise of options.

Performance Shares

Under the 1998 Incentive Plan, performance share awards are granted to certain employees at the discretion of the Board of Directors in December of each year for a three-year performance period beginning the following January 1st. Upon vesting, performance shares are converted to an equal number of shares of the Company's common stock. Awards granted prior to 2003 vest after ten years of employment at the target amount.

Prior to the adoption of SFAS No. 123R, and in accordance with APB No. 25, compensation expense for performance share awards granted prior to 2003 was measured based on the market price of the Company's common stock on the date of grant and recognized over the performance period. Compensation expense on the additional shares was measured by applying the market price of the Company's stock at the end of the period to the number of additional shares that were expected to be earned. Such expense was recognized over the performance period.

Beginning in 2003, the Company changed the vesting of performance share awards such that the award vests if, at the end of the three-year performance period, at least the threshold performance level has been attained. To the extent that the award payout level attained is less than 100%, the difference between 100% and the award earned and distributed will be forfeited. Eligible participants may also earn additional shares of the Company's common stock, ranging from 0% to 100% of the award granted, depending on the Company's performance over the three-year performance period. Prior to the adoption of SFAS No. 123R, and in accordance with APB No. 25, compensation expense was measured by applying the market price of the Company's stock at the end of the period to the number of awards expected to be earned.

Upon the adoption of SFAS No. 123R, all of the performance share plans under the 1998 Incentive Plan were classified as equity based plans and the fair value of each award is the market price of the stock on the date of grant and is amortized to expense ratably over the vesting period. The stock-based compensation expense for any additional shares which may be earned is estimated on the grant date based on the market price of the stock at the date of grant. The number of shares expected to be earned will be adjusted, as necessary, to reflect the actual number of shares awarded.

The weighted-average fair value of performance share awards granted during the years ended December 31, 2006, 2005 and 2004 was $30.85, $29.36 and $19.34, respectively.

A summary of the status of the Company's nonvested performance share awards as of December 31, 2006 and changes during the year ended December 31, 2006 is presented below (in millions, except per share data):

	Year Ended December 31, 2006	
	Shares	Weighted- Average Grant Date Fair Value Per Share
Nonvested performance share awards:		
Nonvested at December 31, 2005	1.8	$ 16.80
Granted	0.2	$ 30.85
Additional shares earned	0.3	$ 13.38
Vested	(0.6)	$ 13.38
Forfeited	(0.1)	$ 16.05
Nonvested at December 31, 2006	1.6	$ 19.39

As of December 31, 2006, the Company had approximately $16.9 million of total unrecognized compensation cost related to nonvested performance share awards. Such cost is expected to be recognized over a weighted-average period of 2.2 years. The Company's estimated forfeiture rate for performance shares was 16% as of December 31, 2006. Total compensation expense for performance share awards was $14.0 million, $19.6 million and $8.0 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The total fair value of performance share awards vested, the resulting tax deductions to realize tax benefits and the tax benefits in excess of the hypothetical deferred tax asset were as follows (in millions):

	For the Years Ended December 31,		
	2006	2005	2004
Fair Value of Performance Share Awards Vested	$ 17.5	$ —	$ —
Realized Tax Benefits from Tax Deductions	6.5	—	—
Tax Benefits in Excess of the Hypothetical Deferred Tax Asset	—	—	N/A

The Company's practice is to issue new shares of common stock to satisfy performance share award vestings.

Restricted Stock Awards

Under the 1998 Incentive Plan, restricted stock awards are issued to attract and retain key Company employees. Generally, at the end of a three-year retention period, the award will vest and be distributed in shares of LII common stock to the participant provided that the participant has been an employee of the Company or one of its wholly owned subsidiaries continuously throughout the retention period. Prior to the adoption of SFAS No. 123R, and in accordance with APB No. 25, compensation expense for restricted stock awards was measured based on the market price of the Company's common stock on the date of grant and was recognized on a straight-line basis over the performance period.

Upon the adoption of SFAS No. 123R, all restricted stock award plans under the 1998 Incentive Plan were classified as equity based plans with the fair value of each award equal to the market price of the Company's common stock on the date of grant and amortized to expense ratably over the vesting period.

The weighted-average fair value of restricted stock awards granted during the years ended December 31, 2006, 2005 and 2004 was $30.28, $28.76 and $19.25 per share, respectively.

A summary of the status of the Company's nonvested restricted stock awards as of December 31, 2006 and changes during the year ended December 31, 2006 is presented below (in millions, except per share data):

	Year Ended December 31, 2006	
	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested restricted stock awards:		
Nonvested at December 31, 2005	1.0	$ 21.25
Granted	0.3	$ 30.28
Vested	(0.2)	$ 16.88
Forfeited	(0.1)	$ 20.65
Nonvested at December 31, 2006	1.0	$ 25.17

As of December 31, 2006, the Company had approximately $12.3 million of total unrecognized compensation cost related to nonvested restricted stock awards. Such cost is expected to be recognized over a weighted-average period of 2.3 years. The Company's estimated forfeiture rate for restricted stock awards was 13% as of December 31, 2006. Total compensation expense for restricted stock awards was $6.8 million, $5.3 million and $1.8 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The total fair value of restricted stock awards vested, the resulting tax deductions to realize tax benefits and the tax benefits in excess of the hypothetical deferred tax asset were as follows (in millions):

	For the Years Ended December 31,		
	2006	2005	2004
Fair Value of Restricted Stock Awards Vested	$ 7.5	$ 5.8	$ 5.7
Realized Tax Benefits from Tax Deductions	2.8	2.2	2.1
Tax Benefit in Excess of the Hypothetical Deferred Tax Asset	—	—	N/A

The Company's practice is to issue new shares of common stock to satisfy restricted stock award vestings.

Stock Appreciation Rights

In 2003, the Company began awarding stock appreciation rights. Each recipient is given the "right" to receive a value equal to the future appreciation of the Company's stock price. The value is paid in Company stock. Stock appreciation rights vest in one-third increments beginning with the first anniversary date after the grant date.

Prior to the adoption of SFAS No. 123R, compensation expense for stock appreciation rights was measured by applying the increase in the market price of the Company's stock at the end of the period to the number of awards.

Upon the adoption of SFAS No. 123R, compensation expense for stock appreciation rights granted prior to the adoption of SFAS No. 123R was based on the fair value on the date of grant, recognized over the vesting period. The fair value for these awards was estimated using the Black-Scholes-Merton valuation model and follows the provisions of SFAS No. 123R and SAB No. 107. The Company used historical data and other pertinent information to estimate the expected volatility for the term of the award and the outstanding period of the award for separate groups of employees that had similar historical exercise behavior. The risk free interest rate was based on zero-coupon U.S. Treasury instruments with a remaining term equal to the life of the stock appreciation right at the time of grant.

Prior to the adoption of SFAS No. 123R, the fair value of a stock appreciation right was amortized to expense using the graded method. Upon the adoption of SFAS No. 123R, stock appreciation rights granted prior to the date of adoption will continue to be amortized to expense using the graded method. For stock appreciation rights granted after the date of adoption, the fair value will be amortized to expense ratably over the vesting period.

The weighted-average fair value of stock appreciation rights granted during the years ended December 31, 2006, 2005 and 2004 was $8.60, $8.65 and $6.81 per share, respectively.

The fair value of each stock appreciation right granted in 2006 and after June 30, 2005 through December 31, 2005 is estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

	December 31, 2006	December 31, 2005
Expected dividend yield	1.69%	1.50%
Risk-free interest rate	4.53%	4.39%
Expected volatility	30.04%	31.90%
Expected life (in years)	4.57	4.53

A summary of stock appreciation rights activity for the years ended December 31, 2006, 2005 and 2004 follows (in millions, except per share data):

	For the Years Ended December 31,					
	2006		2005		2004	
	Shares	Weighted-Average Exercise Price Per Share	Shares	Weighted-Average Exercise Price Per Share	Shares	Weighted-Average Exercise Price Per Share
Outstanding at beginning of year	1.5	$ 22.22	1.0	$ 16.82	1.0	$ 16.76
Granted	0.6	30.86	0.7	29.36	—	18.34
Exercised	(0.1)	16.76	(0.1)	16.76	—	16.76
Forfeited	(0.1)	23.81	(0.1)	16.76	—	16.76
Outstanding at end of year	1.9	$ 25.20	1.5	$ 22.22	1.0	$ 16.82
Exercisable at end of year	0.9	$ 19.63	0.5	$ 16.83	0.3	$ 16.82

The following table summarizes information about stock appreciation rights outstanding as of December 31, 2006 (in millions, except per share data and years):

	Stock Appreciation Rights Outstanding				Stock Appreciation Rights Exercisable			
Range of Exercise Prices per Share	Number Outstanding	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value	Number Exercisable	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value
$16.43 – $31.945	1.9	5.51	$ 25.20	$ 10.5	0.9	4.39	$ 19.63	$ 10.0

As of December 31, 2006, the Company had approximately $6.0 million of unrecognized compensation cost related to nonvested stock appreciation rights. Such cost is expected to be recognized over a weighted-average period of 2.6 years. The Company's estimated forfeiture rate for stock appreciation rights was 11% as of December 31, 2006. Total compensation expense for stock appreciation rights was $2.9 million, $2.6 million and $2.1 million for the years ended December 31, 2006, 2005 and 2004, respectively.

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

	For the Years Ended December 31,		
	2006	2005	2004
Intrinsic Value of Stock Appreciation Rights Exercised	$ 1.4	$ 0.8	$ —
Realized Tax Benefits from Tax Deductions	0.5	0.3	—
Tax Benefits in Excess of the Hypothetical Deferred Tax Asset	—	—	N/A

The Company's practice is to issue new shares of common stock to satisfy the exercise of stock appreciation rights.

13. Commitments and Contingencies:

Operating Leases

The Company has various leases relating principally to the use of operating facilities and vehicles. Rent expense for 2006, 2005 and 2004 was approximately $54.1 million, $52.9 million and $55.3 million, respectively. Leases with step rent provisions and escalation clauses are accounted for on a straight-line basis. Minimum lease payments that are dependent on an existing index or rate, such as the consumer price index or prime interest rate, are included based on the index or rate existing at the inception of the lease and are adjusted for subsequent changes in the index or rate as they occur.

The approximate minimum commitments under all non-cancelable leases outstanding at December 31, 2006 are as follows (in millions):

2007	$43.5
2008	32.4
2009	24.6
2010	17.8
2011	11.4
Thereafter	24.2

On June 22, 2006, Lennox Procurement Company Inc. ("Procurement"), a wholly-owned subsidiary of the Company, entered into a lease agreement with BTMU Capital Corporation ("BTMUCC"), pursuant to which BTMUCC is leasing certain property located in Richardson, Texas to Procurement for a term of seven years (the "Lake Park Lease"). The leased property consists of an office building of approximately 192,000 square feet, which includes the Company's corporate headquarters, and land and related improvements. The Lake Park Lease replaces the Company's previous lease agreements (with a remaining 19-year duration at the time of termination) with One Lake Park, L.L.C. ("One Lake Park") covering space in the leased property, which agreements have been terminated. Certain members of the Company's Board of Directors, as well as other stockholders of the Company who may be immediate family members of such directors, are individually or through trust arrangements, members of AOC Land Investment, L.L.C., an affiliate of One Lake Park.

During the term, the Lake Park Lease requires Procurement to pay base rent in quarterly installments, payable in arrears. At the end of the term, if Procurement is not in default, Procurement may elect to do any of the following and must do one of the following: (i) purchase the leased property for a net price of approximately $41.2 million (the "Lease Balance"); (ii) make a final supplemental payment to BTMUCC equal to approximately 82% of the Lease Balance and return the leased property to BTMUCC in good condition; (iii) arrange a sale of the leased property to a third party; or (iv) renew the Lake Park Lease under mutually agreeable terms. If Procurement elects to arrange a sale of the Leased Property to a third party, then Procurement must pay to BTMUCC the amount (if any) by which the Lease Balance exceeds the net sales proceeds paid by the third party; provided, however, that, absent certain defaults, such amount cannot exceed approximately 82% of the Lease Balance. If the net sales proceeds paid by the third party are greater than the Lease Balance, the excess sales proceeds will be paid to Procurement.

Procurement's obligations under the Lake Park Lease and related documents are secured by a pledge of Procurement's interest in the leased property. Procurement's obligations under such documents are also guaranteed by the Company pursuant to a Guaranty, dated as of June 22, 2006, in favor of BTMUCC.

The Company is accounting for the Lake Park Lease as an operating lease.

The majority of the Service Experts segment's motor vehicle fleet is leased through operating leases. The lease terms are generally non-cancelable for the first 12-month term and then are month-to-month, cancelable at the Company's option. While there are residual value guarantees on these vehicles, the Company has not historically made significant payments to the lessors as the leases are maintained until the fair value of the assets fully mitigates the Company's obligations under the lease agreements. As of December 31, 2006, the Company estimates that it will incur an additional $6.2 million above the contractual obligations on these leases until the fair value of the leased vehicles fully mitigates the Company's residual value guarantee obligation under the lease agreements.

Environmental

Applicable environmental laws can potentially impose obligations on the Company to remediate hazardous substances at the Company's properties, at properties formerly owned or operated by the Company, and at facilities to which the Company has sent or sends waste for treatment or disposal. The Company is aware of contamination at some facilities; however, the Company does not presently believe that any future remediation costs at such facilities will be material to the Company's results of operations. No amounts have been recorded for non-asset retirement obligation environmental liabilities that are not probable or estimable.

At one site located in Brazil, the Company is currently evaluating the remediation efforts that may be required by the applicable environmental laws related to the release of certain hazardous materials. The Company currently believes that the release of the hazardous materials occurred over an extended period of time, including a time when the Company did not own the site. The Company plans to complete additional assessments of the site by the second quarter of 2007 in order to help determine the possible remediation activities that may be conducted at this site. Once the site assessments are completed and the possible remediation activities have been evaluated, approval of the remediation plan by local governmental authorities will be required before such activities can begin. The Company believes that containment is one of the several viable options in order to comply with local regulatory standards. As a result, the Company recorded an expense of approximately $1.7 million in December 2006 for containment costs at the site. The $1.7 million liability is included in Other Long Term Liabilities on the accompanying December 31, 2006 Consolidated Balance Sheet. The amount recorded reflects a liability of $3.1 million which is discounted at approximately 5% as the aggregate amount of the obligation and the amount and timing of cash payments are reliably determinable. If after the site assessments are completed it is determined that containment is more costly or the local governmental authorities require more costly remediation activities, the costs to contain or remediate the site could be as high as $5.2 million (undiscounted). The Company is exploring options for insurance recoveries and recoveries from amounts held in escrow.

In connection with its previous investment in Outokumpu Heatcraft, the Company recorded discounted liabilities of $3.3 million and $3.6 million related to joint remediation of certain existing environmental matters as of December 31, 2006 and December 31, 2005, respectively. The balances, which are recorded in Other Long Term Liabilities on the Consolidated Balance Sheets, are discounted at approximately 5% as the aggregate amount of the obligation and the amount and timing of cash payments are reliably determinable.

Estimates of future costs are subject to change due to prorated cleanup periods and changing environmental remediation regulations.

Litigation

The Company is involved in various claims and lawsuits incidental to its business. As previously reported, in January 2003, the Company, along with one of our subsidiaries, Heatcraft Inc., were named in the following lawsuits in connection with the Company's former heat transfer operations:

- Lynette Brown, et al., vs. Koppers Industries, Inc., Heatcraft Inc., Lennox International Inc., et al., Circuit Court of Washington County, Civil Action No. CI 2002-479;
- Likisha Booker, et al., vs. Koppers Industries, Inc., Heatcraft Inc., Lennox International Inc., et al., Circuit Court of Holmes County; Civil Action No. 2002-549;
- Walter Crowder, et al., vs. Koppers Industries, Inc., Heatcraft Inc. and Lennox International Inc., et al., Circuit Court of Leflore County, Civil Action No. 2002-0225; and
- Benobe Beck, et al., vs. Koppers Industries, Inc., Heatcraft Inc. and Lennox International Inc., et al., Circuit Court of the First Judicial District of Hinds County, No. 03-000030.

On behalf of approximately 100 plaintiffs, the lawsuits allege personal injury resulting from alleged emissions of trichloroethylene, dichloroethylene, and vinyl chloride and other unspecified emissions from the South Plant in Grenada, Mississippi, previously owned by Heatcraft Inc. Each plaintiff seeks to recover actual and punitive damages. On Heatcraft Inc.'s motion to transfer venue, two of the four lawsuits (Booker and Crowder) were ordered severed and transferred to Grenada County by the Mississippi Supreme Court, requiring plaintiffs' counsel to maintain a separate lawsuit for each of the individual plaintiffs named in these suits. To the Company's knowledge, as of February 15, 2007, plaintiffs' counsel has requested the transfer of files regarding five individual plaintiffs from the Booker case and five individual plaintiffs from the Crowder case. While at this time, only the Booker and Crowder cases have been ordered severed and transferred by the Mississippi Supreme Court, LII expects the Beck and Brown cases to be transferred, as well, in the near future. It is not possible to predict with certainty the outcome of these matters or an estimate of any potential loss. Based on present knowledge, management believes that it is unlikely that any final resolution of these matters will result in a material liability.

14. 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, adjusted for the interest expense and amortization of deferred financing costs associated with the Company's Convertible Notes 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 and Convertible Notes. Emerging Issues Task Force Issue 04-8, *"The Effect of Contingently Convertible Debt on Diluted Earnings per Share"*, requires that contingently convertible debt securities with a market price trigger be included in diluted earnings per share, if they are dilutive, regardless of whether the market price trigger has been met. As of December 31, 2006, the Company had 76,974,791 shares outstanding of which 9,818,904 were held as treasury shares. Diluted earnings per share for the years ended December 31, 2006, 2005 and 2004 were computed as follows (in millions, except per share data):

	Years Ended December 31,		
	2006	2005	2004
Net income (loss)	$ 166.0	$ 150.7	$ (134.4)
Add: After-tax interest expense and amortization of deferred financing costs on the Convertible Notes	—	4.6	—
Net income (loss), as adjusted	$ 166.0	$ 155.3	$ (134.4)
Weighted average shares outstanding	69.9	64.2	60.0
Effect of dilutive securities attributable to Convertible Notes	—	6.0	—
Effect of diluted securities attributable to stock options and performance share awards	3.6	3.5	—
Weighted average shares outstanding, as adjusted	73.5	73.7	60.0
Diluted earnings (loss) per share	$ 2.26	$ 2.11	$ (2.24)

Additionally, options to purchase 754,114 shares of common stock at prices ranging from $29.36 to $49.63 per share, options to purchase 111,064 shares of common stock at prices ranging from $24.91 to $49.63 per share and options to purchase 1,399,386 shares of common stock at prices ranging from $17.82 to $49.63 per share were outstanding for the years ended December 31, 2006, 2005 and 2004, respectively, but were not included in the diluted earnings per share calculation because the assumed exercise of such options would have been anti-dilutive. Similarly, for the year ended December 31, 2004, all potentially dilutive securities, including 7,947,458 shares attributable to Convertible Notes, were excluded because their effects were anti-dilutive for that period.

15. Quarterly Financial Information (unaudited):

Financial results

As noted in Note 2, the Company adopted SAB No. 108 during the fourth quarter of 2006. The transition provisions of SAB No. 108 permit the Company to adjust for the cumulative effect in retained earnings for immaterial errors relating to prior periods. Previously reported net income for the second quarter of 2006 was understated by $4.3 million as a result of product warranty liability adjustments made during the second quarter that were related to pre-existing warranties. Therefore, the Company increased net income for the second quarter of 2006 by $4.3 million. The adoption of SAB No. 108 had no impact on the previously reported amounts for the three months ended March 31, 2006 or the three months ended September 30, 2006. The quarterly results shown below are adjusted to reflect these changes (in millions, except per share data).

LENNOX INTERNATIONAL INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Net Sales		Gross Profit		Net Income	
	2006	2005	2006	2005	2006	2005
First Quarter	$ 799.5	$ 700.3	$ 253.4	$ 219.8	$ 21.0	$ 12.5(1)
Second Quarter	1,002.0	867.8	322.6(2)	291.2	68.3(2)	41.3
Third Quarter	1,007.2	927.5	311.0	311.4	35.6	55.1
Fourth Quarter	862.4	870.6	268.2	285.6	41.1	41.8

	Basic Earnings Per Common Share		Diluted Earnings Per Common Share		Dividends Per Common Share	
	2006	2005	2006	2005	2006	2005
First Quarter	$ 0.29	$ 0.20(1)	$ 0.28	$ 0.19(1)	$ 0.11	$ 0.10
Second Quarter	0.96(2)	0.67	0.91(2)	0.59	0.11	0.10
Third Quarter	0.51	0.88	0.49	0.76	0.11	0.10
Fourth Quarter	0.61	0.59	0.58	0.55	0.13	0.11

(1) In 2005, the Company recorded $6.4 million of net income related to open futures contracts as of December 31, 2004.

(2) In the fourth quarter of 2006, the Company increased net income for the second quarter of 2006 by $4.3 million as a result of product warranty liability adjustments made during the second quarter that were related to pre-existing warranties.

Stock Prices

	Price Range Per Common Share			
	2006		2005	
	High	Low	High	Low
First Quarter	$ 32.63	$ 27.90	$ 22.99	$ 19.33
Second Quarter	34.76	22.92	22.41	18.65
Third Quarter	26.68	21.15	27.42	20.50
Fourth Quarter	31.39	22.44	30.60	24.81

16. Treasury Stock:

On September 19, 2005, LII announced its Board of Directors had authorized a stock repurchase program, pursuant to which the Company may repurchase up to ten million shares of its common stock, and had terminated a prior repurchase program that was announced November 2, 1999. Purchases under the stock repurchase program are made on an open-market basis at prevailing market prices. The timing of any repurchases depends on market conditions, the market price of LII's common stock and management's assessment of the Company's liquidity needs and investment requirements and opportunities. No time limit was set for completion of the program and there is no guarantee as to the exact number of shares that will be repurchased. As of December 31, 2006, the Company had repurchased 6,357,041 shares of common stock at an average price of $26.48 per share under the stock repurchase program.

17. Comprehensive Income:

The Company's accumulated balances, shown net of tax for each classification of comprehensive income as of December 31, 2006, 2005 and 2004, are as follows (in millions):

	Foreign Currency Translation Adjustment	Minimum Pension Liability	Hedges	Total
December 31, 2003	$ 22.9	$ (42.4)	$ 1.1	$ (18.4)
Net change during 2004	23.0	(9.0)	5.1	19.1
December 31, 2004	$ 45.9	$ (51.4)	$ 6.2	$ 0.7
Net change during 2005	(10.9)	17.0	(6.4)	(0.3)
December 31, 2005	$ 35.0	$ (34.4)	$ (0.2)	$ 0.4
Net change during 2006	20.8	(24.4)	(1.9)	(5.5)
December 31, 2006	$ 55.8	$ (58.8)	$ (2.1)	$ (5.1)

The net change in hedges during 2004 was $5.9 million, net of tax of $(2.1) million, in reclassifications to earnings and $2.1 million, net of tax of $(0.8) million, in changes in the fair value of derivative contracts.

In 2005, the Company determined that certain of its derivative instruments did not qualify for hedge accounting under SFAS No. 133, as the Company's documentation did not meet the criteria specified by SFAS No. 133 in order for the derivative instruments to qualify for cash flow designation. Accordingly, the Company recorded an unrealized gain of $23.3 million for the year ended December 31, 2005 related to open futures contracts, which is included in (Gains), Losses and Other Expenses, net in the accompanying Consolidated Statements of Operations for the year ended December 31, 2005. Additionally during 2005, the Company realized pre-tax gains of $16.7 million related to futures contracts that settled during the year, which is included in (Gains), Losses and Other Expenses, net in the accompanying Consolidated Statements of Operations.

The net change in hedges during 2006 was $(1.9) million, net of tax of $1.0 million, in changes in the fair value of derivative instruments. No significant amounts were reclassified from Accumulated Other Comprehensive Income ("AOCI") to net income in 2006.

18. Goodwill:

The Company evaluates the impairment of goodwill under the guidance of SFAS No. 142 for each of its reporting units. During the first quarter of 2006 and 2005, the Company performed its annual goodwill impairment test and determined that no further impairment charge was required. The Company recorded an impairment charge in the first quarter of 2004 associated with its Service Experts segment. This impairment charge reflects the segment's performance below management's expectations and management's decision to divest centers that no longer matched the realigned Service Experts business model (see Note 6). The impairment test requires a two-step process. The first step compares the fair value of the units with goodwill against their aggregate carrying values, including goodwill. The Company estimated the fair value of its Service Experts segment using the income method of valuation, which includes the use of estimated discounted cash flows. Based on the comparison, the carrying value of Service Experts exceeded its fair value. Accordingly, the Company performed the second step of the test, comparing the implied fair value of Service Experts' goodwill with the carrying amount of that goodwill. Based on this assessment, the Company recorded a non-cash impairment charge of $208.0 million ($184.8 million, net of tax), which is included as a component of operating income in the accompanying Consolidated Statements of Operations for the year ended December 31, 2004. The Company also recognized a $14.8 million ($13.2 million, net of tax) goodwill impairment charge arising from goodwill allocated to centers held for sale. This amount is included as a part of loss from discontinued operations in the accompanying Consolidated Statements of Operations for the year ended December 31, 2004.

The changes in the carrying amount of goodwill related to continuing operations for the years ended December 31, 2006 and 2005, by segment, are as follows (in millions):

Segment	Balance December 31, 2004	Changes(1)	Balance December 31, 2005
Residential Heating & Cooling	$ 26.1	$ —	$ 26.1
Commercial Heating & Cooling	30.7	(2.5)	28.2
Service Experts	95.7	2.5	98.2
Refrigeration	72.9	(1.5)	71.4
Total	$ 225.4	$ (1.5)	$ 223.9

Segment	Balance December 31, 2005	Changes(2)	Balance December 31, 2006
Residential Heating & Cooling	$ 26.1	$ 7.8	$ 33.9
Commercial Heating & Cooling	28.2	1.9	30.1
Service Experts	98.2	(0.3)	97.9
Refrigeration	71.4	6.5	77.9
Total	$ 223.9	$ 15.9	$ 239.8

(1) Changes in 2005 primarily relate to changes in foreign currency translation rates.

(2) Changes in 2006 primarily relate to insignificant business acquisitions and changes in foreign currency translation rates.

19. Related Party Transactions:

Thomas W. Booth, Stephen R. Booth, John W. Norris III and Jeffery D. Story, M.D., each a member of the Company's Board of Directors, John W. Norris, Jr., LII's former Chairman of the Board, other former directors of the Company, and Lynn B. Storey, the mother of Dr. Storey, as well as other stockholders of the Company 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"). AOC Land owns 70% of AOC Development II, L.L.C. ("AOC Development"), which owns substantially all of One Lake Park. Beginning in 1998, the Company leased part of an office building in Richardson, Texas owned by One Lake Park for use as its corporate headquarters. LII terminated these leases in June 2006. Lease payments for 2006, 2005 and 2004 totaled approximately $1.4 million, $2.9 million, and $3.2 million, respectively. See further discussion of the termination of the leases with One Lake Park at Note 13. LII believes that the terms of its leases with One Lake Park were, at the time entered into, comparable to terms that could have been obtained from unaffiliated third parties.

In December 2006, the Company's Board of Directors adopted the Lennox International Inc. Related Party Transactions Policy, pursuant to which all related party transactions must be approved. Prior to adopting a formal written policy, the Company did not enter into any transactions in which its directors, executive officers or principal stockholders and their affiliates have a material interest unless such transactions were approved by a majority of the disinterested members of the Board of Directors and were on terms that are no less favorable to the Company than those that it could obtain from unaffiliated third parties.

20. 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. The description and terms of the Rights are set forth in a Rights Agreement dated as of July 27, 2000, which is filed as Exhibit 4.2 to this Annual Report on Form 10-K.

21. Derivatives:

LII utilizes a hedging program to mitigate the exposure to volatility in the prices of certain commodities the Company uses in its production process. The hedging program includes the use of futures contracts and fixed forward contacts. The intent of the hedging program is to protect the Company’s operating margins and overall profitability from adverse price changes by entering into derivative instruments.

To qualify for hedge accounting in accordance with SFAS No. 133, the Company requires that the futures contracts be effective in reducing the risk exposure that they are designed to hedge and that it is probable that the underlying transaction will occur. For instruments designated as cash flow hedges, the Company must formally document, at inception of the arrangement, the relationship between the hedging instrument and the hedged item, including the risk management objective, the hedging strategy for use of the hedged instrument, and how hedge effectiveness is being assessed. This documentation includes linking the instruments that are designated as cash flow hedges to forecasted transactions. These criteria demonstrate that the futures contracts are expected to be highly effective at offsetting changes in the cash flows of the hedged item, both at inception and on an ongoing basis. Futures contracts entered into in the fourth quarter of 2006 that met established accounting criteria were formally designated as cash flow hedges.

The Company monitors its derivative positions and credit ratings of its counterparties and does not anticipate losses due to counterparties’ non-performance.

For futures contracts that are designated and qualify as cash flow hedges, the Company assesses hedge effectiveness and measures hedge ineffectiveness at least quarterly throughout the designated period. The effective portion of the gain or loss on the futures contracts are recorded, net of applicable taxes, in AOCI, a component of Stockholders’ Equity in the accompanying Consolidated Balance Sheets. When net income is affected by the variability of the underlying cash flow, the applicable offsetting amount of the gain or loss from the futures contracts that is deferred in AOCI is released to net income and is reported as a component of Cost of Goods Sold in the accompanying Consolidated Statements of Operations. Changes in the fair value of futures contracts that do not effectively offset changes in the fair value of the underlying hedged item throughout the designated hedge period (“ineffectiveness”) are recorded in net income each period and are reported in Other (Income) Expense, net in the accompanying Consolidated Statements of Operations. For the year ended December 31, 2006, there was no significant gain or loss recognized in net income representing hedge ineffectiveness or excluded from the assessment of hedge effectiveness. During the same period, no significant amounts were reclassified from AOCI to net income.

At December 31, 2006, in connection with its cash flow hedges, the Company recorded losses of $2.9 million in AOCI which are expected to be reclassified to net income within the next 12 months. Cash flow derivative instruments in place at December 31, 2006 are scheduled to mature through December 2007.

The Company may enter into instruments that economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting under SFAS No. 133 to these instruments. In these cases, there exists a natural hedging relationship in which changes in the fair value of the instruments act as an economic offset to changes in the fair value of the underlying item(s). Changes in the fair value of instruments not designated as cash flow hedges are recorded in net income throughout the term of the derivative instrument and are reported in Other (Income) Expense, net in the accompanying Consolidated Statements of

Operations. For the year ended December 31, 2006, $45.2 million in net gains were recognized in earnings related to instruments not accounted for as cash flow hedges.

The Company reports cash flows arising from the Company's hedging instruments consistent with the classifications of cash flows from the underlying hedged items. Accordingly, cash flows associated with the Company's derivative programs are classified in cash flows from operating activities in the accompanying Consolidated Statements of Cash Flows.

22. 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 fair values of each of the Company's long-term debt instruments are based on the quoted market prices for the same issues or on the amount of future cash flows associated with each instrument using current market rates for debt instruments of similar maturities and credit risk. The estimated fair value of non-convertible long-term debt (including current maturities) was $111.1 million and $122.6 million at December 31, 2006 and 2005, respectively. The fair values presented are estimates and are not necessarily indicative of amounts for which the Company could settle such instruments currently or indicative of the intent or ability of the Company to dispose of or liquidate them.

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

None.

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our current management, including our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, our disclosure controls and procedures were effective as of December 31, 2006, in alerting them in a timely manner to material information required to be disclosed by us in the reports we file with or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934.

Management's Annual Report on Internal Control Over Financial Reporting

See "Management's Report on Internal Control Over Financial Reporting" included in Item 8 "Financial Statements and Supplementary Data."

Attestation Report of the Independent Registered Public Accounting Firm

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

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2006, we redesigned our policies, procedures and controls with respect to our calculation of warranty costs at our Residential Heating & Cooling segment. There were no other changes during the quarter ended December 31, 2006 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III

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

The section of our 2007 Proxy Statement captioned "Proposal 1: Election of Directors" identifies members of our Board of Directors and nominees for election to the Board of Directors at our 2007 Annual Meeting, and is incorporated in this Item 10 by reference.

Item 1 "Business — Executive Officers of the Company" of this Annual Report on Form 10-K identifies our executive officers and is incorporated in this Item 10 by reference.

The section of our 2007 Proxy Statement captioned "Corporate Governance — Board of Directors and Board Committees — Audit Committee" identifies members of the Audit Committee of our Board of Directors and our audit committee financial expert, and is incorporated in this Item 10 by reference.

The section of our 2007 Proxy Statement captioned "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated in this Item 10 by reference.

The section of our 2007 Proxy Statement captioned "Corporate Governance — Other Corporate Governance Policies — Code of Conduct and Code of Ethical Conduct" includes information regarding our Code of Conduct and Code of Ethical Conduct and is incorporated in this Item 10 by reference.

Item 11. ***Executive Compensation***

The information in the sections of our 2007 Proxy Statement captioned "Executive Compensation," "Director Compensation" and "Certain Relationships and Related Party Transactions — Compensation Committee Interlocks and Insider Participation" is incorporated in this Item 11 by reference.

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

The information in the sections of our 2007 Proxy Statement captioned "Equity Compensation Plan Information" and "Ownership of Common Stock" is incorporated in this Item 12 by reference.

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

The information in the sections of our 2007 Proxy Statement captioned "Corporate Governance — Director Independence" and "Certain Relationships and Related Party Transactions" is incorporated in this Item 13 by reference.

Item 14. ***Principal Accounting Fees and Services***

The information in the section of our 2007 Proxy Statement captioned "Independent Registered Public Accountants" is incorporated in this Item 14 by reference.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules***

Financial Statements

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

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2006 and 2005
- Consolidated Statements of Operations for the Years Ended December 31, 2006, 2005 and 2004
- Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2006, 2005 and 2004
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, 2005 and 2004
- Notes to Consolidated Financial Statements for the Years Ended December 31, 2006, 2005 and 2004

Financial Statement Schedules

The following financial statement schedules are included in this Annual Report on Form 10-K:

- Report of Independent Registered Public Accounting Firm (see Part II, Item 8 of this Annual Report on Form 10-K).
- Schedule II — Valuation and Qualifying Accounts and Reserves (see Schedule II immediately following the signature page of this Annual Report on Form 10-K).

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

Exhibits

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

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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.

By: /s/ ROBERT E. SCHJERVEN
Robert E. Schjerven
Chief Executive Officer

February 26, 2007

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)	February 26, 2007
/s/ SUSAN K. CARTER Susan K. Carter	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2007
/s/ ROY A. RUMBOUGH Roy A. Rumbough	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	February 26, 2007
/s/ RICHARD L. THOMPSON Richard L. Thompson	Chairman of the Board of Directors	February 26, 2007
/s/ LINDA G. ALVARADO Linda G. Alvarado	Director	February 26, 2007
/s/ STEVEN R. BOOTH Steven R. Booth	Director	February 26, 2007
/s/ THOMAS W. BOOTH Thomas W. Booth	Director	February 26, 2007
/s/ JAMES J. BYRNE James J. Byrne	Director	February 26, 2007
/s/ JANET K. COOPER Janet K. Cooper	Director	February 26, 2007
/s/ C.L. (JERRY) HENRY C.L. (Jerry) Henry	Director	February 26, 2007

Signature	Title	Date
/s/ JOHN E. MAJOR John E. Major	Director	February 26, 2007
/s/ JOHN W. NORRIS III John W. Norris III	Director	February 26, 2007
/s/ PAUL W. SCHMIDT Paul W. Schmidt	Director	February 26, 2007
/s/ TERRY D. STINSON Terry D. Stinson	Director	February 26, 2007
/s/ JEFFREY D. STOREY, MD Jeffrey D. Storey, MD	Director	February 26, 2007

LENNOX INTERNATIONAL INC.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
For the Years Ended December 31, 2006, 2005 and 2004
(In Millions)

	Balance at Beginning of Year	Additions Charged to Cost and Expenses	Deductions(1)	Balance at End of Year
2004:				
Allowance for doubtful accounts	$ 15.6	$ 10.3	$ (7.4)	$ 18.5
2005:				
Allowance for doubtful accounts	$ 18.5	$ 6.7	$ (8.5)	$ 16.7
2006:				
Allowance for doubtful accounts	$ 16.7	$ 6.6	$ (6.6)	$ 16.7

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

INDEX TO EXHIBITS

Exhibit Number	Exhibit Name
3.1	Restated Certificate of Incorporation of Lennox International Inc. (''LII'') (filed as Exhibit 3.1 to LII's Registration Statement on Form S-1 (Registration No. 333-75725) filed on April 6, 1999 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of LII (filed as Exhibit 3.2 to LII's Current Report on Form 8-K filed on February 28, 2005 and incorporated herein by reference).
4.1	Specimen Stock Certificate for the Common Stock, par value $.01 per share, of LII (filed as Exhibit 4.1 to LII's Amendment to Registration Statement on Form S-1/A (Registration No. 333-75725) filed on June 16, 1999 and incorporated herein by reference).
4.2	Rights Agreement, dated as of July 27, 2000, between LII 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 (filed as Exhibit 4.1 to LII's Current Report on Form 8-K filed on July 28, 2000 and incorporated herein by reference).
	LII is a party to several debt instruments under which the total amount of securities authorized under any such instrument does not exceed 10% of the total assets of LII and its subsidiaries on a consolidated basis. Pursuant to paragraph 4(iii)(A) of Item 601(b) of Regulation S-K, LII agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.
10.1	Second Amended and Restated Receivables Purchase Agreement, dated as of June 16, 2003, by and among LPAC Corp., Lennox Industries Inc., Blue Ridge Asset Funding Corporation, Liberty Street Funding Corp., the Liberty Street Investors named therein, The Bank of Nova Scotia and Wachovia Bank, N.A. (filed as Exhibit 10.1 to LII's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference).
10.2	Fourth Amendment to Second Amended and Restated Receivables Purchase Agreement, dated as of June 11, 2004, by and among Lennox Industries Inc., LPAC Corp., Liberty Street Funding Corp., the investors named in the Second Amended and Restated Receivables Purchase Agreement, as amended (the ''Purchase Agreement''), The Bank of Nova Scotia, YC SUSI Trust, Bank of America, N.A. and The Yorktown Investors (as defined in Purchase Agreement) (filed as Exhibit 10.3 to LII's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
10.3	Fifth Amendment to Second Amended and Restated Receivables Purchase Agreement, dated as of December 20, 2004, by and among Lennox Industries Inc., LPAC Corp., Liberty Street Funding Corp., the investors named in the Purchase Agreement, The Bank of Nova Scotia, YC SUSI Trust, Bank of America, N.A. and The Yorktown Investors (as defined in the Purchase Agreement) (filed as Exhibit 10.1 to LII's Form 8-K filed December 21, 2004 and incorporated herein by reference).
10.4	Sixth Amendment to Second Amended and Restated Receivables Purchase Agreement, dated December 14, 2005, by and among Lennox Industries Inc., LPAC Corp., Liberty Street Funding Corp., the investors named in the Purchase Agreement, The Bank of Nova Scotia, YC SUSI Trust, Bank of America, National Association and the Yorktown Investors (as defined in the Purchase Agreement) (filed as Exhibit 10.1 to LII's Form 8-K filed December 20, 2005 and incorporated herein by reference).
10.5	Assignment and Assumption Agreement, dated as of May 5, 2004, by and among EagleFunding Capital Corporation and YC SUSI Trust, Fleet National Bank and Bank of America, N.A., Fleet Securities, Inc. and Bank of America, N.A., The Bank of Nova Scotia and LPAC Corp. (filed as Exhibit 10.10 to LII's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
10.6	Purchase and Sale Agreement, dated as of June 19, 2000, by and among Lennox Industries Inc., Heatcraft Inc. and LPAC Corp. (filed as Exhibit 10.1 to LII's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 and incorporated herein by reference).
10.7	First Amendment to Purchase and Sale Agreement, dated as of June 7, 2002, among Lennox Industries Inc., Heatcraft Inc., Armstrong Air Conditioning Inc. and LPAC Corp. (filed as Exhibit 10.2 to LII's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 and incorporated herein by reference).

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Exhibit Number	Exhibit Name
10.8	Second Amendment to Purchase and Sale Agreement, dated as of June 16, 2003, by and among LPAC Corp., Lennox Industries Inc., Armstrong Air Conditioning Inc., Advanced Distributor Products LLC and Heatcraft Refrigeration Products LLC (filed as Exhibit 10.2 to LII's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference).
10.9	Omnibus Amendment Number One to the Amended and Restated Receivables Purchase Agreement and the Purchase and Sale Agreement, dated as of January 31, 2003, by and among Lennox Industries Inc., Heatcraft Inc., Armstrong Air Conditioning Inc., Advanced Distributor Products LLC, Heatcraft Refrigeration Products LLC, LPAC Corp., Blue Ridge Asset Funding Corporation and Wachovia Bank, N.A. (filed as Exhibit 10.12 to LII's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.10	First Omnibus Amendment to Transaction Documents, dated as of December 31, 2003, among LII, Lennox Industries Inc., Advanced Distributor Products LLC, Heatcraft Refrigeration Products LLC, LPAC Corp., Blue Ridge Asset Funding Corporation, Wachovia Bank, N.A., Liberty Street Funding Corp., The Bank of Nova Scotia, EagleFunding Capital Corporation, Fleet National Bank, Fleet Securities Inc., and The Liberty Street Investors (as defined therein) (filed as Exhibit 10.9 to LII's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
10.11	Second Omnibus Amendment to Second Amended and Restated Receivables Purchase Agreement, as amended, and Purchase and Sale Agreement, as amended, dated December 14, 2006, by and among Lennox Industries Inc., Advance Distributor Products LLC, Heatcraft Refrigeration Products LLC, LPAC Corp., Liberty Street Funding Corp., the investors named in the Second Amended and Restated Receivables Purchase Agreement, as amended, The Bank of Nova Scotia, YC SUSI Trust, Bank of America, National Association and the Yorktown Investors (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on December 20, 2006 and incorporated herein by reference).
10.12	Second Amended and Restated Credit Agreement, dated July 8, 2005, among LII, Bank of America, N.A., as administrative agent, JPMorgan Chase Bank, N.A., as syndication agent, Banc of America Securities LLC and J.P. Morgan Securities, Inc., as Joint Lead Arrangers, and the other Lenders party thereto (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on July 12, 2005 and incorporated herein by reference).
10.13	Second Amended and Restated Pledge Agreement, dated July 8, 2005, between LII and Bank of America, N.A., as collateral agent for itself and other creditors of LII under the Second Amended and Restated Credit Agreement (filed as Exhibit 10.2 to LII's Current Report on Form 8-K filed on July 12, 2005 and incorporated herein by reference).
10.14	First Amendment to the Second Amended and Restated Revolving Credit Facility Agreement, dated August 17, 2006, among LII, Bank of America, N.A. as administrative agent, and the Lenders party thereto (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on August 23, 2006 and incorporated herein by reference).
10.15	Lease Agreement, dated as of June 22, 2006, by and between BTMU Capital Corporation, as lessor, and Lennox Procurement Company Inc., as lessee (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on June 28, 2006 and incorporated herein by reference).
10.16	Participation Agreement, dated as of June 22, 2006, by and among Lennox Procurement Company Inc., as lessee, Lennox International Inc., as guarantor, BTMU Capital Corporation, as lessor, and MHCB (USA) Leasing and Finance Corporation, as initial holder of all of the notes and administrative agent (filed as Exhibit 10.2 to LII's Current Report on Form 8-K filed on June 28, 2006 and incorporated herein by reference).
10.17	Memorandum of Lease, Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated as of June 22, 2006, by and among Lennox Procurement Company Inc., BTMU Capital Corporation and Jeffrey L. Bell, as Deed of Trust Trustee, for the benefit of BTMU Capital Corporation (filed as Exhibit 10.3 to LII's Current Report on Form 8-K filed on June 28, 2006 and incorporated herein by reference).
10.18	Guaranty, dated as of June 22, 2006, from Lennox International Inc., as guarantor, to BTMU Capital Corporation, as lessor, and the other parties specified therein (filed as Exhibit 10.4 to LII's Current Report on Form 8-K filed on June 28, 2006 and incorporated herein by reference).

Exhibit Number	Exhibit Name
10.19*	Amended and Restated 1998 Incentive Plan of Lennox International Inc. (filed as Exhibit 10.1 to LII's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 and incorporated herein by reference).
10.20*	Form of Performance Share Program Award Agreement under the 1998 Incentive Plan of LII (filed as Exhibit 10.3 to LII's Current Report on Form 8-K filed on December 13, 2005 and incorporated herein by reference).
10.21*	Form of Employee Restricted Stock Grant Agreement under the 1998 Incentive Plan of LII (filed as Exhibit 10.4 to LII's Current Report on Form 8-K filed on December 13, 2005 and incorporated herein by reference).
10.22*	Form of Employee Stock Appreciation Rights Agreement under the 1998 Incentive Plan of LII (filed as Exhibit 10.5 to LII's Current Report on Form 8-K filed on December 13, 2005 and incorporated herein by reference).
10.23*	Form of Non-Employee Director Restricted Stock Grant Agreement under the 1998 Incentive Plan of LII (filed as Exhibit 10.6 to LII's Current Report on Form 8-K filed on December 13, 2005 and incorporated herein by reference).
10.24*	Form of Non-Employee Director Stock Appreciation Rights Agreement under the 1998 Incentive Plan of LII (filed as Exhibit 10.7 to LII's Current Report on Form 8-K filed on December 13, 2005 and incorporated herein by reference).
10.25*	Lennox International Inc. Profit Sharing Restoration Plan (filed as Exhibit 10.9 to LII's Registration Statement on Form S-1 (Registration No. 333-75725) filed on April 6, 1999 and incorporated herein by reference).
10.26*	Lennox International Inc. Supplemental Executive Retirement Plan (filed as Exhibit 10.10 to LII's Registration Statement on Form S-1 (Registration No. 333-75725) filed on April 6, 1999 and incorporated herein by reference).
10.27*	Lennox International Inc. Non-employee Directors' Compensation and Deferral Plan (filed as Exhibit 10.22 to LII's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.28*	Amendment to the Lennox International Inc. Non-employee Directors' Compensation and Deferral Plan, dated May 17, 2002 (filed as Exhibit 10.23 to LII's Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.29*	Form of Indemnification Agreement entered into between LII and certain executive officers and directors of LII (filed as Exhibit 10.15 to LII's Registration Statement on Form S-1 (Registration No. 333-75725) filed on April 6, 1999 and incorporated herein by reference).
10.30*	Form of Employment Agreement entered into between LII and certain executive officers of LII (filed herewith).
10.31*	Form of Change of Control Employment Agreement entered into between LII and certain executive officers of LII (filed herewith).
10.32*	Form of Change of Control Employment Agreement entered into between LII and each of Susan K. Carter and William F. Stoll, Jr. (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on August 31, 2005 and incorporated herein by reference).
10.33*	Amendment to Employment Agreement, dated March 20, 2006, between the Company and Harry J. Ashenhurst (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on October 24, 2006 and incorporated herein by reference).
10.34*	Summary of Fiscal 2006 Target Short-Term Incentive Percentages for the Named Executive Officers of LII (filed as Exhibit 10.1 to LII's Current Report on Form 8-K filed on December 14, 2006 and incorporated herein by reference).

Exhibit Number	Exhibit Name
10.35*	Summary of Fiscal 2006 Annual Compensation for the Non-Employee Members of the Board of Directors of LII (filed as Exhibit 10.2 to LII's Current Report on Form 8-K filed on December 14, 2006 and incorporated herein by reference).
21.1	Subsidiaries of LII (filed herewith).
23.1	Consent of KPMG LLP (filed herewith).
31.1	Certification of the principal executive officer (filed herewith).
31.2	Certification of the principal financial officer (filed herewith).
32.1	Certification of the principal executive officer and the principal financial officer of the Company pursuant to 18 U.S.C. Section 1350 (filed herewith).

* Management contract or compensatory plan or arrangement.

Exhibit 10.30

__________, 200__________

[Name of Employee]
[Address]
[Address]

Dear __________:

Lennox International Inc. ("Lennox") recognizes you as a key employee, important to its future profitability, growth and financial strength. Accordingly, Lennox proposes to enter into an agreement with you to establish certain terms of your employment, including a specified duration or term of employment, the basis for your compensation and assignments, certain post-employment covenants, mechanisms to resolve disputes and certain benefits and income to you in the event you leave the employ of Lennox under certain specified circumstances (the "Agreement"). We believe the Agreement benefits both you and Lennox by clarifying your employment relationship so that we all understand its terms. The Agreement provides you with greater certainty and security with various aspects of your employment relationship, as well as provides you with information to assist you with future financial planning. In that same regard, the Agreement assists Lennox in its own financial and business planning. The purpose of this letter is to describe the terms of your employment with Lennox after the effective date of this Agreement. The term "Employee" will be used to refer to you in this Agreement where appropriate. The controlling terms of this Agreement are set forth in the body of this letter Agreement as well as in the Exhibits to this Agreement which are incorporated by reference. The specific terms of the Exhibits are controlling should there be any confusion or conflict between them and this letter. With the signing by both parties of this Agreement, you and Lennox will have agreed to the following:

1. Nature of Employment. You and Lennox have agreed that your employment relationship with Lennox will no longer be "at will" and terminable by either party at any time. Instead, this employment relationship will be governed by the terms of this Agreement for as long as it remains in effect and even after its termination for any provisions, which by their terms survive. The terms agreed upon by you and Lennox provide the consideration and inducement for each party to enter into this Agreement and are described more fully throughout the body of this Agreement and the attached Exhibits A through C.

2. Term of Agreement; Termination Date. This Agreement will commence on the date of signing this Agreement by both parties (the "Effective Date") and will be in effect until December 31 of that year and thereafter for a series of one-year terms.

3. Termination of Employment. Your employment with Lennox may be terminated for a number of reasons prior to the expiration of any term of this Agreement as described below. The rights of each party under each circumstance will vary and are described in the attached Exhibits. More specifically, if Lennox terminates your employment for any reason other than for "Cause", as defined in Section B.3 of Exhibit A, you will be entitled to receive, in addition to any other compensation or benefits described in Section B.2 of Exhibit A, severance benefits consisting of either the Normal Severance Payment defined in Section 2 of Exhibit C or the Enhanced Severance Payment defined in Section 3 of Exhibit C as determined by those provisions. However, the provisions of Sections C.2(a)-(d) of Exhibit A will continue to be effective after the termination of this Agreement regardless of the reason for your termination.

   a. Termination by Employee. You may terminate your employment at any time upon 30 days notice to Lennox (or a lesser period if approved by Lennox) of your intent to terminate or not to renew this Agreement and, in that event, Lennox shall be obligated only to pay you your Base Salary and other applicable benefits provided to employees in your position that are effective at the time of the voluntary resignation up to the effective date of the termination only.

   b. Termination For Cause. Lennox may terminate your employment, at any time, for Cause, as defined in Section B.3 of Exhibit A, to be effective immediately upon delivery to you of notice of termination. If Lennox terminates you for Cause, you are only entitled to receive your Base Salary and other applicable benefits provided to employees in your position that are effective at the time of termination up through the effective date of termination.

   c. Termination Other Than For Cause. Your employment may also be terminated by Lennox other than for Cause at any time (including Lennox' non-renewal of the Agreement) but such a decision triggers certain defined benefits for you. In the event Lennox elects to terminate you under this provision, Lennox agrees to pay either the Normal Severance Payment as defined in Section 2 of Exhibit C or, solely at your option, the Enhanced Severance Payment as defined in Section 3 of Exhibit C, provided you comply with all requirements described in Section 3 of Exhibit C. These benefits are contractually defined by this Agreement and are not dependent on the other benefits policies of Lennox at the time of your termination.

   d. Termination As A Result Of Disability Or Death. Should you die or become permanently disabled (completely unable to perform your duties as defined in the benefit plans of Lennox) during the term of this Agreement, your employment will be terminated effective as of the date of your death or permanent disability.

e. Withholdings From Payment/Offset. Any payments made by Lennox to you under Section 3 will be subject to all applicable local, state, federal or foreign taxes, including, without limitation, income tax, withholding tax, and social security tax. Further, to the extent you have, on the date of termination, any outstanding debts or financial obligations to Lennox, including, but not limited to, loans, overpayment of wages, bonuses or other forms of incentive payments, unauthorized travel or purchasing expenses, or theft of Lennox' funds or property, you agree that Lennox shall be entitled to set off against and withhold from such payments due you for such debts or obligations.

4. Nonpayment Upon Breach. Notwithstanding anything in this Agreement to the contrary, at any time after the date of termination, if you, by any intentional or grossly negligent action or omission to act, breach any covenant, agreement, condition or obligation contained herein, Lennox is entitled to cease making any payments and to cease providing any of the benefits to you under this Agreement. Additionally, Lennox reserves the right to seek repayment of any amounts previously paid hereunder along with recovery of any other damages caused by you.

5. Resolution of Disputes. In the event that any employment dispute as defined in Section A of Exhibit B arises between Lennox and any Employee, the parties involved will make all efforts to resolve any such dispute through informal means. If these informal attempts at resolution fail, Lennox and the Employee agree to and shall submit the dispute to final and binding arbitration pursuant to the policy and terms outlined in Exhibit B, to which the parties expressly agree to be bound. The parties fully and completely understand and agree that arbitration is the exclusive forum for all such arbitrable disputes and that the parties are giving up all rights to a court trial or jury trial; however, the parties, by agreeing to the policy for resolution of disputes outlined in Exhibit B are not waiving any substantive rights or remedies to which they would otherwise be entitled.

6. Waiver, Modification, and Integration. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by any party. This Agreement, which includes all Exhibits referenced or attached, expresses the entire agreement of the parties concerning matters contained herein and supersedes all prior and contemporaneous representations, understandings and agreement, either oral or in writing, between the parties hereto with respect to such matters and all such prior or contemporaneous representations, understandings and agreements, both oral and written, are hereby terminated. This Agreement may not be modified, altered or amended except by written agreement of the Employee and the Chief Executive Officer, except when the Chief Executive Officer is involved, and in that event, an official designated by the Board of Directors for Lennox.

7. Binding Effect. This Agreement shall be binding and effective upon Lennox and its successors and permitted assigns, and upon the Employee, Employee's heirs and representatives. The Employee hereby represents and warrants to Lennox that Employee

has not previously assumed any obligations inconsistent with those contained in this Agreement, including, but not limited to, covenants not to compete with another person, firm, corporation or other entity.

8. Governing Law, Venue and Personal Jurisdiction. It is the intention of the parties that the laws of the State of Texas should govern the validity of this Agreement, the construction of its terms, and the interpretation of the rights and duties of the parties hereto. The parties agree that venue for all disputes shall be in Dallas County, Texas. The parties further agree to submit to personal jurisdiction in Dallas County, Texas.

Sincerely,

LENNOX INTERNATIONAL INC.

By: ______________________________
[Name]

ACCEPTED AND AGREED this __________ day of __________, 200__________.

EMPLOYEE

____
[Name]

EXHIBIT A

TERMS OF EMPLOYMENT

The following are the specific agreements of Lennox and the Employee providing the details and basis for this Agreement and are intended by each as its consideration to induce the other party to enter into this Agreement. Each party agrees that the consideration provided by the other is adequate for its agreements to the following terms:

A. Renewal. On January 1 of each year (the "Anniversary Date") after the end of the first term and for each year thereafter, this Agreement will be automatically renewed for an additional year, unless either party notifies the other, in writing, at least 30 days prior to the Anniversary Date, that it does not wish to renew the Agreement. No reason need be given by either party for the non-renewal of the Agreement. If Lennox elects not to renew, however, Employee is nevertheless entitled to the benefits provided in this Agreement, subject to all of its provisions. If Employee elects not to renew, Employee will receive only those benefits provided upon voluntary termination as described in Section 3(a) of the letter agreement.

B. Agreements by Lennox.

1. Employee Duties. Lennox will assign to the Employee such duties and responsibilities that would appropriately be performed by an employee holding Employee's position and/or job title on a permanent basis as it deems consistent with the Employee's qualifications and experience provided, however, that Lennox can assign other duties on a temporary basis. Lennox retains the right to change such duties and to change the location of the Employee's assignment as and when it deems appropriate.

2. Employee Compensation. Employee shall receive a salary of that amount in effect at the initial effective or subsequent renewal dates of this Agreement (as may be, from time to time, adjusted in accordance with Lennox' applicable salary policies which may be changed by Lennox in its sole discretion), payable in accordance with the then applicable payroll policies and subject to all required and authorized withholdings and deductions ("Base Salary"). When calculated on an annual basis, this is referred to as Annual Base Salary, and when calculated on a monthly basis, this is referred to as Monthly Base Salary. The Base Salary will be set in accordance with Lennox' policy regarding salaries and will not be reduced during the annual term of the Agreement unless Employee's job duties are changed, in which circumstance Lennox reserves the right to lessen Employee's compensation by no more than ten percent for the remainder of the year without such change amounting to a breach or termination of this Agreement. Employee is also entitled to such short term bonuses, stock options, long-term incentive program payments and fringe benefits as are applicable to

employees in your position pursuant to Lennox' then applicable policies and plans. Benefits may be subject to periodic review and may be changed by Lennox in its sole discretion.

3. Termination for Cause Defined. Lennox may terminate Employee's employment, at any time, for Cause as set forth in Section 3(b) of the body of the Letter Agreement. "Cause" is defined as (a) any violation by an Employee of Lennox' written policies as they may exist or be created or modified from time to time in the future, including, as examples and not as a limitation of the policies to which an Employee may be subject, those policies prohibiting discrimination in the workplace, including the prohibition of harassment, on the ground of race, sex, religion, age or any other prohibited basis; (b) any state or federal criminal conviction, including, but not limited to, entry of a plea of nolo contendere or deferred adjudication upon a felony or misdemeanor charge; (c) the commission by Employee of any material act of misconduct or dishonesty; (d) any intentional or grossly negligent action or omission to act which breaches any covenant, agreement, condition or obligation contained in this Agreement; or (e) acts that in any way have a direct, substantial and adverse effect on Lennox' reputation.

   Lennox' termination for Cause determination is subject to the Employee's rights to a resolution of a dispute of that determination as provided in Exhibit B of this Agreement.

4. Payments Upon Disability or Death. In the event Employee dies or becomes permanently disabled during the term of the Agreement, Employee or Employee's designated beneficiaries will be entitled to the payments described in Section 3(c) of the Agreement, together with any other benefits provided to employees in an equivalent position in effect at that time. Should Employee die during the severance period, all payments of severance amounts shall cease upon the later of Employee's death or the expiration of the twenty-fourth month after the date of Employee's termination in the event the employee has agreed to the terms of the enhanced severance benefit. Any payments after Employee's death that may be due hereunder will be paid to Employee's beneficiary named in connection with Exhibit D of this Agreement, or if no such designation has been made by Employee, then to Employee's executors, administrators, heirs, personal representatives, successors, or assigns, as the case may be.

C. Agreements by Employee.

1. Effort and Cooperation. Employee agrees to devote his or her full efforts and time to the performance of this Agreement and shall not, without the prior written consent of the Chief Executive Officer, or in the event the Chief Executive Officer is involved, a designee assigned by the Board of Directors, engage in any other employment, business or other activity that would materially interfere with the performance of his or her duties under this Agreement. Employee further

agrees that following his or her termination from employment, Employee will provide reasonable cooperation with and assistance to Lennox in all respects, including, but not limited to, the transition of his or her duties and responsibilities, cooperation on any project for a reasonable period not to exceed six months, or any litigation involving Lennox related to your employment at Lennox at any time such litigation may occur. Lennox will reimburse the Employee any reasonable expenses incurred.

2. Protective Covenants. Employee recognizes that Employee's employment by Lennox is one of the highest trust and confidence. In return for the Employee's agreement to the protective covenants herein, Lennox agrees that the (i) Employee will become fully familiar with many aspects of Lennox' business, including future changes customarily related to the performance of the duties of Employee's position during the term of the Agreement, (ii) Employee will be given access to proprietary confidential information of Lennox or its customers and other information which is of special and peculiar commercial or competitive value to Lennox or its customers for use in connection with Lennox' business, which proprietary confidential information is for the sole and exclusive benefit of Lennox, (iii) Employee will be given all specialized training necessary to perform his or her assigned duties, and (iv) Employee will be provided with Lennox' goodwill in dealing with customers, vendors and potential business contacts.

Employee acknowledges and agrees that if any such proprietary and confidential information of either Lennox or its customers were to become known by any persons outside of Lennox with a need to have such information, hardship, loss or irreparable injury and damage could result to Lennox or its customers which would be difficult if not impossible to measure. Therefore, Employee agrees that (i) it is necessary for Lennox to protect its business and that of its customers from such damage, (ii) that the information is of a confidential nature, (iii) that the following covenants constitute a reasonable and appropriate means, consistent with the best interests of both Employee and Lennox, to protect Lennox and its customers against such damage and to protect the value of their confidential proprietary information, (iv) that the following covenants are agreed to as a term and condition of Employee's continued employment with Lennox and are supported by adequate consideration from Lennox, and (v) shall apply to and be binding upon Employee as provided herein:

a. Trade Secrets, Proprietary and Confidential Information. Employee will have access to, and contact with certain trade secrets and confidential and proprietary information of Lennox, including, without limitation, unique skills, concepts, sales presentations, marketing programs, marketing strategy, business practices, methods of operation, systems, sales methods, proposals, customer lists, customer leads, documents identifying past, present and future customers, hiring and training methods, financial and other customer data, lists of agents, and other confidential information

(“Trade Secrets”). Employee agrees to protect and safeguard the Trade Secrets, business practices, and confidential and proprietary information of Lennox. Employee further agrees and covenants that, except as may be required by Lennox in connection with this Agreement, or with the prior written consent of Lennox, Employee shall not, either during his or her employment with Lennox or thereafter, directly or indirectly, use for Employee’s own benefit or for the benefit of another, disclose, disseminate, or distribute to another, any Trade Secret, business practice, or confidential or proprietary information (whether or not acquired, learned, obtained, or developed by Employee alone or in conjunction with others) of Lennox or of others with whom Lennox has a business relationship. Such Trade Secrets, business practices, and confidential and proprietary information include, but are not limited to, Lennox’ patents, trademarks, licenses and technical information concerning its operations, data bases, Lennox’ sales information and marketing strategy, the identities of Lennox’ customers, contractors, suppliers, and others with whom Lennox has a business relationship, Lennox arrangements with such parties, Lennox’ customer list and Lennox’ pricing policies and strategy. All memoranda, notes, records, drawings, documents, or other writings whatsoever made, compiled, acquired, or received by Employee during the term of Employee’s employment with Lennox, arising out of, in connection with, or related to any activity or business of Lennox, including, but not limited to, Lennox’ customers, contractors, suppliers, or others with whom Lennox has a business relationship, Lennox’ arrangements with such parties, and Lennox’ pricing policies and strategy, are, and shall continue to be, the sole and exclusive property of Lennox, and shall, together with all copies thereof and all advertising literature, be returned and delivered to Lennox by Employee immediately, without demand, upon the termination of the Employee’s employment with Lennox or shall be returned at any time upon Lennox demand.

b. Restrictions on Diverting Employees of Lennox. Employee agrees that during employment with Lennox, and for a period of 24 complete calendar months following the termination of employment, Employee will not, either directly or indirectly, call on, solicit, induce or attempt to induce any of the employees or officers of Lennox that Employee had knowledge of or association with during Employee’s employment with Lennox to terminate their association with Lennox either personally or through the efforts of his or her subordinates.

c. Restrictions on Diverting Vendors or Contractors. Employee agrees that during his or her employment with Lennox, and for a period of 24 complete calendar months following his or her termination of employment, Employee will not, either directly or indirectly, call on, solicit, or induce any of Lennox’ vendors or suppliers that Employee had contact with, direct knowledge of through his or her position with Lennox, or associated with in the course of employment with Lennox to terminate their association with Lennox either personally or through the efforts of his or her subordinates.

d. Restrictions on Soliciting Customers. For a period of 24 calendar months following the termination of employment, Employee will not directly or indirectly call on, service, or solicit competing business or provide consulting services regarding the same from customers of Lennox that Employee had (i) direct contact with or (ii) access to information and files about as part of Employee's duties with Lennox within the previous 24 months. This restriction is limited, by geography, to the specific places, addresses, or locations where a covered customer is present and available for solicitation or servicing.

A competing business is defined as a business that is the same or so substantially similar in nature to Lennox so as to have the possibility to affect or usurp Lennox' business opportunities.

e. Remedies. In the event of breach or threatened breach by Employee of any provision of Paragraph C.2 hereof, Lennox shall be entitled to (i) cease any payments under this Agreement as set forth in Section 4 of the body of the Agreement, (ii) relief by temporary restraining order, temporary injunction, and/or permanent injunction, (iii) recovery of all attorneys fees and costs incurred by Lennox in obtaining such relief, and (iv) any other legal and equitable relief to which it may be entitled, including any and all monetary damages. Lennox has the right to pursue partial enforcement and/or to seek declaratory relief regarding the enforceable scope of this Agreement without penalty and without waiving Lennox' right to pursue any other available remedy.

f. Survival of Covenants. Each covenant of Employee set forth in Paragraph C.2 shall survive the termination of Employee's employment. The existence of any claim or cause of action by Employee against Lennox, whether related to this Agreement or otherwise, shall not constitute a defense to the enforcement of the covenants in Paragraph C.2. In the event an enforcement remedy is necessary under Paragraph C.2, the restricted time periods provided for in Paragraph C.2 shall commence on the date enforcement is ordered and complied with by Employee and shall be extended by the period of noncompliance.

g. Acknowledgment of Ancillary Agreements and Consideration. Employee acknowledges that his or her agreement to be bound by the protective covenants set forth in Paragraph C.2 is the inducement for Lennox (i) to enter into the other terms of this Agreement (ii) to modify existing employment agreements or other contracts, if any, affected by this Agreement, (iii) to initiate or continue the employment of Employee pursuant to the terms of this Agreement, (iv) to provide Employee with initial or continued use or access to confidential proprietary information of Lennox, and (v) to provide the Employee with unique and specialized training regarding Lennox' Trade Secrets, business practices and marketing strategy, to provide use of goodwill as a representative of Lennox and to ensure business expertise in developing relations with third parties. Employee agrees that each agreement set forth in this Agreement is otherwise enforceable and independently sufficient to support all the protective covenants in Paragraph C.2.

D. Severability. If any provision contained in this Agreement is determined to be void, illegal or unenforceable, in whole or in part, then it will be treated as though it never was contained herein and all other provisions shall remain in full force and effect.

E. Notices. All communications required or allowed under this Agreement shall be in writing and shall be deemed to have been delivered on the date personally delivered or on the date deposited in the United States Postal Service, postage prepaid, by certified mail, return receipt requested, addressed to you at the address provided above and to Lennox at:

Lennox International Inc.
2140 Lake Park Blvd.
Richardson, Texas 75080-2254
Attn: Chief Legal Officer

EXHIBIT B

POLICY FOR RESOLUTION OF DISPUTES

A. Agreement to Arbitrate.

1. Arbitrable Disputes. This Policy covers any legal dispute between the parties, as set forth below, except for Lennox's right to seek enforcement of Employee's protective covenants set forth in Paragraph C.2 of Exhibit A or Employee's claims related to workers compensation and/or unemployment insurance. The disputes subject to this policy are all those disputes between the parties arising from any breach or alleged breach of this Agreement or as to Employee's termination or as to any allegation by the Employee that Lennox has violated any of the Employee's rights under state or federal employment or civil rights laws, or any other laws, statutes or constitutional provisions, including, but not limited to, the following: unlawful discrimination or harassment; claims based on any purported breach of contractual obligations; claims based on any purported breach of duty arising in tort, including violations of public policy; as well as any actions recognized under common law or the combination of any of these claims; and any claims against supervisors or agents of Lennox for which the supervisors or agents were acting in the course and scope of their employment or making any decisions or comments related to or connected with employment, even if the supervisor or agent was not acting within the course and scope of employment, shall be resolved in accordance with the provisions of this Policy for Resolution of Disputes as set forth herein. All arbitrable disputes are subject to applicable statutes of limitations and other affirmative defenses recognized by law. Employee or Lennox may seek a court order to enforce or compel arbitration pursuant to the terms of this Policy.

2. Acceptance of Policy. By accepting or continuing employment with Lennox, for the provision of a term of employment provided by Lennox, for Lennox' agreement to pay a severance package, and for Lennox' agreement to provide Employee access to confidential information, Employee and Lennox agree that arbitration is the exclusive remedy for all arbitrable disputes.

3. Governing Law/Waiver of Rights. THIS POLICY AND AGREEMENT TO ARBITRATE IS MADE PURSUANT TO THE FEDERAL ARBITRATION ACT AND APPLICABLE STATE LAWS REGARDING ARBITRATION AND IS A FULL AND COMPLETE WAIVER OF THE PARTIES' RIGHTS TO A CIVIL COURT ACTION AND RIGHTS TO A TRIAL BY JURY.

B. Request for Arbitration.

1. Attempt at Informal Resolution of Disputes.

a. Prior to submission of any dispute to arbitration, Lennox and the Employee shall attempt to resolve the dispute informally as set forth below.

b. Lennox and the Employee will select a mutually acceptable mediator from a list provided by an American Arbitration Association Employment Dispute Division or other similar agency who will assist the parties in attempting to reach a settlement of the dispute. The mediator may make settlement suggestions to the parties but shall not have the power to impose a settlement upon them. If the dispute is resolved in mediation, the matter shall be deemed closed. If the dispute is not resolved in mediation and goes to the next step (binding arbitration), any proposals or compromises suggested by either of the parties or the mediator shall not be referred to or have any bearing on the arbitration procedure. The mediator cannot also serve as the arbitrator in the subsequent proceeding unless all parties expressly agree in writing.

2. Arbitration Procedures. The Employee or his/her representative must submit a "Request for Arbitration" in writing to the Chief Executive Officer of Lennox within the greater of 300 days or the applicable statute of limitation that would apply if the claim had been brought in court of (i) the termination of employment (including resignation), (ii) the incident giving rise to the dispute or claim, or (iii) in the case of unlawful discrimination, including sexual or other unlawful harassment, the alleged conduct. This time limitation will not be extended for any reason and shall not be subject to tolling, equitable or otherwise. If the "Request for Arbitration" is not submitted in accordance with the aforementioned time limitations, the Employee will not be able to bring his/her claim to this or any other forum. The Employee can obtain a "Request for Arbitration" form from the Human Resource Department of Lennox International Inc. or other party designated by the Chief Executive Officer. Alternatively, the Employee can create his/her own "Request for Arbitration" form, as long as it clearly states "Request for Arbitration" at the beginning of the first page. The "Request for Arbitration" must include the following information:

a. A factual description of the dispute in sufficient detail to advise Lennox of the nature of the dispute;

b. The date when the dispute first arose;

c. The names, work locations, telephone numbers of any co-workers or supervisors with knowledge of the dispute; and

d. The relief requested by the Employee.

Lennox will respond in a timely manner to this "Request for Arbitration," so that the parties can begin the process of selecting an arbitrator. Such response may include any counterclaims that Lennox chooses to bring against the Employee.

3. Selection of the Arbitrator. All disputes will be resolved by a single arbitrator. The arbitrator will be mutually selected by Lennox and the Employee. If the parties cannot agree on an arbitrator, then a list of seven arbitrators, experienced in employment matters, shall be provided by the American Arbitration Association. The arbitrator will be selected by the parties who will alternately strike names from the list. The last name remaining on the list will be the arbitrator selected to resolve the dispute. Upon selection, the arbitrator shall set an appropriate time, date, and place for the arbitration, after conferring with the parties to the dispute.

4. Arbitrator's Authority. The arbitrator shall have the powers enumerated below:

a. Ruling on motions regarding discovery, and ruling on procedural and evidentiary issues arising during the arbitration;

b. Issuing protective orders on the motion of any party or third party witness (such protective orders may include, but not be limited to, sealing the record of the arbitration, in whole or in part (including discovery proceedings and motions, transcripts, and the decision and award), to protect the privacy or other constitutional or statutory rights of parties and/or witnesses);

c. Determining only the issue(s) submitted to him/her (the issue(s) must be identified in the "Request for Arbitration" or counterclaims, and any issue(s) not so identified in those documents shall be deemed to be and is/are outside the scope of the arbitrator's jurisdiction, and any award involving those issue(s) shall be subject to a motion to vacate);

d. Shall have no authority to violate state or federal law; and

e. Issuing written opinions on the issues raised in the Arbitration.

5. Pleadings.

a. A copy of the "Request for Arbitration" shall be forwarded to the arbitrator within five calendar days of his/her selection.

b. Within 10 calendar days following submission of the "Request for Arbitration" to the arbitrator, Lennox shall respond in writing to the

"Request for Arbitration" to the arbitrator, Lennox shall respond in writing to the "Request for Arbitration" by answer and/or demurrer. The answer or demurrer shall be served on the arbitrator and the Employee.

c. The answer to the "Request for Arbitration" shall include the following information:

(1) a response, by admission or denial, to each claim set forth in the "Request for Arbitration";

(2) all affirmative defenses asserted by Lennox to each claim; and

(3) all counterclaims Lennox asserts against the Employee and any related third party claims.

d. If Lennox contends that some or all of the Employee's claims set forth in the "Request for Arbitration" are barred as a matter of law, it may respond by demurrer setting forth the legal authorities in support of its position. If Lennox demurs to less than the entire "Request for Arbitration," Lennox must answer those claims to which it does not demur at the same time that it submits its demurrer.

e. The Employee shall have 20 calendar days to oppose Lennox' demurrer. Any opposition must be in writing and served on the arbitrator and Lennox.

f. If the answer alleges a counterclaim, within 20 days of service of the answer, the Employee shall answer and/or demur to the counterclaim in writing and serve the answer and/or demurrer on the arbitrator and Lennox. If the Employee demurs to any counterclaim, Lennox shall have 20 calendar days from its receipt of the demurrer to submit a written opposition to the demurrer to the Employee and the arbitrator.

g. The arbitrator shall rule on demurrer(s) to any claims and/or counterclaims within 15 calendar days of service of the moving and opposition papers.

h. If any demurrer is overruled, the moving party must answer those claims to which it demurred within five calendar days of the receipt of the arbitrator's ruling. The answer must be served on the arbitrator and the opposing party.

i. When all claims and counterclaims have been answered, the arbitrator shall set a time and place for hearing which shall be no earlier than three months from the day on which the parties are notified of the date of hearing and no later than 12 months from the date on which the arbitrator sets the date for the hearing.

6. Discovery. The discovery process shall proceed and be governed as follows:

a. Parties may obtain discovery by any of the following methods:

(1) depositions upon oral examination, one per side as of right, with more permitted if leave is obtained from the arbitrator;

(2) written interrogatories, up to a maximum combined total of 20, with the responding party having 20 days to respond;

(3) request for production of documents or things or permission to enter upon land or other property for inspection, with the responding party having 20 days to produce the documents and allow entry or to file objections to the request; and

(4) physical and mental examination, in accordance with the Federal Rules of Civil Procedure, Rule 35(a).

b. Any motion to compel production, answers to interrogatories or entry onto land or property must be made to the arbitrator within 15 days of receipt of objections.

c. All discovery requests shall be submitted no less than 60 days before the hearing date.

d. The scope of discoverable evidence shall be in accordance with Federal Rule of Civil Procedure 26(b)(1).

e. The arbitrator shall have the power to enforce the aforementioned discovery rights and obligations by the imposition of the same terms, conditions, consequences, liabilities, sanctions, and penalties as can or may be imposed in like circumstances in a civil action by a federal court under the Federal Rules of Civil Procedure, except the power to order the arrest or imprisonment of a person.

7. Hearing Procedure. The hearing shall proceed according to the American Arbitration Association's Rules with the following amendments:

a. The arbitrator shall rule at the outset of the arbitration on procedural issues that bear on whether the arbitration is allowed to proceed.

b. Each party has the burden of proving each element of its claim or counterclaims, and each party has the burden of proving any of its affirmative defenses.

c. In addition to, or in lieu of, closing arguments, either party shall have the right to present post-hearing briefs, and the due date for exchanging post-hearing briefs shall be mutually agreed on by the parties and the arbitrator.

8. Substantive Law. The applicable substantive law shall be the law of the State of Texas or federal law. If both federal and state law speak to a cause of action, the Employee shall have the right to elect his/her choice of law. However, choice of law in no way affects the procedural aspects of the arbitration, which are exclusively governed by the provisions of this Policy.

9. Opinion and Award. The arbitrator shall issue a written opinion and award, in conformance with the following requirements:

a. The opinion and award must be signed and dated by the arbitrator.

b. The arbitrator's opinion and award shall decide all issues submitted.

c. The arbitrator's opinion and award shall set forth the legal principles supporting each part of the opinion.

d. The arbitrator shall have the same authority to award remedies and damages as provided to a judge and/or jury under parallel circumstances.

10. Enforcement of Arbitrator's Award. Following the issuance of the arbitrator's decision, any party may petition a court to confirm, enforce, correct or vacate the arbitrator's opinion and award under the Federal Arbitration Act, and/or applicable state law.

11. Fees and Costs. Fees and costs shall be allocated in the following manner:

a. Each party shall be responsible for its own attorneys' fees, except as provided by law.

b. The Employee will pay a $150 filing fee to be paid to the arbitration agency. Lennox will bear the remainder of the arbitrator's fees and any costs associated with the facilities for the arbitration.

c. Lennox and the Employee shall each bear an equal one-half of any court reporters' fees, assuming both parties want a transcript of the proceeding. If one party elects not to receive a transcript of the proceedings, the other party will bear all of the court reporters' fee. However, such an election must be made when the arrangements for the court reporter are being made.

d. Each party shall be responsible for its costs associated with discovery.

C. Severability. In the event that any provision of this Policy is determined by a court of competent jurisdiction to be illegal, invalid, or unenforceable to any extent, such term or provision shall be enforced to the extent permissible under the law and all remaining terms and provisions of this Policy shall continue in full force and effect.

EXHIBIT C

SEVERANCE TERMS

1. Effect of Protective Covenants. The provisions of Paragraphs C2(a)-(d) of Exhibit A of this Agreement will continue in full force and effect regardless of whether Employee continues to be employed by Lennox and regardless of the reason Employee's employment is terminated and regardless of the severance compensation to which Employee is entitled as set forth below, if any.

2. Normal Severance Compensation. Should Employee be terminated by Lennox prior to the expiration of the term specified in Section 2 of the body of the Agreement or the Agreement is not renewed by Lennox for any reason other than for Cause as defined in Section B.3 of Exhibit A, and provided the Employee does not elect and qualify for the Enhanced Severance Payment described in Section 3 of Exhibit C set forth below, Employee will be entitled to receive monthly payments of the greater of the Employee's Monthly Base Salary for the remainder of the Agreement's term or three months of Employee's Monthly Base Salary in addition to any other compensation or benefits applicable to an employee at Employee's level to the extent the Employee would be eligible for such compensation or benefits under the terms of those formal programs which are applicable to all employees at Employee's level in effect at the time of termination and, for any benefits which continue after termination, subject to any modification which is made to such programs applicable to the all of the participants at such time.

3. Enhanced Severance Benefits. If Lennox terminates an Employee other than for Cause (including Lennox' non-renewal of the Agreement) and that Employee elects and meets the conditions of this Paragraph 3 of Exhibit C, Lennox agrees to pay an Enhanced Severance Payment and provide the other benefits described below ("Enhanced Severance Benefits"). The Employee must agree to execute a written General Release of any and all possible claims against Lennox existing at the time of termination in exchange for which Lennox agrees to the following severance provisions:

   (i) Severance Payment. Lennox agrees to pay Employee's Monthly Base Salary for a period of 12 months following the date of termination, if the termination occurs within the first three years of the Employee's employment or if it occurs thereafter, 24 months. In addition, Lennox agrees to pay to the Employee, within 45 days of termination, in a lump sum, the total of any short-term bonus payments actually paid to the Employee over the twelve (12) month period prior to the date of termination, if the termination occurs within the first three years of the Employee's employment or if it occurs thereafter, over the twenty four (24) month period. The severance payments will be paid in installments in accordance with the regular payroll policies of Lennox then in effect and each installment will be subject to regular payroll deductions and all applicable taxes.

(ii) Perquisites. Within 45 days following the date of termination, the Employee will receive in addition to (i) above, in a lump sum, a payment of a sum equal to 10% of the Employee's Annual Base Salary in effect at the time of termination in lieu of the continuation of or payment for any perquisites, including, without limitation, automobile, club membership, tax preparation, physical examination or others being received by the Employee at the time of termination.

(iii) COBRA Continuation. Lennox agrees to pay COBRA premiums to allow Employee to continue to participate in Lennox group health plan on the same terms as other Lennox employees for up to 18 months while Employee is unemployed and not eligible for other group health insurance coverage. Should Employee remain unemployed at the end of 18 months, the equivalent of the COBRA premium will be paid to the employee on a month-to-month basis for up to six additional months for his or her use in obtaining health insurance coverage outside the group health plan.

(iv) Outplacement. Lennox agrees to provide Employee with outplacement services in accordance with Lennox' then applicable policy. In lieu of such outplacement services, Lennox agrees to pay Employee a lump sum payment of 10% of Employee's Annual Base Salary within 45 days following the date of termination should Employee elect not to receive outplacement services.

(v) Death Benefit. Employee's beneficiary, as set forth in Exhibit D, will receive, in a lump sum, a death benefit equivalent to six months of Employee's Monthly Base Salary in the event that the Employee should die during the period in which the Employee is entitled to any severance payment described above.

Nothing herein shall be construed to limit Employee's right to receive any benefits and entitlements under Lennox' ERISA or other employee benefit plans, with all such benefits being received by the Employee only to the extent allowed by and subject to the terms of any such plan as it may from time to time exist or be modified. Further, this Agreement is not intended and the parties agree that it will not be interpreted as creating any obligation for Lennox to create or maintain any employee benefit, compensation, perquisite or other plan, policy or program for its employees and Lennox retains the sole discretion to eliminate or modify any existing plan, program or policy as it deems to be appropriate.

EXHIBIT D

DESIGNATION OF BENEFICIARY

The following represent the designation of Beneficiary for the Employee named below:

EMPLOYEE: __________

<u>Primary Beneficiary(s)</u>:

______________________ Name	______________________ Relationship	____________%* Percent
______________________ Name	______________________ Relationship	____________%* Percent

____

*The total should add to 100%

<u>Contingent Beneficiary(s)</u>:

______________________ Name	______________________ Relationship	____________%* Percent
______________________ Name	______________________ Relationship	____________%* Percent

____

*The total should add to 100%

This is to confirm the designation of my Beneficiary(s) to receive any benefits provided under this Agreement which are not otherwise covered by Employee benefit plans with other designations of beneficiary which I intend to supersede any designation made above.

EMPLOYEE

____
Signature

____
Printed Name

____
Date

Exhibit 10.31

CHANGE OF CONTROL EMPLOYMENT AGREEMENT

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CHANGE OF CONTROL EMPLOYMENT AGREEMENT

This CHANGE OF CONTROL EMPLOYMENT AGREEMENT (the "Agreement") by and between Lennox International Inc., a Delaware corporation (the "Company"), and __________ (the "Executive"), dated as of the __________ day of __________, 200__________, to be effective as of the Agreement Effective Date (as defined in Section 11(h) hereof).

The Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to assure that, in the event of a Change of Control or Potential Change of Control (in each case as defined in Section 9 hereof), the Company will have the continued services of the Executive and the Executive will be provided with compensation and benefits arrangements that meet his expectations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement. It is understood that the Executive has an existing employment agreement (the "Existing Agreement") with the Company. This Agreement is intended to provide certain protections to Executive that are not afforded by the Existing Agreement. This Agreement is not, however, intended to provide benefits that are duplicative of the Executive's current benefits. To the extent that this Agreement provides benefits of the same types as those provided under the Existing Agreement, the Company shall provide the better of the benefits in each case during the Employment Period. If Executive remains employed by the Company at the conclusion of an Employment Period, the Existing Agreement shall continue in effect in accordance with its terms thereafter, except that Executive's Base Salary for purposes of the Existing Agreement shall be equal to the Executive's Annual Base Salary under this Agreement at the conclusion of the Employment Period.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Employment Period. Upon a Change of Control or Potential Change of Control, the Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, in accordance with, and subject to, the terms and provisions of this Agreement, for the period (the "Employment Period") commencing on the date upon which there occurs a Change of Control or a Potential Change of Control and ending on (i) if a Change of Control has occurred, the second anniversary of the Employment Effective Date or (ii) if a Potential Change of Control has occurred but a Change of Control has not occurred, the earliest of (x) the date upon which the Board determines in good faith that a Change of Control is unlikely to occur, (y) any anniversary of the Potential Change of Control, if at least 30 days prior to such anniversary the Executive notifies the Company in writing that he elects to terminate his employment with the Company as of such anniversary and (z) the second anniversary of the Employment Effective Date. If the Employment Period commences by reason of a Potential Change of Control and the Employment Period is thereafter terminated pursuant to clause (ii) (x) of the preceding sentence, this Agreement shall nevertheless remain in effect and a new Employment Period shall commence upon a subsequent Change of Control or Potential Change of Control. The Company shall promptly notify the Executive in writing of the occurrence of a Change of Control or Potential Change of Control and of any determination

made by the Board pursuant to clause (ii)(x) above that a Change of Control is unlikely to occur. As used herein, the term "Employment Effective Date" shall mean, with respect to any Employment Period, the date upon which such Employment Period commences in accordance with this Section 1.

2. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately preceding the Employment Effective Date, and (B) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Employment Effective Date or at another location within 35 miles thereof.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Employment Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Employment Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive an annual base salary equal to the base salary in effect immediately prior to the Employment Effective Date or, if more favorable to the Executive, the base salary in effect at any time after the Employment Effective Date ("Annual Base Salary"), which shall be paid in accordance with the normal business practice of the Company. During the Employment Period, the Annual Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be substantially consistent with increases in base salary generally awarded in the ordinary course of business to executives of the Company and its affiliated companies. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase and the term "Annual Base Salary" as utilized in this Agreement shall refer to Annual Base Salary as so increased. As used in this Agreement, the term "affiliated companies" shall include, when used with reference to the Company, any company controlled by, controlling or under common control with the Company.

(ii) Annual Bonus. In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year or portion thereof during the Employment Period, an annual bonus (the "Annual Bonus") in cash equal to the greater of (A) the greatest dollar amount of annual bonus paid or awarded to or for the benefit of the Executive in respect of any of the preceding three fiscal years or (B) an amount comparable to the annual bonus awarded to other Company executives taking into account Executive's position and responsibilities with the Company, prorated in the case of either (A) or (B) for any period consisting of less than twelve full months. The Annual Bonus awarded for a particular fiscal year shall (unless the Executive elects to defer receipt thereof) be paid no later than the last day of the third month after the end of such year.

(iii) Qualified Plans. During the Employment Period, the Executive shall be entitled to participate in all profit-sharing, savings and retirement plans that are tax-qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended ("Code"), and all plans that are supplemental to any such tax-qualified plans, in each case to the extent that such plans are applicable generally to other executives of the Company and its affiliated companies, but in no event shall such plans provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities that are, in each case, less favorable, in the aggregate, than the most favorable plans of the Company and its affiliated companies. As used in this Agreement, the term "most favorable" shall, when used with reference to any plans, practices, policies or programs of the Company and its affiliated companies, be deemed to refer to the most favorable plans, practices, policies or programs of the Company and its affiliated companies as in effect at any time during the three months preceding the Employment Effective Date or, if more favorable to the Executive, provided generally at any time after the Employment Effective Date to other executives of the Company and its affiliated companies.

(iv) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, vision, disability, salary continuance, group life and supplemental group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable such plans, practices, policies and programs of the Company and its affiliated companies.

(v) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies.

(vi) Fringe Benefits and Perquisites. During the Employment Period, the Executive shall be entitled to fringe benefits and perquisites in accordance with the most favorable plans, practices, programs and policies of the Company and its affiliated companies applicable to similarly situated executives, which, in the aggregate, shall not be less than Executive's benefits and perquisites in effect prior to the commencement of the Employment Period or, if more favorable to the Executive, the benefits and perquisites in effect at any time after the Employment Effective Date .

(vii) Office and Support Staff. During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the three months preceding the Employment Effective Date.

(viii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies, but not less than the amount of vacation time to which Executive was entitled prior to the commencement of the Employment Period.

(ix) Equity and Performance Based Awards. During the Employment Period, the Executive shall be granted on an annual basis a long-term incentive package consisting of stock options, restricted stock or restricted stock units and other equity-based awards and performance grants, as selected by the Company, with an aggregate value (as determined by an independent consulting firm selected by Executive and reasonably acceptable to the Company) that shall be not less than the aggregate value of the long-term incentive package awarded the Executive in any of the three years immediately preceding such Employment Period.

3. Termination of Employment.

(a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 11(d) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be withheld unreasonably).

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean (i) dishonesty by Executive which results in substantial personal enrichment at the expense of the Company or (ii) demonstratively willful repeated violations of Executive's obligations under this Agreement which are intended to result and do result in material injury to the Company.

(c) Good Reason; Window Period. The Executive's employment may be terminated during the Employment Period by the Executive for Good Reason or during a Window Period by the Executive without any reason. For purposes of this Agreement, "Window Period" shall mean the 90-day period commencing 366 days after any Change of Control as defined in Section 9 of this Agreement. For purposes of this Agreement, "Good Reason" shall mean:

(i) any change in the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 2 of this Agreement, excluding for this purpose any de minimus changes and excluding an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive, or any other assignment to the Executive of any duties inconsistent in any respect with such position, authority, duties or responsibilities, other than de minimus inconsistencies or other than, in each case, any such change in duties or such assignment that would clearly constitute a promotion or other improvement in Executive's position;

(ii) any failure by the Company to comply with any of the provisions of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 2(a)(i)(B) hereof;

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement;

(v) any failure by the Company to comply with and satisfy the requirements of Section 10 of this Agreement, provided that (A) the successor described in Section 10(c) has received, at least ten days prior to the Date of Termination (as defined in subparagraph (e) below), written notice from the Company or the Executive of the requirements of such provision and (B) such failure to be in compliance and satisfy the requirements of Section 10 shall continue as of the Date of Termination; or

(vi) in the event that the Executive is serving as a member of the Board immediately prior to the Employment Effective Date, any failure to reelect Executive as a member of the Board, unless such reelection would be prohibited by the Company's By-laws as in effect at the beginning of the Employment Period.

(d) Notice of Termination. Any termination by the Company for Cause, or by the Executive for Good Reason or without any reason during a Window Period, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 11(d) of this Agreement. The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination. For purposes of this Agreement, the term "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive during a Window Period or for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

4. Obligations of the Company Upon Termination.

(a) Good Reason or During a Window Period; Other than for Cause, Death or Disability. If, during the Employment Period, the Company shall terminate the

Executive's employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason or his employment shall be terminated for any reason during a Window Period:

(i) the Company shall pay or provide to or in respect of the Executive the following amounts and benefits:

A. in a lump sum in cash, undiscounted, within 10 days after the Date of Termination, an amount equal to the sum of (1) the Executive's Annual Base Salary through the Date of Termination, (2) the product of (x) the highest Annual Bonus paid or awarded to or for the benefit of Executive during the three fiscal years preceding the Date of Termination and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination and the denominator of which is 365, (3) any deferred compensation previously awarded to or earned by the Executive (together with any accrued interest or earnings thereon) and (4) any compensation for unused vacation time for which the Executive is eligible in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2), (3) and (4) shall be hereinafter referred to as the "Accrued Obligation");

B. in a lump sum in cash, undiscounted, within 10 days after the Date of Termination, an amount equal to the sum of (1) one and one-half times the Annual Base Salary, if the Date of Termination occurs before the third anniversary of Executive's employment with the Company or, if thereafter, three times the Annual Base Salary and (2) one and one-half times the highest Annual Bonus paid or awarded to or for the benefit of the Executive, if the Date of Termination occurs before the third anniversary of Executive's employment with the Company or, if thereafter, three times the highest Annual Bonus paid or awarded to or for the benefit of the Executive during the three fiscal years preceding the Date of Termination;

C. an additional one and one-half Years of Vesting Service and Years of Credited Service, if the Date of Termination occurs before the third anniversary of Executive's employment with the Company or, if thereafter, an additional three Years of Vesting Service and Years of Credited Service, as well as an incremental one and one-half years added to the Executive's age, if the Date of Termination occurs before the third anniversary of Executive's employment with the Company or, if thereafter, three years added to Executive's age, for purposes of the Company's Supplemental Retirement Plan and Profit Sharing Restoration Plan;

D. in a lump sum in cash, undiscounted, within 10 days after the Date of Termination, an amount equal to the sum of (1) one and one-half times the Annual Base Salary, if the Date of Termination occurs before the third anniversary of Executive's employment with the Company or, if thereafter, three times the Annual Base Salary and (2) one and one-half times the highest Annual Bonus paid or awarded to or for the benefit of the Executive, if the Date of Termination occurs before the third anniversary of Executive's employment with the Company or, if thereafter, three times the highest Annual Bonus paid or awarded to or for the benefit of the Executive during the three fiscal years preceding the Date of Termination (the amounts in this clause D. to reflect the equity component of Executive's overall compensation);

E. in a lump sum in cash, undiscounted, within 10 days after the Date of Termination, an amount equal to the sum of (1) 15% of the Annual Base Salary (this amount being paid in lieu of the provision of out placement services) and (2) three times 15% of the Annual Base Salary that would have been paid or awarded to or for the benefit of the Executive during the fiscal year that includes the Date of Termination (this amount to reflect the perquisites component of Executive's overall compensation);

F. effective as of the Date of Termination, (x) immediate vesting and exercisability of, termination of any restrictions on sale or transfer (other than any such restriction arising by operation of law) with respect to and treatment of any performance goals as having been satisfied at the highest possible level with respect to each and every stock option, restricted stock award, restricted stock unit award and other equity-based award and performance award (each, a "Compensatory Award") that is outstanding as of a time immediately prior to the Date of Termination, (y) the extension of the term during which each and every Compensatory Award may be exercised by the Executive until the earlier of (1) the third anniversary of the Date of Termination or (2) the date upon which the right to exercise any Compensatory Award would have expired if the Executive had continued to be employed by the Company under the terms of this Agreement until the second anniversary of the Employment Effective Date and (z) at the sole election of Executive, in exchange for any or all Compensatory Awards that are either denominated in or payable in Common Stock, an amount in cash equal to the number of shares of Common Stock that are subject to the Compensatory Award multiplied by the excess of (i) the Highest Price Per Share (as defined below) over (ii) the exercise or purchase price, if any, of such Compensatory Awards. As used herein, the term "Highest Price Per Share" shall mean the highest price per share that can be determined to have been paid or agreed to be paid for any share of Common Stock by a Covered Person (as defined below) at any time during the Employment Period or the six-month period immediately preceding the Employment Effective Date. As used herein, the term “Covered Person” shall mean any Person other than an Exempt Person (in each case as defined in Section 9 hereof) who (i) is the Beneficial Owner (as defined in Section 9 hereof) of 35% or more of the outstanding shares of Common Stock or 35% or more of the combined voting power of the outstanding Voting Stock (as defined in Section 9 hereof) of the Company at any time during the Employment Period or the two-year period immediately prior to the Employment Effective Date, or (ii) is a Person who has any material involvement in proposing or effecting the Change of Control or Potential Change of Control (but excluding any Person whose involvement in proposing or effecting the Change of Control or Potential Change of Control resulted solely from such Person’s voting or selling of Common Stock in connection with the Change of Control or Potential Change of Control, from such Person’s status as a director or officer of the Company in evaluating and/or approving a Change of Control or Potential Change of Control or both). In determining the Highest Price Per Share, the price paid or agreed to be paid by a Covered Person will be appropriately adjusted to take into account (W) distributions paid or payable in stock, (X) subdivisions of outstanding stock, (Y) combinations of shares of stock into a smaller number of shares and (Z) similar events.

(ii) for the eighteen month period, if the Date of Termination occurs before the third anniversary of Executive’s employment with the Company or, if thereafter, three-year period commencing with the Date of Termination, and in the case of medical and health benefits for the COBRA continuation period commencing thereafter, the Company shall continue medical and health benefits and group life and supplemental group life benefits to the Executive and/or the Executive’s family at least equal to those that would have been provided to them in accordance with the plans, programs, practices and policies described in Section 2(b)(iv) of this Agreement if the Executive’s employment had not been terminated (such continuation of such benefits for the applicable period herein set forth shall be hereinafter referred to as “Welfare Benefit Continuation”). For purposes of determining eligibility of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until the second anniversary, if the Date of Termination occurs before the third anniversary of Executive’s employment with the Company or, if thereafter, third anniversary of Executive’s Date of Termination and to have retired on such date; and

(iii) the Company shall timely pay or provide to the Executive and/or the Executive’s family any other amounts or benefits required to be paid or provided or which the Executive and/or the Executive’s family is eligible to receive pursuant to this Agreement and under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies as in effect and applicable generally to other executives and their families on the

Employment Effective Date (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(b) Death. If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, and other than during a Window Period in which event the provisions of Section 4(a) shall govern and the Executive shall be entitled to the amounts and benefits set forth therein, this Agreement shall terminate and the Company shall be obligated to pay to the Executive's legal representatives under this Agreement the greater of (i) such benefits as would be provided to Executive under the Existing Agreement or (ii)(A) the payment of the Accrued Obligations (which shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination), (B) the payment of an amount equal to the Annual Salary that would have been paid to the Executive pursuant to this Agreement for the period beginning on the Date of Termination and ending on the first anniversary thereof if the Executive's employment had not terminated by reason of death (which shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination), (C) the timely payment or provision of the Welfare Benefit Continuation and Other Benefits and (D) effective as of the Date of Termination, (x) immediate vesting and exercisability of, and termination of any restrictions on sale or transfer (other than any such restriction arising by operation of law) with respect to, each and every Compensatory Award outstanding as of a time immediately prior to the Date of Termination, (y) the extension of the term during which each and every Compensatory Award may be exercised or purchased by the Executive until the earlier of (I) the second anniversary, if the Date of Termination occurs before the third anniversary of Executive's employment with the Company or, if thereafter, third anniversary of the Date of Termination or (II) the date upon which the right to exercise or purchase any Compensatory Award would have expired if the Executive had continued to be employed by the Company under the terms of this Agreement until the second anniversary of the Employment Effective Date and (z) at the sole election of Executive's legal representative, in exchange for any Compensatory Award that is either denominated in or payable in Common Stock, an amount in cash equal to the excess of (I) the Highest Price Per Share over (II) the exercise or purchase price, if any, of such Compensatory Award.

(c) Disability. If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, and other than during a Window Period in which event the provisions of Section 4(a) shall govern and the Executive shall be entitled to the amounts and benefits set forth therein, this Agreement shall terminate and the Company shall be obligated to pay to the Executive, the greater of (i) such benefits as would be provided to Executive under the Existing Agreement or (ii)(A) the payment of the Accrued Obligations (which shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination), (B) the payment of an amount equal to the Annual Salary that would have been paid to the Executive pursuant to this Agreement for the period beginning on the Date of Termination and ending on the first anniversary thereof if the Executive's employment had not terminated by reason of Disability (which shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination), (C) the timely payment or provision of the Welfare Benefit

Continuation and Other Benefits and (D) effective as of the Date of Termination, (x) immediate vesting and exercisability of, and termination of any restrictions on sale or transfer (other than any such restriction arising by operation of law) with respect to, each and every Compensatory Award outstanding as of a time immediately prior to the Date of Termination, (y) the extension of the term during which each and every Compensatory Award may be exercised or purchased by the Executive until the earlier of (I) the third anniversary of the Date of Termination or (II) the date upon which the right to exercise or purchase any Compensatory Award would have expired if the Executive had continued to be employed by the Company under the terms of this Agreement until the second anniversary of the Employment Effective Date and (z) at the sole election of Executive, in exchange for any Compensatory Award that is either denominated in or payable in Common Stock, an amount in cash equal to the excess of (I) the Highest Price Per Share over (II) the exercise or purchase price, if any, of such Compensatory Award.

(d) Cause; Other than for Good Reason or During a Window Period . If the Executive's employment shall be terminated for Cause during the Employment Period, and other than during a Window Period in which event the provisions of Section 4(a) shall govern and the Executive shall be entitled to the amounts and benefits set forth therein, this Agreement shall terminate without further obligations under this Agreement to the Executive other than for Accrued Obligations. If the Executive terminates employment during the Employment Period other than for Good Reason and other than during a Window Period, this Agreement shall terminate without further obligations to the Executive, other than for the payment of Accrued Obligations. In such case, all Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

5. Non-exclusivity of Rights. Except as provided in Section 4 of this Agreement, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as such plan, policy, practice or program is expressly superseded by this Agreement.

6. Full Settlement; Resolution of Disputes.

(a) The Company's obligation to make payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense, mitigation or other claim, right or action which the Company may have against the Executive or others. The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (unless the

Executive's claim is found by a court of competent jurisdiction to have been frivolous) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement (other than Section 8 hereof) or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any such payment pursuant to this Agreement), plus in each case interest on any delayed payment at the Applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

(b) If there shall be any dispute between the Company and the Executive concerning (i) in the event of any termination of the Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by the Executive, whether Good Reason existed or whether such termination occurred during a Window Period, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or that the determination by the Executive of the existence of Good Reason was not made in good faith or that the termination by the Executive did not occur during a Window Period, the Company shall pay all amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to Section 4(a) hereof as though such termination were by the Company without Cause or by the Executive with Good Reason or during a Window Period; provided, however, that the Company shall not be required to pay any disputed amounts pursuant to this paragraph except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled; provided further that such undertaking need not be secured, whether by bond or otherwise.

7. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 7) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 7(c), all determinations required to be made under this Section 7, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the Company's independent accounting firm (the "Accounting Firm"); provided, however, that the Accounting Firm shall not determine that no Excise Tax is payable by the Executive unless it delivers to the Executive a written opinion (the "Accounting Opinion") that failure to report the Excise Tax on the Executive's applicable Federal income tax return would not result in the imposition of a negligence or similar penalty. In the event that the Accounting Firm has served, at any time during the two years immediately preceding a Change of Control Date, as accountant or auditor for the individual, entity or group that is involved in effecting or has any material interest in the Change of Control, the Executive, at his option, shall appoint another nationally recognized accounting firm to make the determinations and perform the other functions specified in this Section 7 (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company, the Accounting Firm shall make all determinations required under this Section 7, shall provide to the Company and the Executive a written report setting forth such determinations, together with detailed supporting calculations, and, if the Accounting Firm determines that no Excise Tax is payable, shall deliver the Accounting Opinion to the Executive. Any Gross-Up Payment, as determined pursuant to this Section 7, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Subject to the remainder of this Section 7, any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that a Gross-Up Payment that will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that it is ultimately determined in accordance with the procedures set forth in Section 7(c) that the Executive is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claims by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but not later than 30 days after the Executive actually receives notice in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid; provided, however, that the failure of the Executive to notify the Company of such claim (or to provide any required information with respect thereto) shall not affect any rights granted to the Executive under this Section 7 except to the extent that the Company is materially prejudiced in the defense of such claim as a direct result of such failure. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company and reasonably acceptable to the Executive;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) if the Company elects not to assume and control the defense of such claim, permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 7(c), the Company shall have the right, at its sole option, to assume the defense of and control all proceedings in connection with such contest, in which case it may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's right to assume the defense of and control the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 7(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

8. Confidential Information; Certain Prohibited Activities.

(a) The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After the Executive's Date of Termination, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. Except as provided in subsection (c) below, in no event shall an asserted violation of the provisions of this Section 8 constitute a basis for deferring or withholding any amounts otherwise payable to Executive under this Agreement. Also, within 14 days of the termination of Executive's employment for any reason, Executive shall return to the Company all documents and other tangible items of or containing Company information which are in Executive's possession, custody or control.

(b) Executive agrees that for a period of 24 complete calendar months following his Date of Termination, Executive will not, either directly or indirectly, call on, solicit, induce or attempt to induce any of the employees or officers of the Company whom Executive had knowledge of or association with during Executive's employment with the Company to terminate their association with the Company either personally or through the efforts of his or her subordinates.

(c) In the event of a breach by Executive of any provision of this Section 8, the Company shall be entitled to (i) cease any Welfare Benefit Contribution entitlement provided pursuant to Section 4(a)(ii) hereof, (ii) relief by temporary restraining order, temporary injunction and/or permanent injunction, (iii) recovery of all attorneys' fees and costs incurred in obtaining such relief and (iv) any other legal and equitable relief to which it may be entitled, including monetary damages.

9. Change of Control; Potential Change of Control.

(a) As used in this Agreement, the terms set forth below shall have the following respective meanings:

"Beneficial Owner" shall mean, with reference to any securities, any Person if:

(i) such Person is the "beneficial owner" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act, as in effect on the date of this Agreement) such securities; provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," any security under this subsection (i) as a result of an agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding: (x) arises solely from a revocable proxy or consent given in response to a public (i.e., not including a solicitation exempted by Rule 14a-2(b)(2) of the General Rules and Regulations under the Exchange Act) proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act and (y) is not then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(ii) such Person is a member of a group (as that term is used in Rule 13d-5(b) of the General Rules and Regulations under the Exchange Act) that includes any other Person (other than Exempt Persons) that beneficially owns such securities;

provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own" any security held by a Norris Family Trust with respect to which such Person acts in the capacity of trustee, personal representative, custodian, administrator, executor, officer, partner, member, or other fiduciary; provided, further, that nothing in this definition shall cause a Person engaged in business as an underwriter of securities to be the Beneficial Owner of, or to "beneficially own," any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition. For purposes hereof, "voting" a security shall include voting, granting a proxy, consenting or making a request or demand relating to corporate action (including, without limitation, a demand for a stockholder list, to call a stockholder meeting or to inspect corporate books and records) or otherwise giving an authorization (within the meaning of Section 14(a) of the Exchange Act) in respect of such security.

The terms "beneficially own" and "beneficially owning" shall have meanings that are correlative to this definition of the term "Beneficial Owner."

"Change of Control" shall mean any of the following occurring on or after the Agreement Effective Date:

(i) Any Person (other than an Exempt Person) shall become the Beneficial Owner of 35% or more of the shares of Common Stock then outstanding or 35% or more of the combined voting power of the Voting Stock of the Company then outstanding; provided, however, that no Change of Control shall be deemed to occur for purposes of this subsection (i) if such Person shall become a Beneficial Owner of 35% or more of the shares of Common Stock or 35% or more of the combined voting power of the Voting Stock of the Company solely as a result of (x) an Exempt Transaction or (y) an acquisition by a Person pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (x), (y) and (z) of subsection (iii) of this definition are satisfied;

(ii) Individuals who, as of the Agreement Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Agreement Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board; provided, further, that there shall be excluded, for this purpose, any such individual whose initial assumption of office occurs as a result of any actual or threatened election contest that is subject to the provisions of Rule 14a-11 under the Exchange Act;

(iii) Approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (x) more than 65% of the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding Voting Stock of such corporation is beneficially owned, directly or indirectly, by all or substantially all of the Persons who were the Beneficial Owners of the outstanding Common Stock immediately prior to such reorganization, merger or consolidation (ignoring, for purposes of this clause (x), the first proviso in the definition of "Beneficial Owner" set forth in Section 9(a)) in substantially the same proportions as their ownership immediately prior to such reorganization, merger or consolidation of the outstanding Common Stock, (y) no Person (excluding any Exempt Person or any Person beneficially owning, immediately prior to such reorganization, merger or consolidation, directly or indirectly, 35% or more of the Common Stock then outstanding or 35% or more of the combined voting power of the Voting Stock of the Company then outstanding) beneficially owns, directly or indirectly, 35% or more of the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding Voting Stock of such corporation and (z) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement or initial action by the Board providing for such reorganization, merger or consolidation; or

(iv) Approval by the shareholders of the Company of (x) a complete liquidation or dissolution of the Company, unless such liquidation or dissolution is approved as part of a plan of liquidation and dissolution involving a sale or disposition of all or substantially all of the assets of the Company to a corporation with respect to which, following such sale or other disposition, all of the requirements of clauses (y)(A), (B) and (C) of this subsection (iv) are satisfied, or (y) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which, following such sale or other disposition, (A) more than 65% of the then outstanding shares of common stock of such corporation and the combined voting power of the Voting Stock of such corporation is then beneficially owned, directly or indirectly, by all or substantially all of the Persons who were the Beneficial Owners of the outstanding Common Stock immediately prior to such sale or other disposition (ignoring, for purposes of this clause (y)(A), the first proviso in the definition of "Beneficial Owner" set forth in Section 9(a)) in substantially the same proportions as their ownership, immediately prior to such sale or other disposition, of the outstanding Common Stock, (B) no Person (excluding any Exempt Person and any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 35% or more of the Common Stock then outstanding or 35% or more of the combined voting power of the Voting Stock of the Company then outstanding) beneficially owns, directly or indirectly, 35% or more of the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding Voting Stock of such corporation and (C) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or initial action of the Board providing for such sale or other disposition of assets of the Company.

"Common Stock" shall mean the common stock, par value $.01 per share, of the Company, and shall include, for purposes of Section 4 hereof, stock of any successor, within the meaning of Section 10(c).

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Exempt Person" shall mean (i) the Company, any subsidiary of the Company, any employee benefit plan of the Company or any subsidiary of the Company, and any Person organized, appointed or established by the Company for or pursuant to the terms of any such plan, (ii) any Person who is shown under the caption "Principal and Selling Stockholders" in the Company's final prospectus dated July 28, 1999 relating to its initial public offering of the Common Stock as beneficially owning (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act, as in effect on the date of this Agreement) one percent or more of the Common Stock and (iii) any lineal descendant and any spouse of any such lineal descendant of D.W. Norris, but only if such lineal descendant and any spouse of any such lineal descendant shall not at any time hold shares of Common Stock or Voting Stock of the Company with the primary purpose of effecting with respect to the Company (A) an extraordinary corporate transaction, such as a merger, reorganization or liquidation, (B) a sale or transfer of a material amount of assets, (C) any material change in the capitalization, (D) any other material change in the business or corporate structure or operations, (E) changes in the corporate charter or bylaws or (F) a change in the composition of the Board or of the members of senior management.

"Exempt Transaction" shall mean an increase in the percentage of the outstanding shares of Common Stock or the percentage of the combined voting power of the outstanding Voting Stock of the Company beneficially owned by any Person solely as a result of a reduction in the number of shares of Common Stock then outstanding due to the repurchase of Common Stock by the Company, unless and until such time as such Person shall purchase or otherwise become the Beneficial Owner of additional shares of Common Stock constituting 3% or more of the then outstanding shares of Common Stock or additional Voting Stock representing 3% or more of the combined voting power of the then outstanding Voting Stock.

"Norris Family Trust" shall mean any trust, estate, custodianship, other fiduciary arrangement, corporation, limited partnership, limited liability company or other business entity (collectively, a "Family Entity") formed, owned, held, or existing primarily for the benefit of the lineal descendants of D.W. Norris and any spouses of such lineal descendants, but only if such Family Entity shall not at any time hold Common Stock or Voting Stock of the Company with the primary purpose of effecting with respect to the Company (i) an extraordinary corporate transaction, such as a merger, reorganization or liquidation (ii) a sale or transfer of a material amount of assets, (iii) any material change in capitalization, (iv) any other material change in business or corporate structure or operations, (v) changes in corporate charter or bylaws, or (vi) a change in the composition of the Board or of the members of senior management.

"Person" shall mean any individual, firm, corporation, partnership, association, trust, unincorporated organization or other entity.

"Potential Change of Control" shall mean any of the following:

(i) a tender offer or exchange offer is commenced by any Person which, if consummated, would constitute a Change of Control;

(ii) an agreement is entered into by the Company providing for a transaction which, if consummated, would constitute a Change of Control;

(iii) any election contest is commenced that is subject to the provisions of Rule 14a-11 under the Exchange Act; or

(iv) any proposal is made, or any other event or transaction occurs or is continuing, which the Board determines, if consummated, would result in a Change of Control.

"Voting Stock" shall mean, with respect to a corporation, all securities of such corporation of any class or series that are entitled to vote generally in the election of directors of such corporation (excluding any class or series that would be entitled so to vote by reason of the occurrence of any contingency, so long as such contingency has not occurred).

(a) In the event that the Company is a party to a transaction that is otherwise intended to qualify for "pooling of interests" accounting treatment, such transaction constitutes a Change of Control within the meaning of this Agreement and individuals who satisfy the requirements in clauses (i) and (ii) below constitute at least 51% of the number of directors of the entity surviving such transaction or any parent thereof: individuals who (i) immediately prior to such transaction constituted the Board and (ii) on the date hereof constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of at least 51% of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended, then this Section 9 and other Agreement provisions concerning a Change of Control shall, to the extent practicable, be interpreted so as to permit such accounting treatment, and to the extent that the application of this sentence does not preserve the availability of such accounting treatment, then, to the extent that any provision or combination of provisions of this Section 9 and other Agreement provisions concerning a Change of Control disqualifies the transaction as a "pooling" transaction (including, if applicable, all provisions of the Agreement relating to a Change of Control), the Board shall amend such provision or provisions if and to the extent necessary (including declaring such provision or provisions to be null and void as of the date hereof, which declaration shall be binding on Executive) so that such transaction may be accounted for as a "pooling of interests." All determinations with respect to this paragraph shall be made by the Company, based upon the advice of the accounting firm whose opinion with respect to "pooling of interests" is required as a condition to the consummation of such transaction.

10. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's heirs, executors and other legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and may only be assigned to a successor described in Section 10(c).

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

11. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws that would require the application of the laws of any other state or jurisdiction.

(b) The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

(c) This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and heirs, executors and other legal representatives.

(d) All notices and other communications hereunder shall be in writing and shall be given, if by the Executive to the Company, by telecopy or facsimile transmission at the telecommunications number set forth below and, if by either the Company or the Executive, either by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

[Name]
[Address]
[Address]

If to the Company:

Lennox International Inc.
2140 Lake Park Blvd.
Richardson, Texas 75080-2254
Telecommunications Number: (972) 497-6660
Attention: Chief Legal Officer

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(e) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(f) The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(g) The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason or during a Window Period pursuant to Section 3(c) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(h) This Agreement shall become effective as of __________, 200__________ (the "Agreement Effective Date ").

IN WITNESS WHEREOF, the Executive has hereunto set his hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

LENNOX INTERNATIONAL INC.

By: ______________________
Name: ______________________
Title: ______________________

EXECUTIVE

____
[Name]

EXHIBIT 21.1

Lennox International Inc. Subsidiaries
as of December 31, 2006

Name	Ownership	Jurisdiction of Inc.
Lennox Industries Inc.	100%	Iowa
SEE ANNEX A		
Heatcraft Inc	100%	Mississippi
Bohn de Mexico S.A. de C.V.	50%	Mexico
Frigus-Bohn S.A. de C.V.	50%	Mexico
Lennox Participacoes Ltda.	1%	Brazil
Frigo-Bohn do Brasil Ltda.	99%	Brazil
Heatcraft do Brasil Ltda.	100%	Brazil
Advanced Distributor Products LLC	100%	Delaware
Heatcraft Refrigeration Products LLC	100%	Delaware
Advanced Heat Transfer LLC	50%	Delaware
LPAC Corp.	5%	Delaware
Heatcraft Technologies Inc.	100%	Delaware
Alliance Compressor LLC	24.5%	Delaware
LPAC Corp.	80%	Delaware
Allied Air Enterprises Inc.	100%	Delaware
JKS Co.	100%	Nebraska
Armstrong Distributors Inc.	100%	Delaware
LPAC Corp.	5%	Delaware
Service Experts Inc.	100%	Delaware
SEE ANNEX B		
Service Experts Alliance LLC	100%	Delaware
SEE ANNEX C		
GM Development Center LLC	100%	Delaware
Lennox Inc.	100%	Canada
Lennox Global Ltd.	100%	Delaware
SEE ANNEX E		
Lennox Procurement Company Inc.	100%	Delaware
Lake Park Insurance, Ltd.	100%	Bermuda

ANNEX A
TO
EXHIBIT 21.1

Lennox Industries Inc. Subsidiaries

Name	Ownership	Jurisdiction of Inc.
Lennox Industries (Canada) Ltd.	100%	Canada
Lennox Canada Inc.	100%	Canada
SEE ANNEX D		
LHP Holdings Inc.	100%	Delaware
Lennox Hearth Products Inc.	100%	California
Marcomp Inc.	100%	California
Cheminées Sécurité International Ltée	100%	Canada
Security Chimneys International USA Ltd.	100%	Delaware
Products Acceptance Corporation	100%	Iowa
Lennox Manufacturing Inc.	100%	Delaware
LPAC Corp.	10%	Delaware
Lennox Finance (US) Inc.	100%	Delaware

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., unless otherwise noted:

A. Frank Woods and Sons LLC — Virginia
AC/DAC, LLC — Tennessee
Air Experts LLC — Georgia
Air Experts LLC — Ohio
Aire-Tech LLC — Ohio
Allbritten Plumbing, Heating and Air Conditioning Service, Inc. — Tennessee
Andros Refrigeration LLC — Arizona
Arrow Heating & Air Conditioning, Inc. — Wisconsin
Artic Aire of Chico, Inc. — California
Atmostemp LLC — New Jersey
Austin Brothers LLC — Tennessee
Barlow Heating and Air Conditioning LLC — Delaware
Becht Heating & Cooling LLC — Delaware
Ben Peer Heating LLC — New York
Berkshire Air Conditioning LLC — Tennessee
Broad Ripple Heating & Air Conditioning LLC — Delaware
C. Iapaluccio Company LLC — Connecticut
Calverley Air Conditioning & Heating LLC — Delaware
Chief/Bauer Heating & Air Conditioning LLC — Delaware
Climate Control LLC — Alabama
Climate Design Heating and Air Conditioning LLC — Delaware
Climate Design Systems LLC — Delaware
Climate Masters Service LLC — Colorado
Coastal Air Conditioning Service LLC — Georgia
Comfort Masters Heating & Cooling LLC — Delaware
Comfort Tech Cooling & Heating LLC — Tennessee
Comfortech LLC — Tennessee
Cook Heating & Air Conditioning LLC — Michigan
Cook Heating and Air Conditioning LLC — Delaware
Cool Breeze LLC — Ohio
D.A. Bennett LLC — New York
Dial One Raymond Plumbing, Heating & Cooling, Inc. — Tennessee
DiMarco Mechanical LLC — Ohio
Dodge Heating & Air Conditioning LLC — Georgia
Doler Plumbing & Heating LLC — Delaware

ANNEX B
TO
EXHIBIT 21.1

Service Experts Inc. Subsidiaries (cont'd.)

Economy Heating & Air Conditioning LLC — Pennsylvania
Epperson LLC — South Carolina
Eveready LLC — Virginia
Falso Service Experts LLC — New York
Fras-Air Contracting LLC* — New Jersey
Freschi Air Systems, Inc. — Tennessee
General Conditioning LLC* — New Jersey
GM Development Center LLC — Delaware
Golden Seal Heating & Air Conditioning LLC — Delaware
Gordon's Specialty Company LLC — Oklahoma
Gregory's Plumbing Co. LLC — Oklahoma
H.S. Stevenson & Sons LLC — Ohio
Holmes Sales & Service LLC — Iowa
Industrial Building Services LLC — Florida
Jack Nelson Co. LLC — Oklahoma
Klawinski LLC — Delaware
Knochelmann Plumbing, Heating & Air LLC — Kentucky
Kruger's Heating & Air Conditioning LLC — Delaware
Lake Arbor Heating LLC — Colorado
Mathews Heating & Air Conditioning LLC — Tennessee
Matz Heating & Air Conditioning LLC — New York
McPhee Service Experts, Inc. — Colorado
Metro-Tech Service Co. — Delaware
Midland Heating and Air Conditioning LLC — South Carolina
Miller Refrigeration, A/C, & Htg. Co. — North Carolina
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
Parrott Mechanical, Inc. — Idaho
Peachtree Service Experts LLC — Georgia
Peitz Heating and Cooling LLC — South Dakota
R&M Climate Control LLC — Tennessee
Roland J. Down LLC — New York
Rolf Griffin Heating & Air Conditioning LLC — Delaware
Ryan Heating LLC — Missouri

ANNEX B
TO
EXHIBIT 21.1

Service Experts Inc. Subsidiaries (cont'd.)

San Antonio Air Conditioning LLC — Delaware
Sanders Indoor Comfort LLC — South Carolina
Sanders Service Experts, Inc. — Tennessee
Sedgwick Heating & Air Conditioning LLC — Minnesota
SEITN GP, Inc. — Tennessee
Service Experts DFW LLC — Tennessee
Service Experts of Denver LLC — Colorado
Service Experts of Houston LLC — Delaware
Service Experts of Imperial Valley, Inc. — California
Service Experts of Indiana LLC — Tennessee
Service Experts of Memphis LLC — Tennessee
Service Experts of Northeast Louisiana LLC — Louisiana
Service Experts of Northwest Louisiana LLC — Louisiana
Service Experts of Orange — California
Service Experts of Salt Lake City LLC — Tennessee
Service Experts of the Bay Area, Inc. — California
Service Experts of the Berkshires LLC — Delaware
Service Experts of the Triangle LLC — North Carolina
Service Experts of Utah LLC — Delaware
Service Experts of Washington LLC — Delaware
Service Experts, LLC — Florida
Service Now, Inc. — California
Steel City Heating & Air LLC — Alabama
Strand Brothers LLC — Tennessee
Strogen's HVAC LLC — New Hampshire
Sunbeam Service Experts LLC — New York
Sunset Service Experts LLC — New York
Sylvester's LLC — Tennessee
Teays Valley Heating and Cooling LLC — West Virginia
The McElroy Service Co. LLC — Nebraska
TML LLC — Idaho
Valentine Heating & Air Conditioning LLC — Georgia
Wesley G. Wood LLC — Pennsylvania

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* 10% membership interest owned by Class B member/employee as bona fide company representative for state licensing purposes.

ANNEX C
TO
EXHIBIT 21.1

Service Experts Alliance LLC Subsidiaries

The following are all organized in the state indicated and owned 100% by Service Experts Alliance LLC, unless otherwise noted:

Alliance Mechanical Heating and Air Conditioning, Inc. — California
C. Woods Company LLC — Delaware
Greenwood Heating & A/C LLC — Washington
Jebco Heating & Air Conditioning LLC — Colorado
Kozon LLC — Tennessee
Lee Voisard Plumbing & Heating LLC — Ohio
Service Experts of Northeast Ohio LLC — Ohio

ANNEX D
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EXHIBIT 21.1

Lennox Canada Inc. Subsidiaries

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

Bryant Heating & Cooling Co. Ltd.
Bryant Newco Inc.
Dearie Contracting Inc.
Dearie Contracting Ottawa Inc.
Dearie Martino Contractors Ltd.
HVAC-Fireplace Installations Inc.
Overland R.N.C. Inc.

ANNEX E
TO
EXHIBIT 21.1

Lennox Global Ltd. Subsidiaries

Name	Ownership	Jurisdiction of Inc.
Heatcraft Refrigeration Asia Pte Ltd.	100%	Rep. of Singapore
Heatcraft Refrigeration (Wuxi) Co. Ltd.	100%	China
Heatcraft Cooling Technology (Wuxi) Co., Ltd	100%	China
LGL Europe Holding Co.	100%	Delaware
SEE ANNEX F		
UK Industries, Inc.	100%	Delaware
Lennox Participacoes Ltda.	99%	Brazil
Frigo-Bohn do Brasil Ltda.	1%	Brazil
Strong LGL Dominicana, S.A.	100%	Dominican Republic
LGL Belgium S.P.R.L.	0.4%	Belgium
LGL Australia (US) Inc.	100%	Delaware
SEE ANNEX G		

ANNEX F
TO
EXHIBIT 21.1

LGL Europe Holding Co. Subsidiaries

Name	Ownership	Jurisdiction of Inc.
LGL Holland B.V.	100%	Netherlands
Ets. Brancher S.A.S.	100%	France
LGL France S.A.S.	100%	France
LGL Refrigeration UK Ltd.	100%	United Kingdom
Hyfra Ind. GmbH	0.1%	Germany
Lennox France S.A.S.	100%	France
Lennox Refac, S.A.	0.1%	Spain
LGL Refrigeration Italia s.r.l.	1%	Italy
LGL Germany GmbH	100%	Germany
LGL Deutschland GmbH	100%	Germany
Hyfra Ind. GmbH	99.9%	Germany
Lennox Deutschland GmbH	100%	Germany
Lennox Global Spain S.L.	100%	Spain
LGL Refrigeration Spain S.A.	100%	Spain
Aldo Marine Construccion Maquinas Frigorificas, S.L	100%	Spain
Lennox Refac, S.A.	99.9%	Spain
Redi sur Andalucia	70%	Spain
Lennox Climatizacao Lda	100%	Portugal
LGL Refrigeration Italia s.r.l.	99%	Italy
Lennox Polska s.p.z.o.o.	100%	Poland
LGL Belgium S.P.R.L.	99.6%	Belgium
Lennox Benelux B.V.	100%	Netherlands
Lennox Benelux N.V.	100%	Belgium
Lennox Zao	1%	Russia
HCF Lennox Ltd.	100%	United Kingdom
Lennox Industries Limited (UK)	100%	United Kingdom
Environheat Limited	100%	United Kingdom
Lennox Janka a.s.	100%	Czech Republic
Janka Slovensko S.R.O.	100%	Slovak Republic
Ecoclima	15%	Czech Republic
Lennox Zao	99%	Russia
Lennox Airconditioning Ireland Limited	100%	Ireland

ANNEX G
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EXHIBIT 21.1

LGL Australia (US) Inc. Subsidiaries

Name	Ownership	Jurisdiction of Inc.
LGL Co Pty Ltd	100%	Australia
IGLL 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
NOXAUST Pty Ltd.	100%	Australia
Heatcraft Australia Pty Ltd	100%	Australia
Heatcraft Albury Pty Ltd	75%	Australia
Heatcraft Sunshine Coast Pty Ltd	75%	Australia
Heatcraft Geelong Pty Ltd	75%	Australia
Y. Brick (Gold Coast) Pty Ltd	100%	Australia
Heatcraft Tasmania Pty Ltd	75%	Australia
Y. Brick (NT) Pty Ltd.	100%	Australia
Kulthorn Kirby Public Company Limited	21.75%	Thailand
J.N.K. Pty Limited	100%	Australia
J.N.K. Draughting Pty Limited	100%	Australia
Heatcraft New Zealand Limited	100%	New Zealand

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

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

We consent to the incorporation by reference in Registration Statement Nos. 333-83961, 333-86989, 333-92389, 333-52046, 333-71416, 333-91128, 333-91130, 333-83959, 333-60122 and 333-127540 on Form S-8, Registration Statement No. 333-102881 on Form S-3 and Registration No. 333-81555 on Form S-4 of Lennox International Inc. of our reports dated February 26, 2007, with respect to the consolidated balance sheets of Lennox International Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three-years ended December 31, 2006 and the related financial statement schedule and management's assessment of the effectiveness of internal control over financial reporting, as of December 31, 2006 and the effectiveness of internal control over financial reporting, as of December 31, 2006, which reports are included herein.

Our audit report dated February 26, 2007, with respect to the consolidated balance sheets of Lennox International Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three-years ended December 31, 2006 and the related financial statement schedule refers to the adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements*, and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and other Post-Retirement Plans*.

/s/ KPMG LLP

Dallas, Texas
February 26, 2007

Exhibit 31.1

CERTIFICATION

I, Robert E. Schjerven, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 27, 2007

/s/ Robert E. Schjerven
Robert E. Schjerven
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Susan K. Carter, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 27, 2007

/s/ Susan K. Carter
Susan K. Carter
Chief Financial Officer

Exhibit 32.1

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

In connection with the Annual Report of Lennox International Inc. (the “Company”) on Form 10-K for the fiscal year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned, Robert E. Schjerven, Chief Executive Officer of the Company, and Susan K. Carter, Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to his or her knowledge:

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

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

/s/ Robert E. Schjerven
Robert E. Schjerven
Chief Executive Officer

February 27, 2007

/s/ Susan K. Carter
Susan K. Carter
Chief Financial Officer

February 27, 2007

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